Ovidius University Annals
ECONOMIC SCIENCES SERIES
Volume X, Issue 2
Year 2010

OVIDIUS UNIVERSITY PRESS

OVIDIUS UNIVERSITY ANNALS

ECONOMIC SCIENCES SERIE

Volume X, Issue 2

2010

EDITORIAL BOARD

EDITOR in CHIEF:

- Professor, PhD. **Tiberius Dãnuț Epure**, Dean, Faculty of Economic Sciences, "Ovidius" University of Constanta, Romania

EXECUTIVE EDITOR in CHIEF:

- Professor, PhD. **Elena Cerasela Spătariu**, Scientific Secretary, Faculty of Economic Sciences, "Ovidius" University of Constanta, Romania

MEMBERS:

- Professor, PhD. **Paolo Andrei**, Università degli Studi di Parma, Italy;
- Professor, PhD. **Stefano Azzali**, Università degli Studi di Parma, Italy;
- Professor, PhD. **Grigore Belostecinic**, Rector, ASEM Chişinău, Republic of Moldova;
- Professor, PhD. **Maurice Chenevoy**, Directeur de l' Institute Universitaire Profesionalise, Universite D'Auvergne, Clermont 1, Clermont – Ferrand, France;
- Professor, PhD. **Jacky Mathonnat**, Vice Recteur de L'Universite D'Auvergne, Clermont 1, Clermont – Ferrand, France;
- Professor, PhD. **Ionel Bostan**, Faculty of Economic Sciences and Public Administration, "Stefan cel Mare" University of Suceava, Romania;
- Professor, PhD. **Viorel Cornescu**, University of Bucharest, Romania;
- Professor, PhD. **Victor Ploae**, Prorector, "Ovidius" University of Constanta, Romania;
- Associate Professor, PhD. **Costel Nistor**, Dean, Faculty of Economic Sciences, "Dunãrea de Jos" University of Galati, Romania

SCIENTIFIC COMMITTEE:

- Professor, PhD. **Ion Botescu**, Pro-dean, Faculty of Economic Sciences, “Ovidius” University of Constanta, Romania;
- Professor, PhD. **Elena Condrea,** Faculty of Economic Sciences, “Ovidius” University of Constanta, Romania;
- Associate Professor, PhD. **Sorinel Cosma**, Faculty of Economic Sciences, “Ovidius” University of Constanta, Romania;
- Associate Professor, PhD. **Ramona Gruescu,** Faculty of Economics and Business Administration, University of Craiova, Romania;
- Associate Professor, PhD. **Marian Ionel**, Faculty of Economic Sciences, “Ovidius” University of Constanta, Romania;
- Associate Professor, PhD. **Simona Utureanu**, Faculty of Economic Sciences, “Ovidius” University of Constanta, Romania;
- Lecturer, PhD. Student **Victor Jeflea**, Faculty of Economic Sciences, “Ovidius” University of Constanta, Romania

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

- Lecturer, PhD. **Cristina Duhnea**, Faculty of Economic Sciences, “Ovidius” University of Constanta, Romania;
- Lecturer, PhD. **Cătălin Ploae**, Faculty of Economic Sciences, “Ovidius” University of Constanta, Romania
- Teaching Assistant, PhD. **Gabriela Gheorghiu**, Faculty of Economic Sciences, “Ovidius” University of Constanta, Romania;
- Teaching Assistant, PhD. Student **Dorinela Cusu,** Faculty of Economic Sciences, “Ovidius” University of Constanta, Romania

TABLE OF CONTENTS

Crt. No.	Authors Name and Surname (alphabetical order)	Paper Title	Page
1.	Aivaz Kamer, Stanciu Anca, Condrea Elena	Aspects Regarding the Integration of the Graduates of the Faculty of Economics in the Economic Activity	1
2.	Anechitoaie Constantin, Grigoruț Cornel, Grigoruț Lavinia-Maria	Consequences of the Infringement of the Patent Right by Counterfeiting	5
3.	Apostoaie Marius Constantin	Challenges to Inflation Targeting in the Context of the post-August 2007 Period	11
4.	Avădanei Andreea, Avădanei Anamaria, Ghiba Nicolae	Financial Integration of European Money Market: from EMU to the Global Crisis and Beyond	17
5.	Balogh Petru, Golea Pompiliu	Influence of Population Decline in Romania on Human Resources Management	23
6.	Barna Flavia, Dănuleţiu Dan	The Effects of Financial Crisis on the Behaviour of Investors on the Romanian Capital Market	26
7.	Băeşu Camelia	Considerations on World Economic Crisis	31
8.	Băltărețu Andreea	The Interdependence Between Ecotourism and Natural Protected Areas from China	36
9.	Bâcă Eleonora, Popescu Alina	Going off the Rails: Social Impacts of Crisis and Globalization	42
10.	Bilouseac Irina, Zaharia Petronela	Impact of Local Autonomy in Administrative-Territorial Decentralization in Republic of Moldova	45
11.	Boriga Radu, Dăscălescu Ana Cristina	A Method for Increasing the Randomness of Lagged Fibonacci Generators	51
12.	Borza Mioara, Mardiros Daniela-Neonila	The Economic Crisis Impact on Labour Productivity	56
13.	Bosie Irina	The Development of Public Services Through Decentralization During the Financial Crisis	62
14.	Bostan Ionel, Morariu Alunica	Elements of Masculinity/Feminity Cultural Dimensions Between Authority and Success	67

Crt. No.	Authors Name and Surname (alphabetical order)	Paper Title	Page
15.	Botea Elena Mihaela, Sahlian Daniela Nicoleta	Actuarial Accounting – The New Dimension Of Accounting	75
16.	Botea Elena Mihaela, Stănilă Oana Georgiana, Sahlian Daniela Nicoleta	Importance of Fair Value Hedging Accounting	80
17.	Botescu Ion	External Debt – Evolution Trends	86
18.	Botină Mădălina, Marin Marilena	Dilemmas in the Banking Laws	91
19.	Braşoveanu Florica, Lisievici Brezeanu Alexandru Petru	Romania's Role in the New Global Security Architecture	95
20.	Brunello Adrian, Petruşcă Claudia-Oana	Marketing in the Economic Crisis	98
21.	Busuioc (Witowschi) Irina Raluca	The Capitalisation of the Banking System	104
22.	Căruntu Constantin, Lăpăduşi Mihaela Loredana	General Aspects Regarding The Economic and Financial Crisis In Romania	108
23.	Chirilă Camelia-Andreea, Dumitrescu Adela	The Usefulness of Learning English within the Context of the Global Economic Crisis	112
24.	Ciortescu Cezar-Gabriel	Defining Dry Ports by the Logistic Performance Index	116
25.	Codreanu Carmen Mariana, Costuleanu Carmen Luiza	Economic Dimension of the Romanian Companies in Financial Crisis	121
26.	Constandache Mihaela, Ionescu Adriana, Radu Steluta	The Evaluation of Customer Satisfaction in Terms of Characteristics of Services Offered by Trodat Company	125
27.	Corețchi Doru-Cristian	Public Private Partnership in Europe - Challenges During The Crisis	128
28.	Cosma Sorinel	Knowledge and Sustainable Development	135
29.	Cosma Sorinel	The Five E's of Sustainability	139
30.	Costuleanu Carmen Luiza, Codreanu Carmen Mariana	International Financial Crisis and Creative Accounting	144
31.	Dan Gheorghe, Zamfir Cristina-Mihaela	The Impact of Progress in Information and Communication Technology on Distribution and Logistic Activities	149

Crt. No.	Authors Name and Surname (alphabetical order)	Paper Title	Page
32.	Deceanu Liviu, Pintea Mirela	New Configurations of Country Risk in the Context of the Economic and Financial Crisis	155
33.	Dencic-Mihajlov Ksenija	Global Crises and the Dynamics of IPO Activity	161
34.	Dionisie Cristina	The Crisis Impact to the Tourist Consumption	167
35.	Dionisie Cristina	The Main Effects of Reducing the Economical Capacity	172
36.	Dobre Claudia, Şorici Costin	Global Crisis and International Trade: Prospects for 2010	176
37.	Dobre Elena	American Troubled Assets Relief Program – One of the Most Important Measures Against Actual Crisis	183
38.	Dobre Mirela	Evolution of Internal Auditing in EU Member States	190
39.	Dragu Gabi Georgiana	The Standardization of Accounts Premise of Public Accounting Consolidation – Decentralized Achievement, Centralized Reporting	196
40.	Dridea Catrinel Raluca, Gheorghe Camelia Monica	The Leisure Consumer – A New Perspective of Global Tourism	202
41.	Dumitraşcu Elena	Representations of the Other and Stereotypes in the Process of Intercultural Learning	207
42.	Eftene Nicoleta, Stănescu Geanina	The Global Financial Crisis on World Regions	210
43.	Elefterie Liana, Ruse Elena	Accounting And Audit Versus Global Economic Crisis	215
44.	Ene Dumitru	New Challenges of Contingency Theory in Management Accounting System, in Terms of Global Economic Crisis	218
45.	Epure Dănuţ Tiberius, Cuşu Dorinela, Teliceanu Claudiu Daniel	The Business Incubator Management Strategy - Case study of the Business Incubator Located in Mangalia	223
46.	Epure Dănuţ Tiberius, Nancu Dumitru, Cuşu Dorinela	Evolution and Perspectives of the Romanian Economy Related to the Economic and Financial Crisis	229

Crt. No.	Authors Name and Surname (alphabetical order)	Paper Title	Page
47.	Filip Florina-Cristina	Optimization Methods of Production Planning Process in the Context of Global Economic Crisis	232
48.	Florea Dragoş	Risk and Uncertainty in the Banking Business Planning	236
49.	Gavrilescu Liviu	Cultural Influences on Management Ethics	240
50.	Gâdău Liana	The Statement of Changes in Equity and Financial Performance. The Necessity of a Global Performance Situation	246
51.	Georgescu Cristina Elena	Trends of Accounting Information Use for Managerial Decisions Making	250
52.	Gheorghe Camelia Monica, Sebea Mihai	Necessity of Risk Management Systems Implementation in Air Transport	255
53.	Gheorghiu Anda, Gheorghiu Anca	Succinct Study on the Effects of the Global Crisis over the World's Social, Environmental and Business Prospects	259
54.	Gheorghiu Anda	The Upside and Downside of the Economic Crisis over the Environment	266
55.	Gheorghiu Gabriela, Popovici Veronica, Bundă Ramona	Consumer Protection in Romania – Between Necessity and Obligativity	271
56.	Ghiță-Mitrescu Silvia Duhnea Cristina Vancea Diane Paula Corina	A Comparative Analysis of the Options trading on the Romanian Capital Market and Central and Eastern Europe Emerging Capital Markets during the Global Financial Crisis	274
57.	Ghițuleasa Anca-Andreea, Ghițuleasa Liviu Gabriel	Heuristic Approach to Some European Rail Companies Activity	280
58.	Golea Pompiliu	The Pension System in Romania Where to?	286
59.	Goschin Zizi, Popa Aura, Roman Monica	Romanian Migrants' Remittances: Past Trends and Short-term Prospects	293
60.	Gradea Cristina Rodica	Turnover's Forecasting at Arabesque Company by Multiple Regression Method	297
61.	Gradea Cristina Rodica	Discriminant Geometric Analysis Model of Risk of Bankruptcy for a Company with "n" Branches	300

Crt. No.	Authors Name and Surname (alphabetical order)	Paper Title	Page
62.	Grejdan Gabriela Elena, Joldoş Ana Maria, Pintilie Corneliu	The Importance of Internal Audit in Primary and Secondary Education	304
63.	Grigorescu Adriana, Grigorescu Dan Răzvan	E-Europe Development, States Implication and Role	308
64.	Grigoruţ Cornel, Anechitoaie Constantin, Grigoruţ Lavinia-Maria	The Trademark: A Marketing Concept	315
65.	Guni Claudia Nicoleta	Effects of the Crisis on the Labor Market	320
66.	Guni Claudia Nicoleta	The Financial Crisis and the Capital Market	324
67.	Haralambie George Alin	Effects of the Current Crisis on the Global Economy	330
68.	Holban (Oncioiu) Ionica	Intangible Assets as a Source of Competitive Advantage for the Romanian Small and Medium Enterprises	335
69.	Horga Maria Gabriela, Horga Vasile, Ionescu Alexandra	Management and Leadership. Planning and Orienting	340
70.	Ichim Cosmin	The Renewable Energy Based Economy in the Context of the Current Crisis	345
71.	Iliescu Elena Mihaela, Constantinescu Maria Florentina	Country Risk Management	351
72.	Ioneci Mihaela, Antonescu Eugenia, Mîndreci Georgiana	Economic Crisis and Its Impact on Unemployment	356
73.	Ionescu Adriana, Constandache Mihaela, Condrea Elena	Romanian Economy in Terms of Economic and Financial Crisis	360
74.	Ionescu Alexandra Horga Maria Gabriela Horga Vasile	Managing Crises: Are Lax Fiscal Policies a Worthy Practice?	364
75.	Ionescu Gr. Ion	Risk and Risk Culture in the Business Environment	369
76.	Ionescu Gr. Ion	Marketing Strategy - The Axiology of the Strategy Valorification of Marketing	373

Crt. No.	Authors Name and Surname (alphabetical order)	Paper Title	Page
77.	Ionescu Iancu Octavian	Audit Manager Risk Behaviour in a Global Economy – a Research of the Theories on the Determinants of Risk Behaviour	377
78.	Ionescu Iancu Octavian, Mihaela Mocanu, Eugeniu Turlea	The Importance of Auditor's Professional Judgement in a Global Economy	380
79.	Ionescu Romeo	The Necessity of a New Paradigm in the International Relationships under the Present Global Crisis	384
80.	Ioniță (Predescu) Lorena, Istudor (Vintilescu) Ileana Iulia, Ioniță (Nistor) Nicoleta	Opportunities to Reduce Expenses In Local Public Administration	390
81.	Iordache Maria Carmen, Ciochina Iuliana	Planning Marketing Activity During Periods of Crisis	395
82.	Ispas Simona	National Strategies Necessary to the Development of the Rural Romanian Economy	401
83.	Istrate Mihai	The Usage of Web Mining in E-commerce	406
84.	Ivanovic Djukic Maja, Zivkovic Suzana	The Effects of the Present Crisis on the Entreprises in Serbia	411
85.	Jeflea Antoaneta	A Study of the Localization of MTL-Algebras	416
86.	Lăcătuş Viorel-Dorin, Cuceu Ionuț Constantin, Văidean Viorela-Ligia	The Public Healthcare Expenses in Romania – Time Series Analysis	420
87.	Leonte Alexandru	Assessing the Connection Between Fiscal Policy and Private Consumption in Four Euro Area Candidates	424
88.	Lepojevic Vinko, Vesna Jancovik-Milic	Global Food Crisis and the Recession	428
89.	Lisievici Brezeanu Alexandru Petru Braşoveanu Florica	Legal Restrictions and Freedom of Decision of the Administrative Authorities in Some European Countries	432
90.	Luț Dina Maria	Effects of Economic Crisis on Human Resources Management of Romanian Organizations	436

Crt. No.	Authors Name and Surname (alphabetical order)	Paper Title	Page
91.	Manea Ioana Livia, Popa Ioana-Anda	Joint Ventures – An Alternative and Efficient Form of Economic Organisation	440
92.	Marinescu Gabriela	Public Career. Replacing the Formal and Political Leaders	445
93.	Maşcu Simona	Issues in the Implementation of Fiscal, Income and Monetary Policy in order to Adjust Aggregate Demand	452
94.	Micu Adrian Cristache Nicoleta Susanu Irinia	The Influences of Ethics and Responsibility in Marketing on the Lifestyle	457
95.	Mihalache Anita, Sălăgean Liana	Cost – Volume - Profit Analysis Contribution on Overcoming the Current Crisis in Hospitality Industry	463
96.	Mihalciuc Camelia Cătălina, Cibotariu Irina Ştefana, Apetri Anişoara Niculina	Aspects Concerning the Part of Fair Value within Financial Reports on the Strength of Current Financial Crisis	468
97.	Mihuț Silvia	The Economic Crisis Vocabulary	475
98.	Militaru Cezar, Pavel Adina	The Impact of Economic-Financial Crisis on the Multinational Companies from Romania	478
99.	Mitea Neluța	The Accounting Profession – Guilty or Victim During the Current Crisis	482
100.	Mitea Neluța, Vlad Costica	Unity and Uniqueness in the Accounting Profession	488
101.	Mițac Mirela Claudia	The Effects of the Present Crisis on the Labour Market and on the Banking System in Constanta County	494
102.	Mocanu Nelu	Modelling Sustainable Management Process on Entreprise Level	498
103.	Morariu Alunica	Ethical Aspects of Human Resource Activities Serving Local and Regional Communities	503
104.	Moraru Andreea	The Importance of Entertainment in Promotional Strategies of Romanian Seaside Tourism Enterprises	509

Crt. No.	Authors Name and Surname (alphabetical order)	Paper Title	Page
105.	Moraru Camelia, Popovici Norina	Unemployment in Constanta County during 2006-2010	513
106.	Moşnianu Cristian	Restrictive Agreements or Concerted Practices in USA	517
107.	Moşnianu Cristian	The Objectives of the Regional Development Policy in Romania	521
108.	Muhcină Silvia	The Marketing Environment in Tourism	525
109.	Munteanu Irena, Negrea Alexandru	Loan and Interest Rate in Romania. Evolutions, Correlations and Perspectives	529
110.	Murgoci Cristiana Stefania, Dridea Catrinel Raluca, Ionescu Stefan Alexandru	The Implication of Risks on Tourism Human Resources	534
111.	Nancu Dumitru	European Post-Accession funds for SMEs: Challenges and Realities	539
112.	Necsulescu Catherine	Positive and Negative Effects of Consulting Companies in Crisis Period	541
113.	Nedelea Adelin, Puncioiu Ana	The Economical Background of Romanian Cities. Case Study: Cities Pitesti and Nehoiu	544
114.	Negoescu Gheorghe, Necsulescu Catherine	Effects of Reducing Salaries With 25% in Romania Upon The Process of Tax Evasion	548
115.	Negoescu Gheorghe, Popovici Veronica	Ingenious Methos to Reduce Taxes and Contributions Owed to the Romanian State	552
116.	Nenciu Daniela Simona, Secară Mirela	Marketing Strategies which Can Be Adopted by the Tourism Entrepreneurs in the County of Tulcea	558
117.	Nidelea Marinela, Alexei Adrian	Studies and Analysis of Acquisition Methods and Processing Technology of Information Obtained by IMU / LIDAR	562
118.	Nistor Cristina Silvia, Cozma Ighian Diana	IPSAS Agriculture – Problems of a Start	565
119.	Nițu Oana, Nițu Valentin, Nicodim Liliana	Forms for the Formation of Population's Savings	571

Crt. No.	Authors Name and Surname (alphabetical order)	Paper Title	Page
120.	Nițu Oana, Nițu Valentin, Nicodim Liliana	The Saving Process in Keynesian and Post-Keynesian Theory	577
121.	Orac Camelia, Ştefan Monica	Multinational Corporations and World Economy	582
122.	Orac Camelia, Ştefan Monica	The Trade Integration from the Developing Countries Perspective	586
123.	Panczel Zoltan Tibor	Human Resources and the Risk Management	592
124.	Panczel Zoltan Tibor	The Link Between Multinational Companies and Intellectual Capital	596
125.	Panea Ionuț Valentin	How to Improve the Performance of the Public Administration in Romania	602
126.	Pascu Emilia	Protecting Consumers in Conditions of Economic Crisis	605
127.	Pavel Camelia	Effects of Financial and Economical Crisis in Romanian Media and Advertising Industries	610
128.	Pădurețu Elena, Cristian Elena Raluca	Culture and Migration: Influence Factors in International Economy of Islam World	616
129.	Pepi Mitică	Modeling Financial Audit in the Services and Financial Investments Companies	622
130.	Petre Mihaela Cosmina	Performing Internal Control by Taking into Consideration the International Economic Crisis	629
131.	Petroianu Grazia – Oana	The Role of Accountancy and of the Expert Accountant within the Framework of Present International Economic Crisis	633
132.	Pivodă Roxana Mihaela	Unemployment in the Economic Impact of Financial Crisis	638
133.	Ploae Cătălin	Economic Figures and Perspectives at the Eastern Borders of the European Union in the Context of the Economic Crisis	644
134.	Ploae Victor	Economic Crisis in Mediterranean Partner Countries and Its Implications for the European Union	647
135.	Popa Liliana Viorica, Olaru Adriana	Quality Management in Knowledge-Based Economy – Kayzen Method	652

Crt. No.	Authors Name and Surname (alphabetical order)	Paper Title	Page
136.	Popescu Alina, Bâcă Eleonora	An Aftermath of the Present Economic Crisis	655
137.	Popescu Manoela, Crenicean Cecilia Luminița	Reflections on the Dimensions of Population Characterization of CSR in Perspective in the Context of Global Economic Crisis	659
138.	Popescu Manoela, Crenicean Cecilia Luminița	Reflections on Curriculum Vitae Content Changes in the Context of Global Economic Crisis	663
139.	Popescu Maria Lavinia	The Importance of Didactics Strategies Focused by Student	667
140.	Popovici Norina, Moraru Camelia	Assessment of Entrepreneurial Ability in High School Students	673
141.	Potlog Dorian	Nominal and Real Convergence in the Process of Single Currency Adoption in the New EU Member Countries	678
142.	Radu Riana Iren	The Analysis of Financial Conditions Imposed by Banks for the Approval of Long- Term Credits Requested by Economical Agents	684
143.	Ristea Luminița	Competition Among Top 25 International Accounting, Auditing and Consultancy Networks in Romania	688
144.	Roman Angela, Bilan Irina	Unconventional Monetary Policy Measures and Their Role in Contending the Effects of the Current Global Financial Crisis	695
145.	Sarchizian Sergiu	The Importance of Corporate Governance Codes in European Union Countries	701
146.	Sarchizian Sergiu	International Corporate Governance in Globalisation Context	705
147.	Sava Cipriana	The Evolution of European Tourism Within the Frame of the Economic Crisis	709
148.	Săseanu Andreea Simona, Toma Sorin George, Zgură Ion Daniel	Evolution and Perspectives of E-Commerce in Romania	714
149.	Săvescu Dan, Sima Mihaela- Georgia, Bârsan Simona-Clara	Should We Continue the Process of Researching for Business or Give It Up Because of the Crises ?	719

Crt. No.	Authors Name and Surname (alphabetical order)	Paper Title	Page
150.	Secară Mirela, Nenciu Daniela	A Statistic Financial Analysis and its Purpose in Decision-Making in Touristic Companies Under the Present Economic Downturn	724
151.	Sima Mihaela-Georgia, Cruceru Raluca	The Effects of the Crises on Human Resorces and Their Management	727
152.	Socea Alexandra-Daniela	The Accountancy Profession in the Context of Global Financial Crisis	731
153.	Socea Alexandra-Daniela	The Balance Sheet and the Financial Position of the Enterprise	738
154.	Spătariu Elena Cerasela, Lazar Cristina Mihaela, Asalos Nicoleta	Aspects Concerning Production Costs Analysis	744
155.	Spătariu Elena Cerasela, Lazar Cristina Mihaela, Asalos Nicoleta	The Analysis of the Leasing Activity in Romania – Advantages, Evolution and Perspectives	747
156.	Stanciu Miltiade	The Crisis Development and Human Respiritualisation	751
157.	Stoica Tiberiu	Are Confidence and Sentiment Indicators Crucial in Forecasting the Economic Growth of Romania During the Current Crisis?	756
158.	Surugiu Felicia, Utureanu Simona, Dragomir Cristina	Human Resources Management in a Navigation Company in the Globalized Context	761
159.	Susanu Irina Olimpia Cristache Nicoleta Micu Angela-Eliza	The Role and Importance of the Modern Comerce in Organizations	765
160.	Sztruten (Lefter) Gina Gilet	Reduce Volume of Hotel Investments in Context with World Economic Crisis	770
161.	Şerban Dan	Europe and Future Growth	774
162.	Şorici Costin Dobre Claudia	Progresses and Challenges in EU Funds Utilization for Private Sector Support	780
163.	Ştefura Gabriela	Changes in Consumer Behaviour During an Economic Crisis	784
164.	Tălmaciu Iuliana, Voicu Ioana-Iulica	China and the U.S. Face the Global Economic Crisis	788

Crt. No.	Authors Name and Surname (alphabetical order)	Paper Title	Page
165.	Teliceanu Claudiu Daniel	Establishment and Development of Business Incubators	793
166.	Trandafir Adina	The Impact of Fiscal Competition about International Double Taxation in a Nash Equilibrium Point of View	797
167.	Trofin Maria Irina	Structure of Organization, Diversity and Values in the Context of Globalization	803
168.	Tureac Cornelia Elena, Filip Alin Constantin, Bordean Ioan	The Role and Place of the Anti-crisis Management in the System of Public Administration Management	810
169.	Turtureanu Anca Gabriela, Tureac Cornelia, Ivan Alexandra Maria	The Opportunity of Developing the Urban Tourism During the Economic Crisis	816
170.	Turtureanu Anca Gabriela, Filip Alin Constantin, Ivan Alexandra Maria	The Implications of the Economic Crisis on Tourism Activity	820
171.	Utureanu Simona, Dragomir Cristina	Maritime Human Element, Globalization and World Crisis	824
172.	Vărzaru Anca Antoaneta, Vărzaru Mihai	New Paradigms of Management Control	828
173.	Vărzaru Mihai, Vărzaru Anca Antoaneta	Social Strategy and Added Value	832
174.	Voicu Ioana-Iulica, Tălmaciu Iuliana	Global Economy Under the Current Economic Crisis Effects	836
175.	Wereda Wioletta	Role of Loyality in a Polish Company	841
176.	Wereda Wioletta	Corporate Social Responsibility Concept in Marketing Activity of a Large Company	848

Aspects Regarding the Integration of the Graduates of the Faculty of Economics in the Economic Activity

Aivaz Kamer-Ainur
Stanciu Anca Cristina
Condrea Elena
„Ovidius" University of Constanta, Romania, Faculty of Economic Sciences
kamer_aivaz@yahoo.com
castan22us@yahoo.com
elenacondrea2003@yahoo.com

Abstract

The education market is undergoing a deep transformation process. Until several decades ago, concepts such as „Management University" or „Enterprise University" were unconceivable. However, as time passed, the social - economical development, globalization and informational revolution have transformed many of the Western universities in vectors of transnational education.

Presently, there is an increase in the intensity of the discussions regarding the education services' market and the new university models:

- management university, resulting from the humboldian one, by switch from the "college" leadership, chosen by the academic body, to the "manager" one, choice based on a competition;

- the enterprise university, as an extension to large corporations, which see education as a service with market value.

The OECD reports, those of the Global Bank and UNESCO reveal the existence of genuine commerce with universitary education services and professional knowledge; hence, the urgency to adapt the university education to the work market's requirements.

Key words: education, graduates, integration, economic activity
J.E.L. classification: A23, I23

1. Introduction

A nation is competitive not only through its economy, but, also through the education offer, respectively through the motivation to continuously train and specialize of their own citizens.

The University represents a primordial institution to ensure a society's legislative development, being a provider of knowledge and skills for the specialized work resources. The university not only disseminates knowledge, but also produces it or often applies it in new technologies.

At a national level, in the last years, there has been an intense concern of governmental and institutional level regarding the alignment of the academic education process to the norms presented by the "Statement of Bologna" (1999), Romania having signed this statement. The orientations resulting from this document refer to:

1) The "University" as a cultural institution has the central role in the formation of informed citizens, with a wide array of mobility possibilities;
2) The educations process must have a high degree of attractiveness in order to ensure a convergence of the educational system's product (the output) to the requirements of an European level, very precisely;
3) The educational system has to reach certain efficiency standard.

From the requirements of the "Bologna Statement" results the idea of the need to measure the efficiency and compare the performance of education units with similar targets and the alignment to a high performance education, based on European values.

At a national level, there is an intense preoccupation concerning the definition of certain quality standards for the academic education. A new law regarding the assurance of quality education is being elaborated and the formation of a monitoring forum for the Romanian superior education is provided. In this context, there are strong preoccupations regarding the classification of education units through the use of scores, followed by the granting of ranks within the Romanian academic system.

The education's first level consists of resources, financial and human (teachers, administrative staff) being aggregated in the purpose of obtaining an education service package. On the second level, the offer of services is joined by "the student" with his specific qualities, him being an important component of the educational process. The second level's output is medium-term (a specialist in the respective field), but a long term output is being taken into account, where an increasing number of specialized employees are trained.

This paper could be considered in alignment to these major preoccupations, having taken in view a poll among employees and graduates of the Economics Faculty.

2. The way of the sample's constitution

In order to constitute the sample we used mostly the directly interview and in a few cases the e-mail addresses of the graduates.

150 questionnaires were sent and registered.

Gender

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Masculin	31	20.7	20.7	20.7
	Feminin	119	79.3	79.3	100.0
	Total	150	100.0	100.0	

Age

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	22	74	49.3	49.3	49.3
	24	26	17.3	17.3	66.7
	25	5	3.3	3.3	70.0
	26	4	2.7	2.7	72.7
	27	2	1.3	1.3	74.0
	28	22	14.7	14.7	88.7
	34	17	11.3	11.3	100.0
	Total	150	100.0	100.0	

Statistical analysis of the answers to questions $Q_1 – Q_6$

Q_1. What is your specialization?

Q_2. Year of graduation of the faculty?

Q_3. How long did it take for you to find a job after graduation?

Q_4. Do you consider that the studies you followed are in conformity with the skills required for your profession?

Q_5. Do you work in a field related to your specialization?

Q_6. Did you receive special training (more than one month) to accomplish the tasks of your current job?

Monovarious analysis with presentation of answers on modalities for each question

Specialization_1

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	communication	24	16.0	16.0	16.0
	construction	3	2.0	2.0	18.0
	economic science	111	74.0	74.0	92.0
	engineering	9	6.0	6.0	98.0
	foreing language	1	.7	.7	98.7
	pharmacy	2	1.3	1.3	100.0
	Total	150	100.0	100.0	

The year of faculty graduation

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2001	17	11.3	11.3	11.3
	2005	7	4.7	4.7	16.0
	2006	2	1.3	1.3	17.3
	2007	24	16.0	16.0	33.3
	2008	26	17.3	17.3	50.7
	2009	1	.7	.7	51.3
	2010	73	48.7	48.7	100.0
	Total	150	100.0	100.0	

Period of time after graduation

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	immediately	109	72.7	72.7	72.7
	under 6 months	34	22.7	22.7	95.3
	6 months - 1 year	7	4.7	4.7	100.0
	Total	150	100.0	100.0	

Studies in conformity with skills

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Partial	71	47.3	47.3	47.3
	Total	79	52.7	52.7	100.0
	Total	150	100.0	100.0	

Did you need special training

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	107	71.3	71.3	71.3
	No	43	28.7	28.7	100.0
	Total	150	100.0	100.0	

Analysis/synthesis

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Relevance at medium level	42	28.0	28.0	28.0
	Relevance at high level	108	72.0	72.0	100.0
	Total	150	100.0	100.0	

Organization/planning

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Relevance at medium level	19	12.7	12.7	12.7
	Relevance at high level	131	87.3	87.3	100.0
	Total	150	100.0	100.0	

Basic knoeledge appropriation

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Relevance at high level	150	100.0	100.0	100.0

Using of foreing languages

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Relevance at low level la nivel mic	45	30.0	30.0	30.0
	Relevance at medium level	17	11.3	11.3	41.3
	Relevance at high level	88	58.7	58.7	100.0
	Total	150	100.0	100.0	

Using of IT dispositives

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Relevance at high level	150	100.0	100.0	100.0

Independent decisions

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Relevance at medium level	43	28.7	28.7	28.7
	Relevance at high level	107	71.3	71.3	100.0
	Total	150	100.0	100.0	

Work in team

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Relevance at high level	150	100.0	100.0	100.0

Practical Application

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Relevance at medium level	23	15.3	15.3	15.3
	Relevance at high level	127	84.7	84.7	100.0
	Total	150	100.0	100.0	

Adaptation to new situations

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Relevance at medium level	40	26.7	26.7	26.7
	Relevance at high level	110	73.3	73.3	100.0
	Total	150	100.0	100.0	

Rigurously, quality

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Relevance at high level	150	100.0	100.0	100.0

Statistical analysis of answers to Q_7 (with pts a) –m))

How do you appreciate the relevance of the following competences for your current activity?

Competences	**Frequencies for**	**Frequencies for**			**Frequencies for**
	Not relevant for my activity	**Low**	**Medium**	**High**	**Can't appreciate**
a) Analysis of a situation and synthesis of a solution			42	108	
b) Organization and planning of activities			19	131	
c) Basic knowledge appropriation				150	
d) Using of an other language than the		45	17	88	
e) Using of computer and other dispositive of the information and communication technologies				150	
f) To take independent decisions			43	107	
g) To work in team				150	
i) To apply in practice to know ledge owned			23	127	
j) To learn new things and to research independently			23	127	
k) Adaptation to new situation (capacity to extrapolate or apply of owned knowledge to new or impredictilbale situations			40	110	
l) To be rigorously, qualitative, at a high level				150	
m) To elaborate and manage complex projects			36	114	

Statistical analysis of answers to Q_8 – Q_{11}

Q_8: How well did you adapt to the present work position (job)?

How well did you adapt to the present work, position?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	A little	7	4.7	4.7	4.7
	Good	41	27.3	27.3	32.0
	Very good	102	68.0	68.0	100.0
	Total	150	100.0	100.0	

Q_9: Satisfaction concerning the present job:

Satisfaction concerning the present job

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Low	7	4.7	4.7	4.7
	Medium	43	28.7	28.7	33.3
	High	76	50.7	50.7	84.0
	Very high	24	16.0	16.0	100.0
	Total	150	100.0	100.0	

Q_{10}: Gender

Sexul

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Masculi	31	20.7	20.7	20.7
	Feminin	119	79.3	79.3	100.0
	Total	150	100.0	100.0	

Q_{11}: Age (years)

Age

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	22	74	49.3	49.3	49.3
	24	26	17.3	17.3	66.7
	25	5	3.3	3.3	70.0
	26	4	2.7	2.7	72.7
	27	2	1.3	1.3	74.0
	28	22	14.7	14.7	88.7
	34	17	11.3	11.3	100.0
	Total	150	100.0	100.0	

5. Conclusions

In order to extend the workplace market, we need higher qualification workforce. In the conditions in which there is foreseen that the European economy will create another 13 million jobs in the next 8 years – most of them based on knowledge – the need for a higher qualification workforce will be felt. This is the main conclusion of the study made on the level of the economical sciences faculty's students, which confirm the European predictions regarding the need for professional competence. The current social-economical context places the universities in a free competitive system, which will unavoidably lead to the enterprise university model. Those which will develop and resist are the high-performance universities who have rapidly understood the direction in which society is evolving and its requirements.

6. Bibliography

[1] Knox, C.A., L.C. Lawrence, Lisa Wood *Stratified Models of Education Production Using Modified DEA and Regression Analysis,* in Charnes, A., W.W. Cooper, A.Y. Lewin, L.M. Seiford *Data Envelopment Analysis*, Kluwer Academic Publ. Boston/Dordrecht/London, 1994.

[2] Koopmans, T.C. - *An Analysis of Production as An Efficient Combination of Activities in Activity Analysis of Production and Allocation*, Wiley, New York, 1981.

[3] Levin, H. - *Concepts of Economic Efficiency and Educational Production* in J. Froomkin, D. Jamison, R. Radner *Education as an Industry*, Ballinger, Cambridge, Mass, 1996.

[4] McCarty, Therese, S. Yaisawarng - *Technical Efficiency in New Jersey School Districts* in Fried H., C.A. Knox Lovell, S. Schmidt *The Measurement of Productive Efficiency – Techniques and Applications,* Oxford University Press, 1993.

[5] Spircu, L., R. Ciumara, A. Galupa - *Măsurarea eficienței învățământului liceal din România prin tehnici DEA*, Studii şi Cercetări de Calcul Economic şi Cibernetică Economică 2, pp. 55-70, 2003.

Consequences of the Infringement of the Patent Right by Counterfeiting

Anechitoae Constantin
Grigoruț Cornel
"Ovidius" University of Constanta, Faculty of Law
anechitoae@yahoo.com, cornel.grigorut@gmail.com
Grigoruț Lavinia-Maria
National Institute of Economic Research "Costin Kirițescu"
lavinia_grigorut@yahoo.com

Abstract

In the field of intellectual property and, especially, of industrial property, commercial counterfeiting of the trademark, patent etc.., is a major threat to world economy and it presents serious threats to consumer safety and health. Given the scale and the impact of this phenomenon, all available measures should be used in order to fight against it.

The efforts made in order to combat counterfeiting in the field of intellectual property require continuity in the law enforcement for public awareness. However, corrections are required in the areas of legislative harmonization and consumer education, in the sense of easily distinguishing the counterfeited items of an object in order to immediately notify the criminal prosecution.

Key words: patent, inventions, counterfeiting, intellectual property.
J.E.L. classification: K11

1. Introduction

In common language, counterfeit ("contrafacere", in Romanian language), (compound word (in Romanian language) from "contra" ("opposite) and "face" ("do")) means the reproduction of a document, object or original preparation for fraudulent purposes, passing them as authentic [1]. In this sense, counterfeit is synonymous to forgery [2].

The result of counterfeit is a good or a product with appearance of originality. It is one of the understandings assigned to the word "counterfeit" in our law, when the illicit reproduction of the object of an invention is sanctioned as crime. However, in other cases, by counterfeit, our legislator understood *any violation of a right to a type of intellectual creation*.

In other legal systems, in what concerns the patent, the word counterfeit was and is still used to generically designate all acts and deeds which affect intellectual property rights.

Intellectual protection rights of products from all economic sectors: toys, clothing accessories, audio-video products, cosmetics, IT products, pharmaceuticals, sports, cigarettes etc. are protected by means of civil, criminal and administrative law.

Civil law means primarily have in view the elements of authorship and holder status of the registration certificate, the infringement of the exclusive right of exploitation, those relating to property rights arising from conveyance or licensing agreements, as well as those on the infringement of the obligation to inform [3].

The means of the administrative law ensure the recognizing of the right in the registration certificate issue proceedings.

Special laws in the field of intellectual property incriminate as offences those intellectual property infringements, such as: the unlawful appropriation, by any means, of the author status of a product; the disclosure by the staff of the State Office for Inventions and Trademarks (OSIM), and by the persons carrying out work in connection to trademarks, drawings and industrial designs etc., of the data included in the registration application, to their publication, and also their counterfeiting.

The criminal action of counterfeit is set in motion by the prior complaint of the injured party.

2. Acts of counterfeiting

In paragraph 1 of art. 58 of Law no. 64/1991 on patents, it is incriminated the offence of counterfeiting, manufacturing, use or release, without right, of the object of a patent or any other violation of the rights conferred under Art. 33 paragraph 1, if these infringements were committed after the publication date of the patent application.

The counterfeiting offence, the most serious infringement of industrial property law, is incompletely governed within current legislation. The Criminal Code incriminates in art. 425 par. - (1) The counterfeit or use, without right, of the object of an invention, and the appropriation, without right, in any way, of the status of inventor are strictly punished by imprisonment from one year to three years or with penalty-days. Criminal proceedings shall be initiated at the prior complaint of the injured party [4]. The parties' reconciliation removes criminal responsibility.

The circulation of goods produced as a consequence of counterfeiting or using, without right, the object of an invention, shall be punished with imprisonment from one year to 3 years or with penalty days, under art. 426 C. p.

Counterfeiting, this major negative component of contemporary economic life, is frequently presented, in practice, as a sum of illegal violations of different intellectual property rights, e.g. trademarks, drawings and industrial designs or copyrights, which involve a systematic disloyal competition (Experts estimate that more than half of the products from certain sectors of the market in Romania are counterfeit, our country being in some tops on the second place after Ukraine, in this regard http://www.anticontrafaceri).

The conditions for bringing a counterfeiting action are:

- the existence of a valid patent;
- the infringement brought to the patent owner rights by the manufacture, use or release of the object of the patent;
- the intention.

The counterfeiting acts are not relevant in the country where the invention is not patented. In order to establish the counterfeit, the protected object will be compared with the one considered to be counterfeited. A servile reproduction will be a counterfeit, but if the counterfeit is not servile, it will be counterfeit if the object alleged as counterfeit has essential constituting elements of the invention. As a rule, the counterfeit is judged by similarities, not by differences. The donation of counterfeit items is not subject to the law as is the small-scale manufacture of products covered by patent.

Law no. 344 of 29 November 2005 (published in Official Gazette, Part I no. 1093 of 12.05.2005. The Act came into force on 03 February 2006), on measures to ensure the respect for intellectual property rights within customs operations; by art. 3, paragraph (1) point. 11, it defines counterfeit goods, in what concerns the trademark [5], considering probable but unexplained that trademarks and geographical indications are most frequently but not the only objects of intellectual property, used in order to create confusion and take advantage of the commercial reputation of another person. Thus, in the sense of this law, counterfeit goods are the following:

a) any goods, including its packaging, bearing, without authorization, a trademark which is identical or which is not different in its essential aspects from a product or service trademark legally registered for the same type of goods and, therefore, it violates the rights of the holder of that mark;

b) any symbol of a trademark product or service (including logo, label, adhesive, brochure, instructions or guarantee document bearing such a symbol), even if presented separately, and which is in the same situation as the goods referred to in point a);

c) any package bearing the trademarks of counterfeit goods, presented separately, under the same conditions as the goods defined in point a);

The law does not require, as a condition for bringing an action for counterfeiting, that the trademark holder or the owner of the exclusive right of exploitation to have suffered a loss, the objective being much broader, namely the sanction of any violation of the privative right. Article 85 of Law no. 84/1998 on trademarks and geographical indications provides that, if the counterfeiting acts produce damage, the offenders may be liable for damages under common law. Under the law, an action for counterfeiting

can be started by the trademark proprietor only after the registration date of the trademark in the National Register of Trademarks, and by the applicant of the registration application, but only after the publication of the trademark, under art. 36. The action for counterfeiting is brought, in principle, against the competitor of the trademark proprietor, a requirement which is part of the rule of the trademark specialty.

3. Reparatory damages in intellectual property trials

Establishing ways of calculating the reparatory damages in intellectual property trials is not simple at first glance, since there are no standard rules or formulas by which courts can determine the extent of damage resulting from the counterfeiting activity [6] .

There is no standard rule for assessing damages in intellectual property trials. However, there are enough cases where the plaintiff and defendant are competitors.

In the first situation, where the applicant wishes to assign the right, the amount of damages will be given by the amount of the royalty fee that would be paid, to which it can be added other costs that would be payable by those who would receive the license.

If the plaintiff does not wish to assign the right, the amount of injury is normally calculated based on the losses suffered by the plaintiff from the competition with the defendant. The lost profits, the lost opportunities and the competitive position gained by the defendant may be all taken into account in calculating damages.

In the second case, the parties are not in a position of market competition. In this case, the damage can be established based on a normal royalty fee as a result of a license which will be used out of market competition.

If none of these scenarios appears as a variant, the plaintiff has a choice between damages calculated on the basis of the lost profit and the damages calculated on the basis of the royalty fee.

In other cases it may be considered a combination of both possibilities.

The plaintiff is entitled to claim the amount of money earned by the defendant by using the mechanism created in the judicial practice of "unjust enrichment" through counterfeiting the intellectual property right of the plaintiff.

In order to determine the amount of money by means of which a patrimony was enriched at another's costs, and to establish the fair amount, the holder of the right can use the solution of calculating the profit obtained by the counterfeiter, the amount which is repaid in full and fair.

Instead of being compensated for the suffered damage, the plaintiff may choose to investigate the gains of the defendant and to require that all the earnings of the defendant resulting from the counterfeit of his/her right to be returned to him/her.

This profit can be determined for each item that was sold, and which is unrelated to the protected right, increasing the profit of the defendant in breach of the protected right.

From a practical perspective, most times, it is very difficult to calculate the profit obtained from counterfeiting. In many cases, only a portion of profits represents the counterfeit, in all these cases the court being faced with the difficult task of determining which part of the profit was obtained by counterfeiting.

This problem can be solved in three concrete ways:

- requesting the lost profits as a result of counterfeiting conducted by the defendant;
- the abstract means of determining the injury based on a hypothetical license and
- asking for the profit obtained from counterfeiting, by evoking the mechanism of unjust enrichment.

4. Estimating the lost profit

By counterfeit, the profit of the holder can be reduced in several ways.

In most common cases, the counterfeit diverts sales from the intellectual property right holder.

However, there are other situations when the competition came from counterfeiters can determine the holder of the invention to reduce his/her own price, registering thus a low profit for the goods that he/she continues to sell.

In terms of the production costs of an invention, we can find ourselves in the situation where the counterfeiter and the rightful owner of that invention invest monetary resources equally and both have equal gains.

In order to protect and stimulate the creative effort of the right holder on the creation of an invention, the sanction of the counterfeiter is imposed, by the return of the unjust earnings, and the counterfeit will stop as an effect of the sanction in competition with the unprofitability of the further production and marketing of the respective product.

Of course, in another situation where the action for counterfeiting produces a number of objects under the production plan of the rightful owner of the intellectual property right and at a lower price from which a lower profit might result, the overall earnings, on a short term, will increase. However, this result will lead to the long-term undermining of the activity of the owner because, at the end, it will be found a diminution of the competitive motivation, through the decrease of the stimulation of the creative activity.

Another common situation is when, by the action of counterfeiting, greater benefits can be obtained than those of the right-holder. The superior efficiency of the counterfeiter, reflected in the net income, may be caused by the effect of the sales price - production cost, bringing him in the position to have preferred to make the entire production. In such a situation, if the right holder is able to prohibit that counterfeit before the moment when the counterfeiter would record profits, it may be in the interest of both sides to negotiate the license transfer under the conditions where the counterfeiter will be allowed to use the invention in exchange of royalties.

The royalty fee can be accepted if it is calculated up to the level at least equal to the profit which the right holder can obtain by himself. This profit may be considered the maximum profit that can be obtained by the most efficient producer.

5. Anti-Counterfeiting Strategies

The counterfeit of products which include intellectual property rights has become a global scourge; usually, the counterfeiters copy the packaging and change it, by deforming the notorious marks, in order to cheat buyers.

In order to prevent counterfeiting, since the last century, there has been established the International Union for the Protection of Industrial Property, by signing the Paris Convention for the Protection of Industrial Property (1883), to which more than 150 countries (Romania joined in 1920) [7] are part.

However, the counterfeiting phenomenon could not be stopped, the media highlighting that over 80% of the major brand companies recognize that their products have been counterfeited and, as such, they allocate annually about five percent of their income in order to safeguard their products, including for judicial action.

The need for industrial property protection against counterfeiting was highlighted by the conclusion of the Marrakesh Agreement establishing the World Trade Organization (ratified by Romania by Law no. 133/22.12.1994), which includes the Agreement on intellectual property rights related to trade, known as the TRIPS Agreement.

This Agreement provides, in Art. 7, that its objective is to protect and respect intellectual property rights to the mutual advantage of the producers and users of intellectual creations. Also, article 61 states that Member States may provide for criminal procedures and penalties in all cases of intellectual property rights infringement, especially when they are committed intentionally and for commercial purposes.

The European Parliament adopted the Directive 2004/48/EC of 29 April 2004 of the European Parliament and Council on intellectual property rights which require Member States to provide measures, procedures and remedies necessary to ensure intellectual property rights.

The transposition of the Directive 2004/48/EC into Romanian legislation was made by Government Emergency Ordinance no. 100/2005 on industrial property rights enforcement, in order to fight against the phenomenon of counterfeiting.

In October 2007, the United States, the European Union, Switzerland and Japan have announced negotiations in order to create an Anti-Counterfeiting Trade Agreement – ACTA; subsequently, a number of other countries have joined the agreement.

In order to improve the fight against infringements in the field of intellectual property, INTERPOL Database on International Intellectual Property Crime (DIIP) was created, an independent database containing information about transnational and organizational crime [8].

5.1. Counterfeiting expertise

Patents law contain provisions which punish as offences the harm brought to the status of inventor, the infringement of the exclusive right to exploit the invention and the disclosure of data contained in patent applications. By the provisions of the Criminal Code, counterfeiting, disclosure of professional secrecy and unfair competition are incriminated as offenses committed in connection to inventions [9].

When solving some criminal cases, complex problems may arise, problems that require the presence of experts from various fields of activity [10]. The Romanian doctrine emphasized in various legal works (I. Neagu, Criminal Procedure Law. Treaty, Global Publishing Lex, Bucharest, 2002, pp 382-383) the need to seek the support of some people with professional training, other than legal, in order to clarify the issues belonging to various branches of science (e.g., industrial property).

The Romanian criminal law states that in cases where, for the clarification of facts or circumstances of the case, in order to find out the truth, the knowledge of an expert is necessary, the prosecution or the court orders on request or on its own the performing of several expert examinations (Art. 116 Criminal Code - 172 in the new Criminal Code).

As emphasized by Professor Ion Neagu, although it is a testing means, which exposes the views of experts on specific issues on which the resolution of criminal cases depend, expertise does not have a particularly probative value against other evidence. Therefore, according to art. 63 par. 2) of the Criminal Code, the "assessment of each sample is made by the criminal prosecution body or the court, after the examination of all the evidence, in order to inquire the truth."

In order to form a solid conviction, judicial authorities should have all the information needed in order to assess the correctness of the conclusions of the expertise report. Groundless conclusions of the experts cannot convince the court and, as a consequence of the given solution, the completion of the expertise, or where appropriate, the conduct of a new expertise are necessary.

6. Conclusions

The Criminal Code provides that certain economic activities and counterfeiting are offences within the established regime. The actions that may constitute the material element of the counterfeiting offence are incriminated in two separate texts. By art. 299 and art. 300 it is sanctioned the counterfeiting or use, without right, of the object of an invention and the release of the products produced as a consequence of counterfeiting or using the object of an invention without right.

As stated by Professor I. Macovei, counterfeiting has three forms, namely, the manufacture, use or release of an invention. Within the meaning of the text of the Criminal Code, the counterfeit refers to manufacturing [11]. Other forms, the use and the release, are assimilated to counterfeiting.

By means of the offence of counterfeiting, the exclusive right to the exploitation of the invention, which belongs to the patent holder, is violated.

Intellectual property protection is essential for creating a framework favorable to innovation, investment and economic growth. In the case of patent counterfeiting, the importance of combating the phenomenon is amplified by the potential negative effects on economy, health and safety of consumers. Despite an important number of initiatives, active associations or conferences dedicated to combating the phenomenon, we consider that it requires an extra effort in order to educate consumers to reduce the "ignorance" that promotes this criminal phenomenon. This can be achieved by increasing consumer awareness regarding the identification of such products, the actual or potential consequences of purchasing counterfeit products and reporting to authorities the encountered counterfeiting situations.

7. References

[1] Curtea Constituțională, Decizie nr. 178 din 14 iunie 2001 referitoare la excepția de neconstituționalitate a dispozițiilor art. 37 si 52 din Decretul nr. 328/1966, republicat, publicat în Monitorul Oficial, Partea I nr. 587 din 19 septembrie 2001.

[2] A. C. Ştrenc, B. Ionescu, G. Gheorghiu. *Dreptul brevetului – Tratat. Vol. II.* Ed. Lumina Lex, Bucureşti, 2007

[3] G. Gheorghiu, C. Cernat. *Dreptul proprietății intelectuale*. Ed. Universul Juridic, Bucureşti, 2009 , p. 209.
[4] C. Anechitoae, *Introducere în dreptul proprietății intelectuale. Ediția a 5-a*. Ed. Bren, Bucharest, 2010, pp. 359-361.
[5] G. N. Turcu, *Influențele mediului comercial asupra mărcii*, Revista Română de Dreptul Proprietății Intelectuale, nr. 1 (6), anul III, 2006, p. 63.
[6] D. Tuluca, M. Vintilă. *Modalități de evaluare a prejudiciului în contrafacere*. Simpozion – ediția a VIII-a, 1-4 noiembrie, 2006.
[7] G. Bucşă, "*Studiu de caz privind expertiza tehnică judiciară în contrafacere*", în: Revista Română de Dreptul Proprietății Intelectuale, no. 1 (6), year III, Bucharest, 2006, pp. 41-42.
[8] I. Vasiu, L. Vasiu, "*Contrafacerea şi combaterea ei*", în: Revista Română de Dreptul Proprietății Intelectuale, no. 1 (18), year VI, Bucharest, 2009, p. 149.
[9] V. Roş, *Dreptul proprietății intelectuale*. Ed. Global Lex, Bucureşti, 2001, pp. 415-416.
[10] C. R. Romițan, "*Infracțiunea de contrafacere a desenului sau modelului industrial. Necesitatea dispunerii unei expertize. Jurisprudență*", în: Revista Română de Dreptul Proprietății Intelectuale, no. 1 (6), year III, Bucharest, 2006, p. 49.
[11] I. Macovei, *Tratat de drept al proprietății intelectuale*. Ed. C.H. Beck, Bucureşti, 2010, p. 148.

Challenges to Inflation Targeting in the Context of the post-August 2007 Period

Apostoaie Marius Constantin
"Al. I. Cuza" University of Iasi, Faculty of Economics and Business Administration
apostoaie_marius@yahoo.com

Abstract

In the early 1990 New Zealand passed the Reserve Bank of New Zealand Act, which gave the Reserve Bank the price stability role and independence "to achieve and maintain price stability", which became known later as inflation targeting (IT). Since then, IT gained reputation, becoming the monetary regime of choice of many central banks around the world. Among them, the National Bank or Romania changed in mid-2005 the strategy of the monetary policy with IT.

Nowadays, although the world economy shows signs of recovery from the financial crisis and the resulting deep recession of the global economy (or the post-August 2007 period), challenges still exist for those central banks that implement an IT framework.

Thereby, the paper highlights some of the challenges confronted in recent years by central banks that practice inflation targeting as a monetary policy strategy and possible lessons that can be learned from the global crisis.

Key words: Central Banks, Monetary Policy, Inflation Targeting, Financial Crisis.
J.E.L. classification: E51, E52, E58.

1. Introduction

The international financial crisis which began in 2007 on the market of mortgage loans in USA has driven the economists to rethink their views about macroeconomic policy, in general, and monetary policy in particular. Are we talking about a new paradigm? Is there a new macro "pre-and-post August 2007"? What we can say for sure is that there are a great number of voices that blame the loose monetary policy for laying the foundation for the crisis and there is a lively debate about the future of monetary policy and its relation to financial stability. Some voiced concerns that inflation targeting was inadequate and should be abandoned by both developing and advanced countries.

The article is organized as follows. The first part of the paper consists in a survey of the literature regarding IT as a monetary policy strategy. In Part 2 the paper examines the inflation targeting framework in the context of the great financial crisis started in August 2007. Part 3 analyzes the IT framework in Romania in the current economical context taking into consideration the future entry in the Exchange Rate Mechanism (ERM) II. Conclusions highlight the most important aspects of the paper and some lessons to be learned.

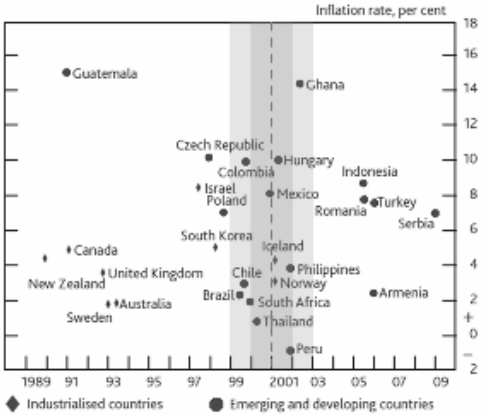
2. Financial literature regarding IT as a monetary policy strategy

It is crucial for a central bank to "get the monetary policy right" because this in turn affects the health of the economy. If the bank promotes an overly expansionary monetary policy these will lead to high inflation, which decreases the efficiency of the economy and hampers economic growth. On the other hand, a monetary policy that is too tight can produce serious recessions in which output falls and unemployment rises. It can also lead to deflation, a fall in the price level. Deflation can be especially damaging to the economy, because it promotes financial instability and can even help trigger financial crises.

In theory as in practice there *was* (and still *is*, in the light of the current financial crisis) an ongoing debate concerning the optimal monetary policy strategy. As we look into the past two decades we draw a line and conclude that inflation targeting (IT) eventually emerged as the preferred solution to the complex economical, political and social issues regarding present times. After being adopted for the first time by New Zeeland in 1989, many industrial countries and emerging markets alike shifted their own monetary regime towards IT. At the start of 2010, a

number of 27 central banks (Hammond, 2010) were considered fully fledged inflation targeters, and many others were in the process of establishing a full inflation-targeting (Figure 1 shows the dates of formal adoption of IT at the start of 2009, and the inflation rate at adoption). Among them, several other central banks like the European Central Bank (ECB), the Swiss National Bank or the Federal Reserve of the United States, have moved towards regimes that have many of the attributes of IT. Regardless of the type of IT strategy, either of the explicit kind that New Zealand and other countries have adopted or of the implicit kind that the Federal Reserve has been following over roughly the same period, we notice that there is a consensus regarding the efficiency of the IT framework.

Figure 1. Countries operating a fully fledged IT regime at the start of 2009



Source: Hammond, 2010, p. 7 and calculations

Much of the existing financial literature as well as the experience of policy makers lead towards the idea that IT is the new orthodoxy of mainstream macroeconomic thought. In present times we find ourselves in front of a vast amount of literature on IT where different authors have proposed different, and in some cases conflicting but solid, definitions.

In broad terms, according to Setterfield (2006, p. 653) the IT policy framework involves "the public announcement of inflation targets, coupled with a credible and accountable commitment on the part of government policy authorities to the achievement of these targets". To other authors (Allsopp, 2009) IT normally involves delegation of responsibility for medium term control over inflation to an independent central bank using interest rates as its primary instrument to influence inflationary pressure.

According to Daianu and Kallai (2008, p. 64) there is a broad and a narrow approach for the IT definition. Regarding the broadest definition of IT, it is a "monetary policy framework that accords overriding importance to the maintenance of price stability". In what concerns the narrower definition, IT is a "monetary policy framework based on the adoption of a monetary policy rule in which forecasts of future inflation play a central role, either in the form of instrument rules or of target rules".

Many practitioners simply adopt the widely cited definition of Alan Greenspan, the former Governor of the US Fed, issued at the July 1996 meeting of the Federal Open Market Committee, as "a rate of inflation that is sufficiently low that households and businesses do not have to take it into account in making every day decisions" (Epstein & Yeldan, 2009, 3).

Although the literature and practice of IT is anything but uniform across various countries, a number of common elements of central banks' IT policies (Bernanke *et al.*, 1999; Dotsey, 2006; Neumann & von Hagen, 2002) can be drawn: 1) an emphasis on long-run price stability as the principal goal of monetary policy; 2) an explicit quantitative target for inflation and a timetable for reaching that specific target; 3) a high degree of transparency with regard to monetary policy formulation; 4) central bank accountability for performance in achieving the inflation objective; 5) a policy approach based on a forward-looking assessment of inflation pressures, taking into account a wide array of information.

After this briefly presentation of the existing financial literature and practice an obvious question may arise, and that is, whether macroeconomic performance under IT has been as good as or better than under alternative policy approaches, such as targeting money growth, exchange rate pegs, or "eclectic" frameworks with multiple objectives. Levin *et al.* (2004) investigate the experience of inflation-targeters and non-inflation-targeters since 1994 in a number of OECD countries and emerging countries. They conclude that: 1) inflation is more persistent for non-IT economies especially when the focus is on core inflation and not CPI; 2) GDP growth volatility is the same for

IT and non-IT economies, but inflation volatility is higher for inflation targeters.

3. The inflation targeting framework in the context of the recent financial crisis

Some economists have claimed that monetary policy is to blame for the financial imbalances that started the current global crisis. Regarding that, many consider that excessively easy monetary policy by the Federal Reserve after 2001 helped cause a bubble in house prices in the U.S., a bubble whose inevitable bursting proved to be a major source of the financial crisis (see for example Taylor, 2007). Nevertheless, there are economists (for example, Bean, 2009) who state that the crisis was mainly caused by factors that "had very little to do with monetary policy". According to them the financial crisis was mostly due to: i) background macro conditions; ii) distorted incentives in financial markets; iii) regulatory and supervisory failures; iv) information problems; and v) some specific circumstances, including the U.S. housing policy to support home ownership for low-income households.

A survey made by the International Monetary Fund (2009), with a sample containing a large number of countries and financial crises, has investigated the role of monetary policy in causing financial crises. According to Chapter 3 in the report, the conclusion is that "the stance of monetary policy has not generally been a good leading indicator of future house price busts… There is some association between loose monetary policy and house price rises in the years leading up to the current crisis in some countries, but loose monetary policy was not the main, systematic cause of the boom and consequent bust".

We can study the inflation targeting framework of monetary policy in the two periods that we have established: *the pre-August 2007 period* and *the post-August 2007 period*.

3.1. Inflation targeting in the pre-August 2007 period

Without a doubt we can say that in the *pre-August 2007 period*, the flexible inflation targeting was the best-practice of monetary policy. Many inflation-targeting central banks around the world preferred to implement a flexible inflation targeting rather than strict inflation targeting.

Both in theory as in practice, one can distinguish two types of inflation targeting regimes (Walsh, 2009):

- *A strict inflation targeting regime* is what Mervyn King (1997) has described as being an "inflation nutter"; this is a framework of monetary policy exclusively focused on the control of inflation. Since it is not preoccupied by the short-term trade-off between inflation control and real economic stability, strict inflation targeting is too costly to be desirable;
- *A flexible inflation targeting regime* is a framework of monetary policy aimed at attainment low and stable inflation while, in the same time, minimizing fluctuations in the real economy. The words "inflation targeting" reflect the primacy of inflation as the final objective of monetary policy. The word "flexible" reveal the short-term tradeoff between inflation control and real economic stability. Since there exist a time lag between the monetary policy decisions and their effect on inflation and real economy, an effective strategy of flexible inflation targeting depends on forecasts of inflation and real economy, being called also as "forecast targeting" (Svensson, 2009).

3.2. Inflation targeting in the post-August 2007 period

One of the most important questions facing researchers and policy makers in the post-crisis is whether the monetary policy regimes of the Great Moderation years should survive or be scrapped. Are there any reasons to modify the current view of monetary policy given the experience of the financial crisis so far?

According to a survey made in 2010 by Irineu de Carvalho Filho in the IMF Papers, IT has had a "positive scorecard", thus far, in dealing with the financial crisis. As the study shows, the monetary policy of IT countries appears to be more suited to dealing with the crisis. In comparison with other countries included in the panel, IT countries lowered nominal policy rates by more and this loosening translated into an even larger differential in real interest rates. Having this monetary stimulus it seems like IT countries,

on average, have dodged the "deflation bullet" better than other countries. Another important advantage of the IT countries, the flexible exchange rate regimes, permitted IT countries to see sharp real depreciations which were not associated with a greater perception of risk by markets. Also there are some weak evidence that IT countries did better on unemployment rates too. Advanced IT countries have had relatively stronger industrial production performance, as for GDP growth rates, the economists found that advanced IT countries had higher GDP growth rates than their non-IT peers.

In this context is there any need to modify the framework of flexible inflation targeting? We can find the answers in some of the lessons that the literature highlights.

First of all, according to Carney (2009) and White (2006), price stability is not enough to achieve financial stability. Good flexible inflation targeting by itself does not achieve financial stability. Specific policies and instruments are needed to ensure financial stability. Also, interest-rate policy is not enough to achieve financial stability. In this context, other instruments – like supervision and regulation, including appropriate bank resolution regimes – should be the first choice for financial stability.

Another important lesson from the financial crisis for the IT framework is that financial factors may have a very strong and deteriorating effect on the transmission mechanism of the monetary policy, making standard interest-rate policy much less effective. Therefore there is a need in the financial literature for more research on how to incorporate financial factors into the standard models of the transmission mechanism. Some of the existing studies include how potential output and neutral real interest rates are affected by financial factors and financial distortions (Curdia and Woodford 2009, Walsh 2009).

Már Gudmundsson, Deputy Head of the BIS Monetary and Economic Department (MED), in his introduction to the 2008 session of the annual meeting of LACEA, "Challenges to inflation targeting", raises four key issues for IT central banks in the context of the current situation. How should they deal with: 1) relative price adjustments; 2) financial globalisation and the role of the exchange rate; 3) credit and asset price booms; and 4) financial stability concerns? Insights on some of these questions were provided by the panellists (BIS, p 7).

4. The IT framework in Romania in the current economical context

In most countries adopting IT as a monetary policy regime, there has been an initial phase of disinflation. Romania is not an exception. The disinflation process has been pursued successfully in Romania in this decade. The inflation rate came down from over 40% in 2001 to 4.9% (Dec. on Dec.) in 2006. In 2007, when Romania joined the EU, inflation went up again (above 6.5%) owing to adverse internal and external shocks. Nowadays, in the context of the current financial crisis, despite the sharp downturn, inflation has remained relatively high by regional standards. End-2009 CPI inflation was 4.7%, down from 6.3% in 2008.

Romania, like any other country that is a member of the European Union and intends to adopt euro as a means to achieve its objective of full participation in the EMU faces a number of challenges/obstacles that will not make the process an easy one. In this part we present these challenges in terms of the IT regime (in the context of the financial crisis).

With the view of joining the Euro Area in the near future, Romania faces a great challenge, that of finding a way to organize the transition from its current exchange rate regime to the irrevocable fixity of exchange rate against other Euro Area currencies, taking into consideration the need to maintain a certain level of price stability.

According to the literature in the field a stable exchange rate while participating in the ERM II has a beneficial effect in fostering lower and less volatile inflation. A fixed rate fosters price stabilisation not only directly, by stabilising import prices, but also indirectly by stabilising inflation expectations. Nevertheless in the case of the standard a 15% fluctuation band, which permits sizeable exchange rate fluctuations (and where there is also the possibility of revaluation of the central rate), this stabilising role is limited.

As we have discussed, a strategy of IT is being pursued in the Romanian economy. In this context the question arises whether IT is consistent with ERM II. In a small open economy, a relatively stable exchange rate is vital for price stabilisation. Accordingly,

close attention is paid to exchange rate movements within the IT regime. However, the ERM II goes further by explicitly setting a quantitative exchange rate target. In an environment of IT and simultaneous participation in ERM II, two monetary policy objectives exist alongside each other: *a target for inflation* and *a target for the exchange rate*. This may undermine the comprehensibility of monetary policy and affect the NBR's credibility and the effectiveness with which it performs its stabilising activities. This problem is reduced if participation in ERM II is limited to the short period of two years. In the case of a longer stay in the ERM II, or insufficiently compatible economic policies, the combination of IT and the fixed exchange rate with a fluctuation band could generate macroeconomic pressures.

In order to prepare for the membership of the ERM II with the objective of full participation in the European Monetary Union, Romania has moved through various types of regimes with ultimate shift being the adoption of the single currency. It has started with a fixed exchange rate regime and moved gradually from an intermediate (soft peg) regime to a managed floating regime. In the present the national currency has a managed floating exchange rate against euro.

In conclusion IT, as the current national monetary policy regime for Romania, is to be maintained at least until the ERM II entry (2012). As we have seen the co-existence of IT with an explicit exchange rate objective is quite problematic, although the two goals are not inconsistent, since in the medium run the international value of the currency can be stable only if its internal value is stable.

5. Conclusions

In the current context, new debates appear regarding the need to move towards price level targeting. These are based on the presumption that monetary policy implemented by the Federal Reserve after 2001 helped cause a bubble in house prices in the U.S., and thus causing the current financial crisis and the resulting deep recession of the global economy (or the *post-August 2007 period*).

Regarding this accusation we have highlighted several studies which state that the crisis was mainly caused by factors that "had very little to do with monetary policy".

Another key aspect that we have illustrated was the importance of the flexible inflation targeting regime of the monetary policy. It can be considered as the best-practice monetary policy before, during, and after the financial crisis. In spite of the new debates, according to some monetary policy practitioners, a flexible inflation targeting, applied in the proper way and taking into account all the information regarding the relevant financial factors for the inflation forecast and resource utilization at any horizon, can be considered as the best-practice monetary policy before, during, and after the financial crisis. Nevertheless, it immediately calls for an improved theoretical, empirical and operational understanding of the role of financial factors in the transmission mechanism of monetary policy.

Regarding the case of Romania, in the perspective of joining the ERM II, NBR's attention will shift back from price stability to the exchange rate anchor, implying that the current form of IT will be maintained at least until the ERM II. The timing should be configured to ensure the likelihood of shorter necessary stay in ERM II, given the fact that there is an inflation targeting framework to which exchange rate movements should be clearly subordinated. That is way an exchange rate arrangement involving the national currency, the LEU, and the EURO must be adapted to the particular economic conditions of Romania and to the policy commitments of the relevant national authorities.

6. Acknowledgements

This work was supported by the European Social Fund in Romania, under the responsibility of the Managing Authority for the Sectorial Operational Programme for Human Resources Development 2007-2013 [grant POSDRU/88/1.5/S/47646].

7. References

[1] A.T. Levin, M. Natalucci Fabio, J.M. Piger, "The macroeconomic effects of inflation targeting", *Federal Reserve Bank of St. Louis Review*, vol. 86, issue 4, Federal Reserve Bank of St. Louis, 2004, pp. 51–80.

[2] B.S. Bernanke, T. Laubach, F. Mishkin, A. Posen, *Inflation targeting: Lessons from the international experience*, Princeton: Princeton University Press, 1999.

[3] BIS, "Perspectives on inflation targeting, financial stability and the global crisis", *BIS Working Paper No. 51,* Bank for International Settlements, March 2010, available on-line at http://www.bis.org/publ/ bppdf/bispap51.pdf?noframes=1, accessed: 02 October, 2010.

[4] C. Allsopp, "Inflation targeting and Asset prices", 6th Norges Bank Monetary Policy Conference, Norges Bank, 2009, available on-line at http://www.norges-bank.no/templates/article_73807.aspx, accessed: 25 September, 2010.

[5] C. Walsh, *Using monetary policy to stabilize economic activity*, University of California, Santa Cruz, 2009.

[6] C.R. Bean, "The Great Moderation, the Great Panic and the Great Contraction", *Schumpeter Lecture*, Annual Congress of the European Economic Association, 2009, available on-line at www.bankofengland.co.uk, accessed: 30 September, 2010.

[7] D. Daianu. E. Kallai, "Disinflation and Inflation Targeting in Romania", *Romanian Journal of Economic Forecasting*, vol. 9, issue 1, Institute for Economic Forecasting, Romania, 2008, pp. 59-81.

[8] ECB, "The stability-oriented monetary policy strategy of the eurosystem", *ECB Monthly Bulletin*, European Central Bank, Frankfurt/Main, 1999, pp. 39–50.

[9] F. Irineu de Carvalho, "Inflation Targeting and the Crisis: An Empirical Assessment", *IMF Working Papers, WP/10/45*, International Monetary Fund February 2010, available on-line at www.imf.org/ external/pubs/ft/wp/2010/wp1045.pdf, accessed: 01 October, 2010.

[10] G. Hammond, "Handbook - No.29. State of the art of inflation targeting", *CCBS Handbook*, Centre for Central Banking Studies, Bank of England, 2010, available on-line at http://www.bankofengland.co.uk/ education/ccbs/handbooks/pdf/ccbshb29.pdf, accessed: 29 September, 2010.

[11] G.A. Epstein, A.E. Yeldan, *Beyond Inflation Targeting. Assessing the Impacts and Policy Alternatives*, Northampton/Massachusetts: Edward Elgar Publishing, 2009.

[12] IMF, *World Economic Outlook*, International Monetary Fund, October 2009.

[13] J.B. Taylor, "Housing and Monetary Policy", in *Housing, Housing Finance, and Monetary Policy*, Federal Reserve Bank of Kansas City Jackson Hole Symposium, 2007, pp. 463–476.

[14] L.E.O. Svensson, "Inflation targeting after the financial crisis", speech at the *International Research Conference* "Challenges to Central Banking in the Context of Financial Crisis", Mumbai, 12 February 2010, available on-line at http://www.bis.org/review/r100216d.pdf, accessed: 01 October, 2010.

[15] M. Carney, "Some Considerations on Using Monetary Policy to Stabilize Economic Activity", in *Financial Stability and Macroeconomic Policy*, Federal Reserve Bank of Kansas City, Jackson Hole Symposium, 2009.

[16] M. Dotsey, "A review of inflation targeting in developed countries", *Federal Reserve Bank of Philadelphia Business Review*, issue Q3, Federal Reserve Bank of Philadelphia, 2006, pp. 10-20.

[17] M. King, "Changes in UK Monetary Policy: Rules and Discretion in Practice", *Journal of Monetary Economics*, 39, Elsevier, Maryland Heights, 1997, pp. 81–97.

[18] M. Setterfield, "Is inflation targeting compatible with post keynesian economics?", *Journal of Post Keynesian Economics*, vol. 28, issue 4, M.E. Sharpe, Inc., 2006, pp. 653-71.

[19] M.J.M. Neumann, J. von Hagen, "Does inflation targeting matter?", *Federal Reserve Bank of St. Louis Review*, vol. 84, issue 4, Federal Reserve Bank of St. Louis, 2002, pp. 127-148.

[20] V. Curdia, W. Michael, "Credit Frictions and Optimal Monetary Policy", *BIS Working Papers No 278*, Bank for International Settlements, 2009, available on-line at http://www.bis.org/publ/work278.pdf, accessed: 01 October, 2010.

[21] W.R. White, "Is Price Stability Enough?", *BIS Working Paper No. 205*, Bank for International Settlements, 2006, available on-line at http://www.bis.org/publ/ work205.pdf, accessed: 01 October, 2010

Financial Integration of European Money Market: from EMU to the Global Crisis and Beyond

Avădanei Andreea
Avădanei Anamaria
Ghiba Nicolae
"Alexandru Ioan Cuza" University of Iasi, Doctoral School of Economics,
andreea_avadanei@yahoo.com
anamaria_avadanei86@yahoo.com
ghiba.nicolae@yahoo.com

Abstract

The scope of this article is to illustrate the general issues relevant for understanding the implications of the global crisis on European money market integration. We structured our paper on chapters that present the evolution of the considered market from the launch of euro until the financial turmoil, its main features in the actual context, and the central banks response to the rising tensions on the money market. Given its function of channeling funds to enable banks to cover their most immediate needs, the money market is by nature vulnerable and sensitive to counterparty risk. For this reason, it was strongly affected by the crisis, but was also the market where the recovery has been more prompt and evident. The assessment of the state of financial integration for the last period is made very difficult by the effects of the financial dislocations on rates and spreads across the different instruments and maturities of the money market. However, the integration and standardization of the money market are not yet complete, and further evolution can be expected.

Key words: money market, financial turmoil European integration, common currency, monetary policy.
J.E.L. classification: E40, E44, E5, F36.

1. Introduction

The elimination of multiple currencies, represented by the creation of the European Monetary Union, marks the fall of an important barrier against financial integration. Money and bond market integration was an immediate consequence EMU. The introduction of the euro and the intercept of the single monetary policy on January 1, 1999, accelerated the pace of change. Before Monetary Union, much curiosity and different points of view surrounded the effect of euro adoption on the financial markets.

The aim of this paper is to present an overview of the European money market integration since the introduction of the common currency in January 1999 until the present financial turmoil and beyond, in terms of evolution and achievements.

In examining developments and integration in the most important segments of the euro-zone money market, we focused on three commonly distinguished markets: the market for unsecured deposits where credit institutions exchange short-term liquidity without the guarantee of collateral, the repo market in which market participants exchange short-term liquidity against collateral, and the foreign currency swap market. We will also look at the derivatives market and the markets for short-term securities.

Monitoring the integration of euro area money markets is important for a number of reasons. First, this market is central to the implementation of the single monetary policy of the euro area, since it constitutes the first step in the transmission mechanism of the monetary policy. The monetary market is regularly used by the Eurosystem to distribute liquidity to the market. For example, repo transactions are one of the main instruments used for the Eurosystem's regular refinancing operations. The integration of these markets is therefore essential to allow a smooth flow of liquidity between markets and across country borders so that liquidity is distributed evenly within the money market. Beyond these considerations, money market

integration is important for the efficient allocation of resources in the euro area and for promoting a more efficient pricing of short-term debt in the euro area.

The article is structured to answer three research questions:

- Which was the evolution of the euro-money market integration under EMU, before the global crisis, considering its main segments?
- What are the consequences of the financial turmoil for the integration of the money markets in the European context?
- How did the central banks respond to the rising tensions on the market and what are the perspectives for the future?

In order to develop hypotheses about the effects of the financial crisis on the money markets, the existing literature on the topic is being reviewed.

2. Literature review

The 2007/2008 financial market turmoil has been discussed extensively in the specialized press (i.e. Financial Times, Wall Street Journal, the Economist), and in social publications (Financial Stability Reviews published by central banks, the IMF and BIS). The academic literature is still in the process of analyzing the ongoing events ([1], [2]). Several dimensions are being explored such as flaws in the pricing models and understanding of credit risk transfer products; the role of securitization, SIVs and off-balance-sheet exposures of banks and their committed credit lines; the role of rating agencies ([3], [4], [5]); central bank operations and their impact (of lack of) money spreads and volatility ([6]); the role of collateral in open market operations ([7]); and the potential moral hazard implications of recent interventions and innovations in central bank operating procedures, i.e. US Fed and Bank of England's securities swap facilities ([8]).

3. Evolution and achievements of the European money market integration before the global crisis

The most immediate and extensive impact of EMU has been felt on the euro-area money markets for unsecured money and derivatives. Almost from the outset of EMU, interest rate on inter-bank deposits and derivative contracts across euro area converged fully to on the benchmark EURIBOR and EONIA rates.

This rapid convergence reflected early acceptance of the single monetary policy among market participants and was facilitated by the availability of interconnected systems for real-time settlement of large- value payments in the form of TARGET, which was recently been replaced with a more integrated platform, TARGET2. The successful integration of these unsecured markets was crucial to establishing ECB credibility in the very early period of EMU and has provided the basis for a smooth-functioning single monetary policy thereafter.

In this context, the *unsecured market* became highly liquid and deep, with very big deal sizes, tight bid-ask spreads and equal interest rates at different locations, with the exception of minimal differences, normally well within the bid-ask spreads.

The growth of the unsecured segment of the market was concentrated at the shorter maturities, indeed in overnight transactions, which represented by far the largest share of unsecured operations. While the available information for the euro area money markets is scarce on the price side, the EONIA provides a clear indication for overnight developments. The dispersion of the EONIA prevailing among euro area countries has been very small since 1999.

Between 1999 and 2007, the unsecured segment was highly integrated, with the creation of the euro area lending to a near-complete convergence in key indicators, such as the overnight lending rate.

Integration has been less complete in *secured money markets* within the euro area, such as the market for T-bills, commercial paper and certificates of deposit, as well as the private repo market. The creation of EUREPO index by the European Repo Council and the European Banking Federation in March 2002 was an important recent initiative for promoting the repo market's integration. EUREPO, which was introduced as the benchmark for secured money market transactions in the euro area, is the rate at which one prime bank offers funds in euro to another prime bank in exchange for EUREPO general collateral (GC). The fact that EUREPO GC is clearly and uniquely defined for all market participants facilitates cross-border trades and therefore promotes

repo market integration.

As far as the integration of these markets is still hindered by the differences in national legal and tax frameworks and by the persistent fragmentation in national clearing and settlement infrastructures that make difficult the cross-border movement of the collateral. However, the implementation of the Financial Collateral Directive (FCD) has reduced the national legal differences and has contributed to the grater usage of cross-border collateral. Although a source of inefficiency, segmentation in these markets was not considered to be a major opportunity cost for the euro area economy so long as the inter-bank market functioned smoothly.

However, the liquidity problems experienced in the euro area inter-bank market since august 2007 amid the ongoing international financial turmoil have highlighted the importance of access to efficient collateralized money markets and suggested a need for further effort in integrating these markets.

Given the high fragmentation that has characterized the commercial paper market since the introduction of the euro; the harmonization of market standards promoted by the STEP initiative may significantly contribute to the integration of this market segment.

Unlike the unsecured and secured segments, *the market for short-term securities* has shown only limited signs of integration since the introduction of the common currency, mainly because of differences in market practice and standards. An efficient commercial paper (CP) market is needed to ensure the efficient financing for firms and a smooth and timely transmission of monetary policy. Furthermore, the absence of a sufficiently developed CP market may result in elevated and uneven costs of capital in the euro area.

Since June 2006, the STEP initiative aims at fostering the integration of this market by promoting convergence of market standards. In 2007, more than half of the outstanding euro-denominated commercial paper has been assigned the STEP label and its share substantially expanded, even in a period of contraction of the entire market [1]. The segment has therefore the potential to become a truly integrated euro area market, of a dimension comparable to that of the US market.

Meanwhile, the markets for *euro-denominated derivatives* have expanded significantly beyond the size implied by legacy currencies, partly reflecting an explosive growth trend in such instruments on a global level, but also the absence of liquidity in underlying cash securities. Interestingly, the vast bulk of activity in euro-denominated derivatives markets takes place outside the euro area in London.

Like the unsecured lending market, the euro area interest rate swap rapidly became highly integrated following the introduction of the euro in 1999. Price-based measures of integration in the euro area interest rate swap market confirm that this segment indeed already enjoyed a very high degree of integration shortly after the euro's introduction. On the whole, all evidence suggests that the euro area interest rate swap market is not only extremely large and liquid, but also one of the most integrated in the euro area financial landscape.

The integration of *swaps and future markets* is significantly higher than the *cash-based markets*, reflecting the greater concentration in the derivatives markets among larger, more sophisticated institutions.

However, the *short-term securities markets* are the least integrated component of the money markets: a basic obstacle to a unified short-term securities market has been the diversity in norms and definitions in the design of short-term securities contracts.

In respect with the longer-term debt securities, the integration of this market has been impressive. For sovereign debt, spreads across member governments are small relative to the pre-EMU patterns and can be related to differences in liquidity properties and credit risk.

4. Main features of the money market in the light of the financial crisis

The European money market *has been particularly hit by the turmoil*. In our view, asymmetric information on credit risk played a crucial role in the transmission of the US sub-prime mortgage market credit shock to this market. Transactions volumes, especially for longer maturities, have declined, and unsecured rates have been characterized by unusually high elevated spreads.

As the financial turmoil unfolded, the dispersion of inter-bank lending rates across

countries reached unprecedented levels compared with those observed before the crisis began and even in the initial stages of the turmoil in the summer of 2007. Moreover, there are indications of emerging differences between domestic and cross-border rates in the unsecured money market.

The country dispersion of the interest rates, of both the unsecured and the secured segments, reached their peak in the third quarter of 2008 and, over the same period, the cross-country standard deviation of EURIBOR started to exceed that of EUREPO rates. These seems to be the result of increased concern about counterparty risk, particularly for the cross-border transactions, which forced many banks to reduce their unsecured lending business and focus more on the secured segment against higher grade collateral. The conclusion is that *the secured segment has been less influenced* by the financial turbulence is supported by the trend in the geographical counterparty breakdowns. While the share of "other euro area" counterparties for the unsecured segment decreased from 50% to 42% over the period 2007-2008, it remained almost stable in the repo market. Unsecured money markets on non euro area countries have been heavily affected by the market turbulence as well.

Analyzing the evolution of the repo spreads for the crisis period we see that spreads fluctuated widely, but never returned to their pre-crisis levels (table 1).

Table1. Descriptive statistics of repo spreads

	Pre-crisis			**Crisis**		
	EURO	**UK**	**US**	**EURO**	**UK**	**US**
Mean	0.07	0.15	1.18	0.63	0.69	0.88
Std.	0.02	0.01	0.04	0.13	0.19	0.21
Min.	0.02	0.10	0.03	0.16	0.24	0.46
Max.	0.15	0.23	0.37	0.89	1.12	1.54
Obs.	1418			287		

Source: P. Abbassi, I. Schnabel, (2009), "Contagion among inter-bank money markets during the subprime crisis"

Notes: The pre-crisis period refers to the sub-sample March 4, 2002-august 8, 2007 and the crisis period to august 9, 2007-september 14, 2008. Euro, UK and US represent the corresponding spreads. Std. denotes the standard deviation and Obs. the number of observation. The unit of measurement is % p.a.

In all three regions, the repo spreads of the crisis period were on average more than 50 basis points above those in tranquil times. It is remarkable that during the turmoil, the spreads reached maximum values of 89, 112 and 154 basis points, respectively [11]. In other words, market participants at times were only able to borrow funds on the unsecured money market at a price that exceeded secured money market rates by more than 100 basic points. This dramatic divergence between unsecured and secured money market rates reflects the banks' reluctance to lend to each other. Furthermore, the spreads' standard deviations are more than five times larger during the crisis than during the tranquil period involving the uncertainty of market participants in the crisis.

In particular, the volumes of cross-border trades declined somewhat compared with domestic transactions. At first glance, this finding seems to indicate a breakdown of the cross-border market with a possible segmentation of money markets across the euro area. The price for these transactions lowered in comparison with domestic trades.

Thus, a more likely interpretation seems to be that, as a result of the turmoil, cross-border inter-bank trades are now conducted mainly by banks with a relative high credit standing, who act as money centers in the different countries of the euro area. The higher average quality of cross-country borrowers is reflected in the lower interest rates. Other, most likely smaller or less known banks are mainly trading in domestic markets, where interest are higher, because the average credit risk is perceived to be higher. Thus, in the cross-border context, the events seem to have enforced a two-tier system of the money market, in which smaller banks rely on liquidity provision by internationally active money center banks.

During the financial turmoil, the increase in perceived liquidity and credit risks generated a sharp increase of volatility and a decline in trading activity in the euro area market not only for inter-bank unsecured loans but also in segments of the secured non-government repurchase agreements (repo) markets.

Many banks no longer accept certain asset types (i.e. ABSs and CDOs) as underlying collateral in repo transactions. Even in those secured money market segments with high

quality collateral, turnover has decreased. The reduction in turnover in these markets has two causes.

First, because market participants are uncertain about counterparty risk, they have cut their credit lines and reduced their loan volumes markedly.

Second, increased uncertainty about their liquidity needs has led to liquidity hoarding. The dramatic increase in perceived liquidity and credit risks had a major impact on the rates, the volatility and spreads prevailing in the euro area money markets.

The cross-sectional standard deviation of the EONIA lending rates across euro area countries clearly signals tensions in the money market. After having reached its lowest level of 1 basis point in 2006, the standard deviation suddenly increased to 4 basis points in mid-2007 before reaching a peak of more than 15 basis points in October 2008 [12]. These developments closely followed the different stages of the financial crisis.

Increased concerns about the creditworthiness of counterparties and uncertainty about their own liquidity positions prompted banks to hoard liquidity and to lend funds only for the shortest maturities or only against higher-grade collateral in secured markets. In the unsecured segment, liquidity became very scarce at maturities beyond one week, even disappearing at longer maturities. Most inter-bank unsecured lending concentrated on the overnight maturity, but even overnight liquidity remained scarce.

The 2007/2008 turmoil has led to increased segmentation in the euro area money market [13].

Asymmetric information problems have been a central feature of the malfunctioning of the money markets. This has led to a two-tier market structure, with the larger banks possessing the highest credit standing active in the cross-border money markets whereas smaller banks are confined to trading with domestic counter-parties. The segmentation is reflected in pricing data, with interest rates on cross-border inter-bank lending lower than on domestic inter-bank lending. As the money markets return to more normal conditions, we may expect the degree of segmentation to decline even if it does not fully return to the pre-turmoil levels.

The recent performance of money market integration indicators-at least for the euro area- seems to be linked more to a temporary domestic entrenchment than to a stable reduced level of integration. Indeed, after peeking at the height of the market turbulence, the cross-border standard deviation of money market rates started to decrease in the last quarter of the 2008.

5. Monetary policies of EU central banks in response to the tensions of the money market

Central banks in the EU did respond decisively to the rising tensions on the money markets after the collapse of Lehman Brothers. The ECB lowered its borrowing costs by 50 basis points to 3.75 percent in early October 2008, in a coordinated move with the bank of England, the Sveriges Riskbank and various non-EU central banks [14].

More interest rate reduction followed from October 2008 until the summer of 2009, leading to a reduction of the ECB benchmark policy rate by 325 basis points to 100 basis points.

Besides the lowering of borrowing costs, central banks stepped in as central providers of liquidity, thereby ensuring the allocation of short term bank funding on dysfunctional money markets.

Moreover, the list of collateral eligible for refinancing was expanded, which facilitated banks' access to central bank money. With the objective of supporting banks' funding beyond very short term horizons, the ECB also raised the volume allotted in its three-month refinancing operations and introduced six-month and twelve-month refinancing operations.

The effectiveness of the extensive monetary policy action in Europe and elsewhere should be judged not only in terms of its traditional transmission channels, but also in terms of its success in avoiding a financial meltdown and thus preparing the ground for a return to normal functioning financial markets.

6. Conclusion

Recent developments suggest that the turmoil is having a significant impact on euro area financial integration in certain sectors: most notably, in the unsecured inter-bank market and in the government bond markets.

Cross-border inter-bank activity started to decline in certain areas in autumn 2008. We believe that this reversal in trend can be linked to transitional factors, including increased credit risk variance amongst intermediaries and a temporarily higher home bias for financial transactions. As such, this change in direction should not be seen as a clear signal of a permanent worsening in the level of market integration. It is clear that further information and time is needed to shed sufficient light on these developments so that we can be in a position to accurate judge the situation.

Price-based indicators reveal that, notwithstanding the still evident effect of the crisis on the overall dispersion of funding rates across countries, a convergence of cross-border funding costs has taken place recently, supported by the Eurosystem-wide provision of liquidity.

Quantity-based indicators, by contrast, suggest the opposite, as they show an increase in the domestic component for turnover in the unsecured and repo money markets.

A full assessment of the impact of the crisis on financial integration will only be possible after some time. However, the latest evidence from the indicators of financial integration suggests a gradual return to a normal functioning of the market.

7. References

[1] R.W. Ferguson, P. Hartmann, F. Panetta, R. Portes, "International Financial Stability", Geneva Reports on the World Economy9, ICMB and CEPR, 2007.

[2] ***Banque de France, "Financial Stability Review 11", Special Issue: Liquidity. February, 2008.

[3] A. Ashcraft, T. Schuermann, "Understanding the securitization of subprime mortgage credit", Federal Reserve Bank of New York, 2008.

[4] M. Crouhy, S. Turnbull, "The subprime credit crisis of 07", *University of Houston Working Paper Series*, 2008.

[5] M. Brunnermeier, "Deiphering the 2007-2008 Liquidity and Credit Crunch", *Journal of Economic Perspectives*, Vol. 23, No. 1, 2008, pp.22-100.

[6] J. B. Taylor, J. Williams, "A black swan in the money market" *Federal Reserve Bank of San Francisco Working Paper* 2008-04, 2008;

[7] C. Ewehart, J. Taping, "Repo markets, counterparty risk and the 2007/2008 liquidity crisis, *European Central Bank Working Paper* No. 909, 2008;

[8] W. Buiter, "Lessons from the North Atlantic Financial Crisis", Paper presented at the conference "The Role of Money Markets" organized by Columbia Business School and Federal Reserve Bank of New York on May 29-30, 2008.

[9] ***European Commission, "European Financial Integration Report 2008", Commission Staff Working Document, Brussels, 2008.

[10] ***European Commission, "European Financial Integration Report 2009", Commission Staff Working Document, Brussels, 2009.

[11] P. Abbassi, I. Schnabel, "Contagion among inter-bank money markets during the subprime crisis", University of Mainz, CEPR and MPI Bonn, 2009.

[12] P. Lane, "EMU and Financial Integration", *IIS Discussion Paper* No. 272/December 2008;

[13] N. Cassola, C Holthausen, M. Lo Duca, "The 2007/2008 turmoil: a challenge for the integration of the euro area money market", Conference on Liquidity: Concepts and Risks, CESifo Conference Centre, Munich, 2008

Influence of Population Decline in Romania on Human Resources Management

Balogh Petru
Golea Pompiliu
"Dimitrie Cantemir" Christian University
petru_balogh@yahoo.com
golea_p@yahoo.com

Abstract

The beginning of the XXI-st constitutes a period of deep changes in human resources management in Roumania and at European level. Decreasing the population number, especially the active population, decreasing the number of young population, aging the labour forces constitute a lot of sources with a huge impact on the methods and techniques used in human resources management.

Key words: demographic decline, human resources management, labor market.
J.E.L. classification: J00

1. Demographic trends in Romania and its influence on human resources management

Since 1992, Romania began to manifest the phenomenon of population decline. Population decline caused decrease of active population.

Is also reflected in Romania specific phenomena developed European countries, such as aging population, increasing women's participation in the labor market and raising the level of preparedness of the population.

These changes require a different approach to human resource management within firms.

1.1. Population Decrease

The decrease in population is the cumulative result of maintaining the birth rate at a lower level of mortality and a negative net migration.

Year	Population [million]	Obs.
1992	22,8	Census 1992
2009	21,5	National Institute of Statistics
2025	19,9	UNO Population Division estimates
2050	16,8	

Table 1. Population evolution

1.2 The decline of the active population

One of the repercussions of a shrinking population is a diminishing population active.

Assuming a total fertility rate of 1.8 children per woman, in Table 2 shows the active population and its share of total population.

Year	Active population [million]	Weight [%]
1992	10,4	45,6
2009	10,1	46,9
2025	9,1	45,7
2050	7,8	46,4

Tabel 2. Active population evolution

1.3 Active population aging

This trend is mainly determined by the increase in life expectancy. Thus, during 1996-2005, in Romania, male life expectancy increased by 3.7 years and 3 years in women. Weight of active population by age is shown in Table 3.

Year	15-24 years [%]	25-39 years [%]	40-64 years [%]	≥65 years [%]
1992	22,5	38,7	37,3	1,5
2009	11,7	40,2	43,4	4,7
2025	11,1	32,0	50,8	6,1
2050	9,5	37,0	44,0	9,5

Table 3. Weight of active population by age

1.4 Young active population decrease

The decrease in the number of young working population, therefore decrease the labor market is driven primarily by lower birth rates and increasing student numbers.

Year	Number of students [million]
1992	0,2
2009	1,6
2025	1,0
2050	0,7

Table 4. Evolution of the number of students

1.5 Increased level of population training

The constantly growing number of graduates, so the level of preparedness and public information leads to weight acceptance of existing regulations and authorities, requiring the effective management of human resource valuation skills and knowledge of employees, along with their retention.

Year	Number of students at 100 000 inhabitants
1998	2240
2009	4142
2025	4500
2050	4700

Table 5. Number of students at 100 000 inhabitants

2. Economic prospects in the labor market in Romania and their influence on human resource management

Very complex economic context determines a labor crisis throughout the country. While millions of Romanians working abroad, the local market began to import workers. Labor is marked by low competitiveness. There are major discrepancies in pay between top executives and the rest of the companies pesonalului, chapter places us among the countries of Latin America. It outlines the deep regional discrepancies in terms of wages, employment and professional training

The success of training programs is extremely low. Only 10% of the beneficiaries of these programs were included in the workforce. A review of these programs that take into account the balance of supply and demand is timely.

The Romanian economy is highly influenced by the following factors:
- European economic context;
- The evolution of technology, particularly automation and expansion of new information technologies;
- Opening of the European labor market.

All these have led organizations to seek competent human resources not only at local, regional or national level but also in Europe.

Crystallized psycho-socio-professional profile and key skills \ abilities required human resources in Europe are presented in Table 6.

General profile	
1	All information-handling capacity
2	Communication skills
3	All information capacity utilization
4	Capacity analysis and problem-solving
Specific managerial profile	
1	Taking responsibility
2	Capacity to adopt positive attitudes and behaviors
3	Flexibility
4	Ability to learn and continuously self-improve
5	Activities safely
6	Ability to work in a team
7	Participation in some projects

Table 6. Qualities required human resources

Source: Bonneau, D., Les metiers de l'avenir, Paris, 2002

Overall, EU Member States put strong emphasis on maintaining the number of employees through policies that aim:

- **Support the economic activities** that are viable but have difficulties in accessing funds by facilitating access to capital. Emphasis was placed on industries that were heavily affected by the crisis, such as machine building sector in which many governments have operated a scheme to subsidize the purchase of new vehicles. Other measures aimed at rapidly accelerating rate of return on invested capital or the issuing of state funds by employers for the latter can cover a fraction of the cost of staff.

-**Training and retraining programs**. This measures vary depending on goals. In France, for example the focus was on professional retraining while in Lithuania were encouraged companies to keep employees.

- The emphasis on **measures designed to reduce companies' costs** before the actual dismissal of their employees. Among them stand to pay unemployment insurance technical or reductions in social contributions.

- **Extend unemployment benefits** and activities to encourage part-time work (part-time). Austria for example, increased part-time work period from one year to two and Germany has granted bonuses for reducing the number of working hours.

- **Measures to support** the targeted low income category, such as subsidies on energy bills. In general they tend to focus on the directions above but their applicability is different, depending on economic structure, economic situation and the ability of governments to fund these measures.

At present, Romania number one issue is the macroeconomic balance, a situation which the authorities try to stabilize it by applying a very restrictive budget.

While our economy is changing and companies struggling to keep up the pressure to be more profitable is becoming increasingly important. To achieve superior results in highly competitive business world today, is vital for organizations to optimize their approach to performance management. In this context, a special initiative also has an important human resource managers to meet challenges and find solutions to problems that arise in their organizations. Although these challenges can vary by industry and company size, all these are opportunities for human resources leaders to influence the direction it is heading their companies and to strengthen human resources function in the organization.

After restructuring and reorganizations, the focus is now on improving the performance of the workforce in order to drive the company out of downturn and to prepare for a successful positioning when the economy recovers.

To have a committed and productive workforce has become a strategic asset that companies seeking to have him in a bitter competitive environment.

3. Conclusions

Demographic trends and labor market will require a policy to encourage older people to remain active, but it will not take effect if workers will not have the skills required by employers. Active Ageing population requires new approaches on the relationship between age, on the one hand, and labor productivity, labor organization, increase motivation, maintaining health, reducing stress and risk of occupational diseases, on the other side.

Special attention should be paid to education policy, human resources and policy on youth employment, promotion of geographical mobility and skills. Population aging process concerns all age groups and a need to adapt depending on the specific measures each age group, leading to growth opportunities by including measures that take into account the needs of one or the other age groups. The practices are focused on active aging, which involves education, lifelong learning and late withdrawal from active life. Reforms generating jobs and economic growth will ensure an adequate response to the constant pressure of aging population and the rate of social benefits.

Human Resources Management will be based on the following considerations:

- Strategy and culture are important. The effectiveness with which it is implemented a strategy is influenced by how the human resource, organizational culture that are influenced and respond to elements implemented.

- The emphasis on attachment and not servility. Quality human resources of a firm depends on the policies developed and implemented by management, which promotes attachment to the firm and allowing expression of creativity, energy and uses employees to achieve goals.

- Emphasizing the essential role of management at the lower level. Currently, due to fierce competition that exists in the national and international markets, we focus on the growing role of managers in the "front line" (front-line people), also called "on the lower level." They have direct responsibility for leading productive employees that those who have direct contact with customers.

4. References

[1] Bonneau, D., *Les metiers de l'avenir,* Cahier special de la presse, Paris, 2002

[2] Vasile Ghetău, *Declinul demografic si viitorul populatiei României. O perspectivã din anul 2007 asupra populatiei României în secolul 21,* Alpha MDN, 2007

[3] www.insse.ro

The Effects of Financial Crisis on the Behaviour of Investors on the Romanian Capital Market

Barna Flavia
West University of Timişoara
flavia.barna@feaa.uvt.ro
Dănuleţiu Dan
„1 Decembrie 1918" University of Alba Iulia
danuletiu.dan@gmail.com

Abstract

The globalisation process has led to the stimulation of international economic and financial relations by extensive capital movements. The global financial crisis has severely affected all segments of the capital market, its effects being felt especially on the emerging markets. This paper aims to analyses the effects of financial crisis on the structure of investors and the changes of behaviour of non-resident investors within the Bucharest Stock Exchange.

Key words: foreign investments, behaviour, correlation, BET index
J.E.L. classification: G01, G11, G12

1. Introduction

The financial turbulences on the capital markets prompted a reconsideration of investment principles. Financial globalization has made possible the rapid transmission of financial instruments prices volatility through the effect of markets' contagion due to the close connections between the various financial centres through real-time information transfer. In this context, investors' risk aversion becomes a crucial element in the decision to invest or not to invest on capital market.

Emerging capital markets have increasingly come to the attention of investors, both those interested in developing some direct foreign investments, but particularly of those aiming at portfolio investments. Thus, starting from the assumption of diversifying the portfolio and identifying new sources of income, portfolio investors will exploit the favorable economic conjuncture and the investment decision is taken only if the expected profitability for invested capital, adjusted to a higher risk degree, is greater than that obtained on mature markets.

Foreign portfolio investment may influence capital market development, both positively, by capital inflows, and negatively, by shifting cash into other markets or towards other financial instruments. Due to specific characteristics (small number of issuers, small capitalization), emerging markets are more sensitive to the volatility of foreign capital flows.

According to Bakaert and Harney [1], foreign portfolio investment may lead to structural and functional changes of the capital market: (1) foreign portfolio investment exits, besides the disruptions they create on the financial system by reducing the market liquidity, lead also to negative variations of the assets' price on the market, (2) foreign portfolio investment entries determine an increase of the securities' price fluctuations in most emerging markets that have received significant flows of foreign investment.

However, we cannot say that the volatility of emerging markets is entirely due to foreign investors' participation. The withdrawal of foreign capital generates a change in the attitude of resident investors who become aware of the changes in market trends and, as a consequence of herd behaviour, they perform significant capital withdrawals. On emerging markets, as a result of the manifestation of some financial crisis foreign portfolio investment exits sent shock waves to other international capital markets [3].

In Romania, the liberalization of financial flows associated with capital account resulted in increasing the capital market's sensitivity degree to factors from the international environment. In this context, the decisions of investors were substantiated increasingly on

the evolutions from the international financial markets.

In this way, unfavorable evolutions recorded in 2008 show the closer correlation between the movements of local stock exchange indices (BET, BET-C, BET-XT) and the developments of international stock exchange indices. Financial statements which indicated high performances of most issuers listed on the Bucharest Stock Exchange and the statistic data from the national macroeconomic environment, which indicated a stable climate, were not sufficient elements to counteract the effects of the turbulences already installed on international financial markets.

In this context, we intend to analyze the effects of financial crisis on investors' structure and on performances recorded at the Bucharest Stock Exchange.

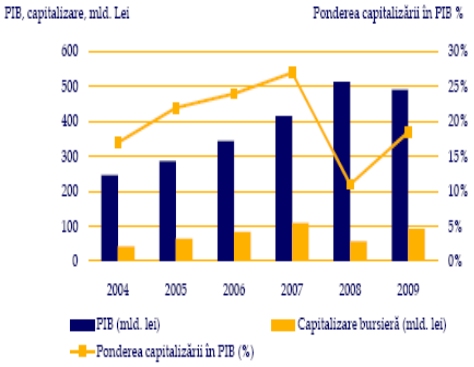
Transactions of foreign investors determine, to an extent that should not be neglected, the performance of shares listed on Bucharest Stock Exchange, but "we do not know their investment behaviour and how they react in different situations or on what non-residents base when they choose to buy, sell or wait, therefore to invest in an emerging market. The presence of a large number of foreign investors in a capital market most often has an important contribution to the development of stock exchange, both through the flow of money and through the know-how they bring." [4]

2. Dissemination of external financial crisis on the Romanian capital market

Evolutions on international financial markets and the dynamics of domestic macroeconomic quilibriums/disequilibrium have led to a reassessment of the risks that have influenced the capital market in Romania. This reassessment of risks is confirmed by relatively large fluctuations of stock exchange indices starting from the second half of 2007 and a reduction in market capitalization (see Figure 1).

Figure 1

The dynamics of market capitalization on Romanian capital market



Source: CNVM Annual Report, 2009

The growth of risk aversion on international markets and limited liquidity on financial markets have influenced the behaviour of non-resident and local investors and determined the contraction in nominal terms of the amounts placed by investors on capital market, but also the contraction of the share which foreign investors had on the market.

Table 1

The evolution of investors in the Bucharest Stock Exchange

The investors' structure		**Purchases % of total**	**Sales % of total**
2005	Aggregate Accounts	-	-
	Residents	72,03	78,02
	Non-residents	27,97	21,98
2006	Aggregate Accounts	-	-
	Residents	69,83	75,9
	Non-residents	30,17	24,1
2007	Aggregate Accounts	-	-
	Residents	59,9	65,3
	Non-residents	40,1	34,67
2008	Aggregate Accounts	1,48	2
	Residents	69,85	67,2
	Non-residents	28,67	30,81
2009	Aggregate Accounts	1,68	2,48
	Residents	75,12	78,02
	Non-residents	23,2	19,5

Source: CNVM Annual Report, 2009

In this context, we can say that the Romanian capital market is facing a new long-term trend, a maturation trend. This trend is subject to a multitude of factors that may influence the market dynamics, factors related to both domestic and international developments.

3. Method and results

This paper will try to quantify and analyze the relation that exists between BET stock index (the reference index of the capital market, which is a price index shared with free float capitalization of the 10 most liquid companies listed on the regulated market of Bucharest Stock Exchange), purchases and sales of financial instruments of non-resident investors, the source of statistical data being represented by the Bucharest Stock Exchange. The study covers the period from January 2005 - December 2009, monthly series.

The analysis aims at determining the correlation coefficient (Pearson's correlation) between monthly returns of BET stock index and the share of purchases and, respectively, of sales made by non-resident investors in the total of transactions from the regulated market.

Pearson's correlation reflects the degree of linear relationship between two variables. It ranges from +1 to -1. A correlation of +1 means that there is a perfect positive linear relationship between variables. A correlation of -1 means that there is a perfect negative linear relationship between variables.

In the most recent developments occurred on the Romanian capital market there are two important moments: mid-2007, when on the mature markets were felt the first effects of the financial crisis, and the year 2008, when the financial turbulences causes a dramatic reversal of BET's trend and when were recorded negative performances on the Bucharest Stock Exchange.

Thus, to refine the analysis, we will determine the correlation coefficients both for 2005-2009 and for the two sub-periods 2005-2007 and 2008-2009 also considered important (see Table 2).

Table 2

Correlation coefficients
BET index – the transactions of non-resident investors within Bucharest Stock Exchange

Period	Correlation coefficient BET index – purchases non-residents	Correlation coefficient BET index– sales non-residents
2005-2009	0.1333	-0.4017
2005-2007	0.2928	-0.2764
2008-2009	-0.1016	-0.5499

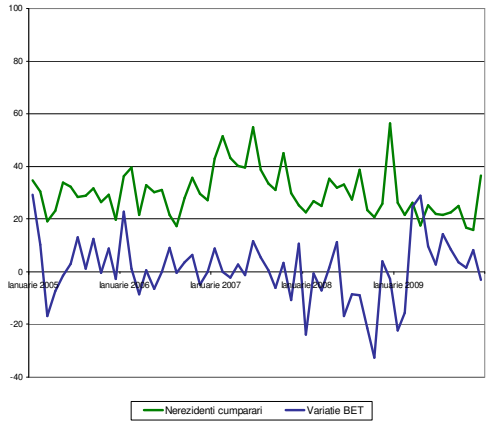
Source: Data processed by the authors based on information provided by BSE, www.bvb.ro

Analyzing the data obtained, we can see a low and direct correlation of 0.2928 between the BET index and the stocks purchases of non-resident investors only for 2005-2007. In this context we can say that the investment strategy of non-residents aimed at achieving a higher return than that obtained on mature markets in risk conditions considered acceptable by them.

We can also notice the contribution of foreign investments to maintain the upward trend of BET, as the index records better performance in the months when the weight of non-resident investors' purchases in total of purchases of listed stocks was high (see Fig. 2).

Figure 2

The dynamics of BET and of purchases made by non-residents investors

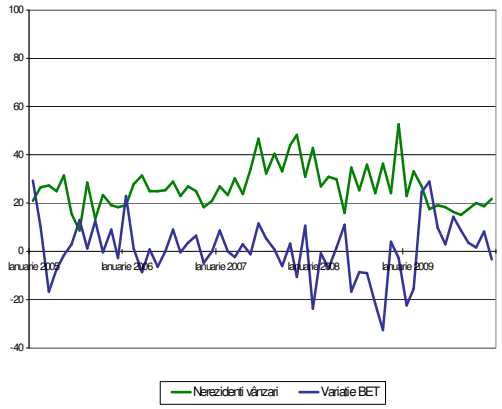


Source: Data processed by the authors based on information provided by BSE, www.bvb.ro

Regarding the correlation between monthly returns of BET index and the weight of monthly sales of non-resident investors in total sales within the Bucharest Stock Exchange we can see that in the months when non-residents' sales are higher, the performances of BET index are weaker (see Fig. 3).

Figure 3

The dynamics of BET and of sales made by non-residents investors



Source: Data processed by the authors based on information provided by BSE, www.bvb.ro

The correlation coefficient between BET index and the sales of non-residents is negative, the connection being strong and reverse, especially for the period 2008 – 2009 when it reaches the value of -0.5499 (statistically significant value), which confirms the increase of risk aversion of foreign investors and the of change investment strategy by reducing the share hold by stocks listed on emerging markets in the global portfolio structure.

This is evidenced by the structure of investors in the Bucharest Stock Exchange, resident investors with a higher share (approximately double the share of non-residents) in the total of transactions carried out during the analyzed period.

What is the impact of non-resident investors' behaviour on local investors? To answer this question we will determine the correlation between variables purchase resident – non-resident investors, i.e., sales resident – non-resident investors (see Table 3).

Table 3

The matrix of correlation coefficients

	Non-residents purchases	*Non-residents sales*	*Residents purchases*	*Residents sales*
Non-residents purchases	1			
Non-residents sales	0,4322329	1		
Residents purchases	-0,9940151	-0,4434094	1	
Residents sales	-0,3926313	-0,9886503	0,416514	1

Source: Data processed by the authors based on information provided by BSE, www.bvb.ro

According to the matrix presented in the table above, we can see that between all four variables there are strong connections, namely:

- Between sales and purchases of non-residents (residents) there is a strong and direct connection, this shows the adaptation of investment strategy in the analyzed period.
- Between resident – non-resident purchases (resident – non-residents sales) there are reverse and very strong connections, almost maximum, resident investors enhancing the purchases on capital market at a time when foreign investors' interest increases.
- Between non-resident purchases and resident sales there are reverse and strong connections, foreign investors' behaviour is not influenced by the behaviour of local investors, but by external factors.

Thus, it can be said that Romanian investors no longer expect signals from foreign investors, often buying on the condition in which non-residents have sold, but also selling when foreigners have bought.

A good example is December 2009, when a significant decrease in purchases made by resident investors, with about 19%, could be observed, while the non-resident investors bought about 20% more than the previous month.

4. Conclusions

The financial crisis has generated a series of feelings among investors, from fright, panic, fear to hysteria in some cases. Risk aversion has as direct effect the adjustment of investment behaviour by reorganizing the portfolios, and reorientation of investors

towards less risky financial instruments (bonds, treasury bills).

The volatility of capital flows implies „*a high frequency of flows' reversibility or high variability of the volume of capital inflows"* [6], because capital flows are particularly sensitive to changes in domestic and international investment environment. The volatility of capital flows can create an unstable investment environment, because of the interference of various factors that may influence the risks and returns of a portfolio, such as: the volatility of exchange rates, the liquidity of international capital market, investment cycles, the "contagion" effect of capital markets, asymmetric information propagated into the domestic and international environment and, not least, the strategies and behaviour of portfolio investors.

In the Bucharest Stock Exchange, the amplitude of "disturbing" effects recorded by BET index under the impact of sales made by non-resident investors is greater than that generated by the volume of foreign portfolio investment inflows.

This can be explained by the attitude of non-resident portfolio investors, but also resident investors towards the secondary capital market. The interest shown by investors towards financial instruments traded on the BSE obviously influences the dynamics of the latter. Therefore, the determinants of the investment alternatives can be also considered influence factors of the capital market development.

If they are satisfied with a number of requirements, foreign portfolio investors are attracted to a particular capital market; these requirements may be: active, open market that allows the free movement of capital, a specific infrastructure developed at the standards imposed by the nature of transactions, pertinent and inexpensive information, non-discriminatory treatment on foreign markets and not least, higher rates of return and acceptable risks.

When they will find these conditions here, foreign investors will re-include in the portfolio's structure financial instruments traded on regulated capital market in Romania.

5. References

[1]Bakaert G., Harney C.R., „Emerging market volatility", *National Bureau of Economic Research* , Worhing Paper 5307, Cambridge, Massachusetts, 1995

[2]Bennett P., Kelleher J., "The international transmission of stock prices disruption in October 1987", *Federal Reserve Bank of New York Quarterly Review*, 1988

[3]Calro S., Reinhart C.M., „Capital Flows to Latin America. Is there evidence of contagion effects?" Washington D.C., *Institute of International Economics*, September 1996.

[4] Cioltei Diana, „Străini la bursă:Comportament şi tehnici folosite pentru investiții", *Wall-Street Journal*, Martie 2008

[5]Froot K., O'Connell P., Seasholes M., „The Portfolio Flows of International Investors: Part I", *NBER Working Paper*, No. 6806, November 1998

[6]*** UNCTAD, Foreign Portofolio Investment: Implications of the Growth of Emerging Capital Markets", 1998

[7]***Raportul annual al C.N.V.M, perioada 2005-2009

Considerations on World Economic Crisis

Băeşu Camelia
„Ştefan cel Mare" University of Suceava,
Faculty of Economics and Public Administration
cameliab@seap.usv.ro

Abstract

The world economic-financial crisis assumes, synthesizes and reflects as well the tendencies of processes and phenomena of world contemporary economy. At the same time, the emerging processes of world economy leave their finger-mark on the content and characteristics of global crisis, determining its causes and indicating possible solutions of overcoming it and giving a new start to economic development and growth. Although, in the second half of the 20 th century the concerns on economic equilibrium have increased, more and more countries, including Romania, are severely affected by a stressed decorrelation, displayed by the real economy and the nominal one. But, this aspect of the economic life has not been given the proper attention so far. Therefore, the analysis of the main factors generating the decorrelation which occurred between the real economy and the nominal one, might be useful in framing out a rebinding perspective of the two fundamental sides of the economic life during the 21 st century, even from its beginning.

Key words: crisis, globalization, economy, equilibrium, efficiency
J.E.L. classification: E3, E32

1. Introduction

The world economic-financial crisis has numerous signs of some cyclic crisis. Actually, it is an over-production crisis which affects obviously the other major components of the economic process as well- repartition, circulation, exchange and consumption. This facet of the world crisis is relatively clear, known and devoid of ambiguities. But there are also other aspects of the world crisis, although less obvious, which involve more profound implications and which at the same time do not show so explicitly their constitutive elements.

The present crisis affects especially sectors in the historic technological decline. We may have in view the descending slope of Kondratieff's cycle which comprises "the engine-sectors" of industrial capitalism (siderurgy, petrochemistry, mechanical engineering, car building). About eight decades ago the Russian economist Nikolai Kondratieff analyzed some series of statistical data for England, USA and Germany regarding prices, interest rates, salaries, export trade emphasizing a series of chronological movements. [2] On the basis of these data, he calculated three cycles, each one consisting of two components: "…an ascending side of the cycle, where prosperity dominates some recession periods and a descending part of the cycle resulting in the general decline of economic activity." [8]

In his theory on internal mechanisms of conjectural fluctuations, Kondratieff shows that the main characteristics of conjuncture are structured depending on the way of establishing three economic equilibriums: 1) equilibrium of first degree I, between supply and demand on the main markets; 2) equilibrium of second degree II, as a result of inter-branch fluctuations of capitalism, towards the activities which provides it with the highest efficiency; 3) equilibrium of third degree III, between the structural configuration of national economy and the available stock of capital goods. [3]

We must take also into consideration the central financial coordinate of the present crisis which primarily results in quasi-total autonomy of the financial cycle as against the

evolutions of real sectors of world economy. Financial globalized markets, characterized by extreme sensitivity and volatility, induce an increased instability of real markets. The turbulences of financial global markets disturb the financing fluxes of real economy, jeopardizing actually the welfare state.

2. Factors generating disequilibrium in the real economy and nominal one

In the evolution course of capitalist economy in each country, a permanent interaction between the real economy and the nominal one took place. The stages of ascending development were based on adequate correlation between the two fundamental aspects of the capitalist economy, whereas the involution stages were caused by severe decorrelations between the real economy and the nominal one. In the two last decades of the 20 century, the decorrelations which had occurred between the real economy and the nominal one have been more frequent and ampler. The above mentioned tendency has been determined by some internal factors from the capitalist developed countries. Lately more and more often we come across the question: "Which might be the main factors belonging to this category?".

Inflation ingravescence in all capitalist economies. The concerns of states to fight against inflation have not succeeded in removing it, but on the contrary increased its intensity. Consequently, in the post war period, an inflationist cycle of the economic growth was formed, characterized in each country by the alternation of some inflation stages of different intensities. It is obvious that during the stages of high inflation (over 10% per year), a downshift (discrepancy) of the nominal economy as compared to the real one is noticed, with negative effects for most economic agents and citizens.

Redistribution increase of some ascending part of primary incomes (especially salaries and profits) by state budget.

In the course of three decades, in some capitalist developed countries it was possible for the redistribution process to include even more than 1/2 of the national income. This tendency has been justified by the increase of state concerns for satisfying some social needs (education, health, support for disadvantaged families), but it has been also imposed to a great extent by the arming race (the interests of those involved in this process). Consequently, many operations of income redistribution made by the state, has generated monetary fluxes inadequate for healthy evolution of the real economy; such monetary fluxes may generate movements of the nominal economy which can greatly be opposed to the demands of the real one.

The extension and diversity of speculative operations of underground economy emphasizing a stressed tendency of redistributing a great part of national income in each capitalist country, in the favour of some minute social class. On term operations made by all categories of money-markets, the acquisitions made by states (especially for military scopes) generate great monetary fluxes, usually with negative effects on the evolution of real economy from the countries in question, as removes important monetary resources (sometimes even huge ones) off the needs of real economy. The American economist J.K. Galbraith sustains that: "the present market economy….allows enrichment and income redistribution in a total unequal manner ….and damaging as well from the functional point of view". [6]

Within the market economy of each country, the increasing combination of the mechanism based on objective laws has asserted itself for the state to intervene adequately in the economic life by management application, including in the overall national economy. Despite many contrary opinions on such interventions, lately the state's role in the economic life of each country has increased significantly. On the whole, the state activity may largely contribute to the diminishing and elimination of the above mentioned decorrelations brought about by each country between the real economy and the nominal one, so that an economic growth should be made, a supported one from the economic, ecological and social point of view.

3. Possible ways of overcoming the present global economic crisis

In practice, specialists are looking more and more for the answer of the following question: "Which are the main aspects that might define the evolution of the economic efficiency in the future?" In order to find a favourable answer to this question specialists keep in mind some aspects that might lead to favourable economic efficiency.

For modern capitalist economy, a cyclic evolution has been and still is specific to, made by alternation of expansion periods of businesses with those of restriction ones. This way of evolution of the economic life underwent an obvious diminution in the second half of the last century, on the basis of rendering profitable the solutions offered by the progress of economic sciences, especially by the management spread in all organizational levels and substantial involvement of the state from this perspective. The change mentioned is appreciated by many famous economists. Joseph E. Stiglitz (Nobel Prize laureate for economy) showed that: "the economists laid the bases of a systematic approach of state intervention in order to eliminate the market shortcoming who tried to identify the causes of improper functioning of markets and the reasons for which the state intervention was necessary."[4] Another great figure of international financial capital and remarkable publisher as well George Soros appreciates that: " markets are amoral … leaving the good and the bad aside, the markets allow individuals to follow their own interests with no restriction. But the society can not function without making the difference between good and bad. The task to take decisions on what is permitted or not does not devolve upon politics."[5]

The evolution of economic efficiency at micro-economic level depends on a multitude of factors. At present the society is confronted with a wave of changes which have determined the redefining of firm place and role in the modern economy. In the new corporation environment, the manager has the task to "identify out- of- use structures and change them before they may become harmful". [1]

In the economic environment "the same firm may require alternatively different styles of management at different stages of its life cycle" [7]. Alvin Tofler sustained that: "there are moments in the firm's life cycle when this one must deal with very high levels of novelty and other moments when the novelty level is very low. Each of these situations arises questions about the type of management needed by the firm"; it is obvious that each crisis in business obliges the decision makers to apply a performing management. [6]

Most managers agree at present that if an organization wants to flourish it has to get continuously modified, as a response to significant evolutions of the environment such as: change in customers' needs, technical progress, new government regulations .[7]. Cyclicity in business, at the firm level, is more rarely dealt with as a distinct subject in the important economic paper works, but the economic evolution on the whole brings into discussion important aspects related to Cyclicity phenomena which should not be ignored. Consequently, economic cycles characterized by increases and recessions of the main economic indicators (national income, PIB) of different magnitudes and durations impose scientific and creative approaches. Under the conditions when the firm faces at micro-economic level some difficulties, the prognoses and correctness in business still remain the main tools which the managers can rely on, in practice their attempt to diminish or avoid the critical moments in a firm's life.

One should also have in view, especially when stable economic efficiency is aimed at, the internal factors as well which are offered by the national economy of a country: the economic legislation, institutional framework, and system of public infrastructures. Each firm should take into consideration as much as possible the full capitalization of factors that are in its favour for the activities which it is involved in.

Another category of factors having great influence upon the evolution of economic efficiency at macro level is represented by the external factors of the national economy of the country in question. If we have in view the present day Romanian economy, in this category of factors we may include the possibilities offered by the integration of our country to the EU, as well as the conditions provided by the relationships with extra-communitarian countries, under the context

of present globalization. These factors should also be used by each firm by taking into account the chance they are given to fulfill a favorable evolution of the economic efficiency.

The difficult development and with mostly negative results to the post capitalist transition of the Romanian economy is largely due to the fact that no adequate functioning system has been created in our national economy.

After the totalitarian political regime had been dismissed, the functional system inherited from the communist period was rapidly and integrally given up, but without the assimilation of a new functional one, including the capitalization of experience gathered by the developed countries. Romania's integration into the EU requires as well as substantial modifying of the functioning system of the Romanian economy so that this one should be compatible with those from the economies of communitarian countries. Once we have adhered to the market economy, Romanian managers placed at different hierarchical levels must quickly adapt themselves to the demands required by the new conditions; adopt the new concepts, methods and techniques so as to be able to ensure the firms' development under the conditions of a competition environment in permanent change. The use of adequate economic strategy should mainly take into consideration the new internal and international conditions wherein the company carries on its activity in order to determine a viable economic approach that guide the company management towards the achievement of the objectives aimed at under profitability conditions.

To have a modern market economy, in Romania, in the context of EU integration is conditioned by the use of a functioning system of national economy, based on a coherent system of markets, severely regulated by the state through coherent legislative-institutional framework and compatible with the community acquis. In this sense, the strategically options involved in the macro-economic policy of our country for the next period should keep as priority the following aspects:

- state involvement in the economic life as representative of all citizens and exponent of national economic interests;
- entailment of increased volume of direct foreign investments;
- structural modernization of economy by the development of competitive industrial branches and under branches which are promoters of technological progress; reorganization and modernization of the energetic sector; resetting of agricultural production structures; rural development; development of internal potential services, communication services, informatics, tourism ones as well as the social ones vital to the development of human potential; infrastructure modernization and development; regional development; attenuation of differences between inter- and intra regional levels of development;
- competitiveness improvement and of economy flexibility as against internal and external demand by developing the sector of small and medium companies so that this one should play a decisive role in shaping the propriety structure of the national economy; improvement of concurrency environment and business climate; intensification of investment process; promotion of direct foreign and portfolio investments; promotion of labour force mobility;
- export stimulation and import levels should bring positive contribution to external sector for economic growth; structure improvement and diversification of regional exports;
- improvement of macro economic performances and efficiency: to reduce specific consumptions of energy, raw materials and materials; to increase profitability degree; to increase work productivity; to reduce stocks;
- to accelerate and deepen coherently the fiscal reform leading to the diminishing of taxation degree, improvement of the control of budget expenses and increased efficiency in collecting excises and taxes;
- promotion of some coherent policies to reorganize selectively the economy, develop and modernize physical, scientific and social infrastructure, re-vivification and re-engineering of industries with competitive potential, building an agriculture based on optimum dimensioned exploitations, to support activities based on information technology and create favourable conditions for tourism extension and development, diversification of financial services and of the tertiary sector in general.

4. References:

[1] A. Tofler, *Corporaţia adaptabilă*, Ed.Antet,1996, trad.din engleză
[2] C. C. Băeşu, *Studiul managementului firmei în condiţiile ciclicităţii din viaţa economică*, Ed. Sedcom Libris, Iaşi, 2005
[3] D. Kondratieff, *The long wafes in economic life*, UK,1935
[4] E. J. Stiglitz, *Globalizarea,Speranţe şi deziluzii*, Ed.Economică, Bucureşti,2003
[5] G. Soros, *Despre globalizare*, Ed.Polirom, Iaşi, 2002
[6] J. Galbraith, *Societatea perfectă*, Eurosong &Book, 1997
[7] S. Certo, *Managementul modern, Diversitatea, calitatea,etica şi mediul global*, Ed.Teora,2002
[8] W. Houston, *Riding the Business Cycle-How Six Climatic and Economic Cycles Are Changing Our Lives*, Little, Brown and Company, UK,1995

The Interdependence between Ecotourism and Natural Protected Areas from China

Băltărețu Andreea
„Dimitrie Cantemir" Christian University of Bucharest,
Faculty of Touristic and Commercial Management
baltaretuandreea@yahoo.com

Abstract

The protected areas are the most efficient means of preserving the biodiversity and in a general context the environment and its natural and atrophic components. As a result of the expansion of this country, in China many forms of tourism begin to be practiced, some of them modern such as extreme sports and even ecotourism which means that the Chinese authorities understood the importance of preserving the tourism resources of which the future generations will benefit, especially if the touristic fluxes to China will intensify. On the other hand, the population of China has learnt that they can take advantages from practicing the ecological ecotourism as a part of the incomes earned go to the local economy, leading to its development. In the last years China created a complex national network of the natural reservations with a rational distribution and a solid function. In China the wild life is rare and close to disappearance and also its habitats are under the protection of the government, being well protected and preserve in various protected areas. The fast economic development and the increase of the population have led to an excessive consumption of plant resources and this fact increased the species close to disappearance.

Key words: protected areas, biodiversity, management plan, ecotourism
J.E.L. classification: O13, Q26

1. Introduction

The diversity of the practical situations, either the characteristics of an area or its management, has determined the classification of the natural protected areas and the creation of a unitary system; in this sense, the classification of management categories and objectives made by the International Union for Conservation of Nature have a global cover and a large recognition (it is accepted by the Convention for the Biodiversity and by the governments of many countries of the world).

The preservation objective materialized along time in the **constitution of protected areas** and creation of systems, first national and then international, of protected areas, in the improvement of the administration methods of this area, in the dissemination of the experience concerning their organization and administration.

The increased attention for the protection and preservation of the environment, both at national and international level, reflects in the constitution of the protected areas and the increase from year to year of their number. They are created with the purpose of protecting the natural and atrophic environment but at the same time they try to offer rest and recreation to people, knowledge, by putting it at their disposal.

The protected areas represent the answer of the modern societies to the more and more increased process of deterioration of environment, of species disappearance; exaggerate exploitation of various categories of resources, especially of the ones that cannot be regenerated and with impact on the life quality and society's perspectives.

The protected areas because of their natural value and the low level of human interventions on their territory are the best examples and patterns for the natural and semi natural ecological systems.

We need to add that inside these oases of ecological balance – the protected areas - there are lacks because of trespassing the rules, intensive exploitation of some resources, the encouragement for apparently inoffensive activities such as tourism etc.

Starting with these considerate, on one hand and because of the evolution of the interest for the protected areas on the other hand, the increase of their number and surfaces and also the number of the countries where it has been created, it appeared the necessity of developing their management both from the organizational, protection and preservation point of view but also concerning the used techniques.

The administration of the protected areas must be reported to the diversity of their activities from inside and outside which need to be approached in a unitary way and at the same time take into account the complexity of the integrated environment and the generated impact. From this perspective, the modern management of protected areas proposes a complete vision which will take into consideration the interdependences with the other components of the natural and economic-social frame assuring the efficiency of the benefic effects of their function. In other words it is about the application of the principles for a complete development at the level of protected areas.

2. The specificity of the Chinese tourism

The Chinese territory is known for its extremely diversifies relief which is divided in two different parts respective in West there are hills, plateaus and huge mountains (here, in Tibet, there is the highest peak in the world – Everest – 8.849 m), separated from the precipices and deep valleys and in the East there is a coast region with wide plains.

China, led by communists, is heading more and more to a free market economy. There have been created economic areas with a special statute such as Shanghai, and the concept of private property is reaching a sense.

This country owns a vast touristic potential, one of the best examples being the Great Chinese Wall which is the longest construction in the world and the only edifice built by man who can be seen from cosmos. We also add the Yun'gang grottos with more than 50 000 statues made for Buddha, the Metropolis Shanghai, and Wudang Mountain with old Taoist edifices for more than 500 years, the Hong Kong-one of the economic and urbanism „miracles" of the world. [1]

The best proof of the value of touristic attractions is the ascendant evolution of China in the classification of the first touristic destinations of the world, increasing each year with ten places – in 2009 it was on the fourth place in the world with 50, 9 million tourists. Concerning the incomes from international tourism, China is placed on the fifth place in the world with 39, 7 billion dollars. Also, from the first countries that spend most at an international level for tourism, China is placed again on the fourth seat in 2009, with 43,7 billion dollars, meaning the country had an increased level of economic development which permits the population to leave the country for tourism purposes.

3. The particularities of natural protected areas from China

In China, the natural areas include 85% from the natural terrestrial ecological system, most of them being natural relicts, 85% from the wild population (in particular giant panda, the comb ibis, the Asian elephant, the Chinese alligator), over 65% from the communities of superior plants (such as cycadels).

Around 4000-5000 superior plants have been close to disappearance or threaten to disappear, representing 15-20% from the total number from China, more than the average at an international level.

The first natural reservation from China is Dinghu Mountain from Zhaoqing, province Guangdong, which was founded in 1956. **The natural reservation Sanjiangyuan is the largest** (316 000 km^2), with the biggest altitude (over 4000 m) and with the richest biodiversity. The reservation is situated inside the plateau Qinghai-Tibet, at the source of the rivers Yangtzi, Yellow and Lancang.

A part of the natural reservations are in special areas of protection the biodiversity with international importance. The province Yunnan has 152 natural reservations which cover a surface of 2, 8 million ha. Therefore, **Yunnan is the province with the most natural reservations from China.** 22 natural reservations from which Wolong and Jiuzhai Valley from Sichuan province, Changbai Mountains from Jilin, Dinghu Mountain from Guangdong, Baishui river from Gansu and others have been included on the UNESCO

list of natural reservations of the biosphere with international importance.

China has a great variety and a great number of humid areas. All categories of humid areas are distributed in the country except the North area. The surface of the 28 types of humid areas (each bigger than 100 ha) is of 38, 48 million ha (excluding Hong Kong, Macao and Taiwan), or 4% from the terrestrial surface. From these humid areas, the natural ones totals 36,2 million ha including 5,94 million ha coast humid areas, 8,2 million ha river-humid areas, 8,35 million ha lakes-humid areas and 13,7 million ha marsh-humid areas.

The species presented in the humid areas are extremely varied. The density of the plant species from the humid areas is of 0, 0056 species/km^2, over Brazil who has the most rich flora.

Table 1. The distribution of the natural reservations from China on provinces

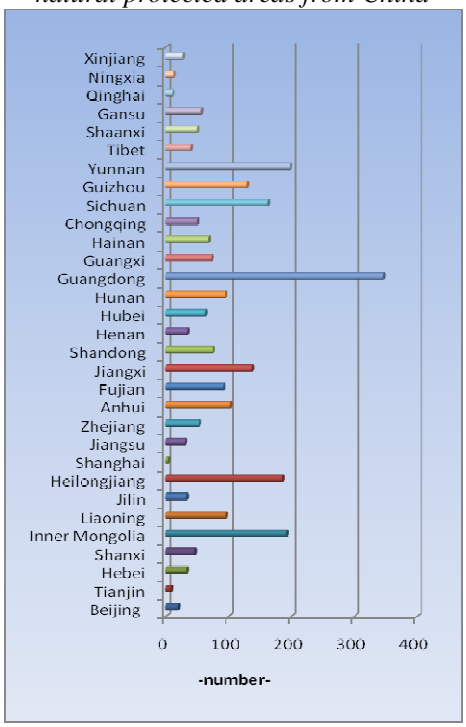
Province	Number	Surface (ha)	% from the total surface of the territory
Beijing	20	133966	7,96
Tianjin	8	162770	14,36
Hebei	34	565865	3,02
Shanxi	46	1139562	7,29
Inner Mongolia	192	13570777	11,47
Liaoning	96	2658685	10,41
Jilin	34	2258317	12,50
Heilongjiang	186	5933306	13,06
Shanghai	4	93821	14,79
Jiangsu	31	611533	5,96
Zhejiang	53	262080	2,57
Anhui	103	532406	4,09
Fujian	92	512349	3,09
Jiangxi	138	986512	5,92
Shandong	75	1097341	6,63
Henan	35	768722	4,61
Hubei	63	993329	5,34
Hunan	95	1110829	5,24
Guangdong	347	3470587	4,68
Guangxi	73	1399112	5,78
Hainan	68	2811472	5,28
Chongqing	50	897479	10,91
Sichuan	163	9063231	18,56
Guizhou	129	956196	5,44
Yunnan	198	4227339	10,73
Tibet	40	40975583	34,15
Shaanxi	50	1045944	5,08
Gansu	57	9876760	21,67
Qinghai	11	21822201	30,28
Ningxia	13	506783	9,78
Xinjiang	27	21436965	13,39
Total	**2531**	**151881822**	**15,19**

Source: Report on the State of the Environment in China, Ministry for the Protection of the Environment of Chinese Popular Republic, 2007.

Note: The statistics from Hong Kong, Macao and Taiwan were not included.

From the total surface covered by the natural reservations, the terrestrial surface represents 145, 88 million ha and the marine one 6 million ha. The percentage of the terrestrial surface refers to the proportion between the natural reservations and the terrestrial surface.

Figure 1. The numerical distribution of natural protected areas from China



The diversity of the ecological environment from China created rich resources for a wild life. The superior plants have a number of 30 000 species. Hundreds of rare wild animals and close to disappearance and over 17000 plants are unique in China, such as giant panda, comb ibis, the monkey with snub-nose, tiger from south of China, Chinese alligator, Chinese crock-lizard etc.. 31 Panda babies were born in captivity from which 25 survived. The tiger from north-east is more present to the natural activities, expanding in this way his habitat. The reintroduction of comb ibis, wild horse, Chinese alligator and also other species close to disappearance has progressed continuously.

Table 2. Categories of natural reservation from China

Category	Number		Surface	
	Total	%	Total surface (10 000) (ha)	%
Natural ecosystems	1717	67,84	10529,18	69,32
Forestry ecosystems	1314	51,92	3372,76	22,21
The meadows and pasture lands ecosystems	45	1,78	316,05	2,08
The desert ecosystems	29	1,15	4027,45	26,52
The interiors of humid areas and water areas ecosystems	261	10,31	2713,02	17,86
Coast and marine ecosystems	68	2,69	99,91	0,66
Wild biological species	683	26,99	4483,38	29,52
Wild animals reservations	523	20,66	4220,86	27,79
Wild plant reservations	160	6,32	262,52	1,73
Natural relicts	131	5,18	175,62	1,16
Geological relicts	99	3,91	123,04	0,81
Old creatures' relicts	32	1,26	52,58	0,35
Total	**2531**	**100**	**15188,18**	**100**

Source: Report on the State of the Environment in China, Ministry for the Environment Protection of Popular Republic of China, 2007,

There were founded 19 new reservations at a national level which has increased the number of natural reservations of the country with 2531 with a total surface of 93,65 million ha, which represents 12% from the total number of natural national reservations and 61,7% from the total surface occupied by them. There are 28 natural reservations on the list of Biosphere Reservations (UNESCO) and 33 from the natural reservations are on the List of Humid Areas of International Importance (Ramsar). 10 reservations belong to the natural world patrimony.

In order to sustain the administration of the natural reservations, the resort ministry made an evaluation concerning the management of 12 natural reservations from 10 reference points such as the organization method, personnel, administration etc. As a result of this study, from the 12 reservations 4 were given „excellent" marks, 6 were „well" and two were „average".

China increased the surface of the natural marine reservations and increased also the number of the protected species, these improving the protection of many ecological systems and in danger species. In the last period the Chinese government increased the survey of natural marine reservations and the fight against the destruction of coral Recife and mangroves.

Another major preoccupation of China for protecting the in danger species was **the construction of the biggest reservation of panda bears in the world.** This started in a major habitat of this specie from Sichuan province, from south-west of China. The project is making efforts to increase the in danger population. Situated in Gengda city from the Natural reservation **Wolong**, the base of 1 km^2 has approximately 200 panda bears. Outside the feeding and reproduction area, the base includes also a surface of 19 400 m^2 for exterior activities according to the plan. Because of the improved technologies, the number of panda bears kept in captivity increased to 130 from 10, but the actual facilities are not sufficient for reproduction.

The panda bear, an animal inactive sexually is one of the species in danger from the world because of the lack of habitat.

China has 239 panda bears in captivity. Approximately 1590 wild pandas live in China, especially in Sichuan, Gansu and Shaanxi provinces.

The population of a rare species of monkeys from a reservation situated in the south-west of China tripled in the last 26 years. **The population of the snub-nosed monkeys from Yunnan increased** from a number of 500 in 1983, to approximately 1300 in present because of the ecological period of this area and the poaching prohibition. Over 60% from the snub-nosed monkeys from Yunnan live in the Baima Snow Mountain Reservation and it is on the list of protected species of the country. In present, the monkeys from Yunnan have a population of approximately 2 000 species.

4. Methods of practicing the ecotourism in China

Recently, Destination Australia Market Alliance (DAMA) elaborated a study on the ecotourism market from different countries of the world, focusing on the behavior and motivations of the tourists.

An important number of Chinese eco-tourists declared that in their last vacation their tried to develop activities such as: watching the wild life in its natural environment (79%); visiting the ecological areas (68%); walking in natural environment and unpopulated rural areas (60%).

Approximately half of the Chinese eco-tourists planned, sometimes, a vacation based on natural activities (48%).

Table 3. The demographic profile of the Chinese eco-tourists

Demographical elements	Characteristics (proportions)
age	Most Chinese eco-tourists are between 25 and 34 years old to which it's added a percentage of 22% with ages between 45 and 54 years old.
sex	The Chinese eco-tourists register equal proportions concerning the sex, respective 48% are men and 52% are women.
Children under 18 years being under custody	Most Chinese eco-tourists (68%) don't have children under 18 in custody; 29% from them have just one child.
income/house	Most Chinese eco-tourists (67%) have a monthly income per house between 633-1896 American dollars.
Professional status	74% from the Chinese eco-tourists work full-time (30 or more hours per week).
Educational level	Most Chinese eco-tourists graduated at least two or three years of college (34%), a university or more (36%).
Size of travelling group	In China, the size of the travelling group divided in: „no one else" – „five or more". Compared to other countries, in a high proportion the Chinese travel in groups of five persons or more (29%).
Marital status	The Chinese eco-tourists are married/live as a married couple/live with the partner (63%).

Source: The Chinese Ecotourism Market, Tourism Queensland

Therefore, the characteristics of the Chinese eco-tourists (table 3) includes them in the profile of the international eco-tourist, such as, according to their age there is a big proportion between 25 and 34 years old, they have approximately equal percentages concerning the sex and a high level of education.

Concerning the **accommodation method,** most Chinese eco-tourists, in their last vacation, used hotels of luxury, respective hotels of 4-5 stars (39%) and 36% used hotels of 2-3 stars. A smaller percentage of Chinese eco-tourists stayed in all inclusive units (7%); visitor houses/farms/cabanas – 5%; apartments/individual villas – 5%; tents – 1% etc.

The Chinese eco-tourists tend to reserve all components of a trip before leaving in vacation. Approximately 46% planned all flights/other transportation means; all accommodation methods, a part of the alimentation services and also the touristic circuits/ supplementary trips before living their houses.

From all the television programs watched by the Chinese eco-tourists, „The relaxation and trip programs" has the third place with 62%, after „The International News" (72%) and „National News" (71%). Among the magazines read by the Chinese eco-tourists the trip magazines have the highest proportion, more than half, respective 57%.

The eco-touristic destination chosen depends in a great measure on the report between quality and price (86%), then on „how welcome is the Chinese people in the country of destination" (82%) and finally, the third place is represented by „the recommendations made by the family members or friends who's been there" in a proportion of 79%.

Therefore, the **key factors taken into consideration when choosing the destination** are the following: the report between quality and price – 86%; how welcome is the Chinese people – 82%; recommendations from family and friends who's been there – 79%; the infrastructure standard existing in the touristic destination – 78%; economic and political stability – 75%; easy visa to obtain – 74%; needs of travelling – 73%; somewhere totally different than China – 73%; number of famous places that can be visited during a determined period of time – 71%; terrorism threat – 70%.

The activities according to which the eco-touristic trip is planned focus on the following aspects:

- Tasting the specific local culinary preparations and drinks – 75%;
- Buying the products from the local market – 73%;
- Ecological activities in nature/wild – 69%;
- Walks on the beach/solar baths – 60%;
- Watching the wild life in its natural environment – 55%;
- knowing the animals/animals' farms/visit the zoological gardens – 50%;
- Buying products that represent the local brand – 50%;
- Swimming/surfing – 49%;
- Visiting the botanic gardens/watch the flower species – 47%;
- Taking pictures – 46%.

It can be observed that the ecological culinary preparations and local drinks are more wanted by the Chinese eco-tourists than the walks in the nature.

The governmental plans must accord to the ecotourism a great priority in the developed countries especially, where the local population participates in an efficient way to touristic activities. In general the population who live close to the protected rural areas is characterized by low incomes and small economical options. The ecotourism can represent, in this way, a reliable economic alternative for these populations which makes that the inhabitants of these regions to become the guardians and active preservers of the natural areas, especially as their wealth depends on the preservation of the natural qualities and the environment. Therefore it is necessary that the local population to have practical information's concerning the natural characteristics of the area (landscape, flora, fauna), which will transform them into real guides. They can also participate directly to economic activities of exploitation of hotels, restaurants and providing some services.

O great number of visited places by tourists interested in ecological tourism is part of the fragile ecosystems which cannot support to be perturbed. In many cases the tourism creates damages to flora and wild fauna from the protected areas. In most cases the tourism causes damages to wild flora and fauna from the protected areas.

The local population risks believing that the protected areas were created for the strangers and not in for local interest. Also, most of the important areas for the nature preservation present a reduced interest for the tourists which determine the responsible authorities to neglect them as they are not obtaining any profit.

Because the previsions of the International Organization of Tourism show that in 2020 China will become the first touristic destination of the world with 130 million arrivals, more than France, it is obvious that the segment of eco-tourists will have an important percentage of foreign tourists and also internal tourists because practicing the ecological tourism, respective the sustainable one, represents the future in the tourism industry; therefore, in a short period the touristic resources – „prime material" of tourism will disappear because of the lack of preservation and protection actions such as the ecological ones.

5. References

[1] C.H. Matei, S. Neguț, I. Nicolae, C. Radu, *The encyclopedia of the world states*, Edition 7, Meronia Publishing House, Bucharest, 2001, page. 118.

[2] N. Dudley N., *Guidelines for Applying Protected Area Management Categories*, IUCN, Gland, Switzerland, 2008.

[3] Destination Australia Market Alliance, „The Chinese Ecotourism Market", Tourism Queensland".

[4] Ministry for the Environment Protection of the Popular Chinese Republic, „Report on the State of the Environment in China", 2007.

Going off the Rails: Social Impacts of Crisis and Globalization

Bâcă Eleonora
Popescu Alina
„Ovidius" University of Constanta
eleonorabaca@yahoo.com
alinadpopescu@yahoo.com

Abstract

If the leading topic of debate in social science and policy in the 1990s was globalization, the theme emerging in the 2000s is imperialism. The relationship between the two terms is one of inclusion: globalization refers to the long-term historical trend of greater worldwide interconnectedness; imperial episodes are part of this trend, so empire is part of globalization Both terms are multidimensional and kaleidoscopic, therefore, they should be understood and dealt with in a kaleidoscopic manner. Our intention in the present paper is to include in our discussion not just the point of view of political science and international relations, but also of economic dynamics and global inequality, technological changes and military affairs, as well as cultural attitudes and discourses.

Key words: globalization, imperialism, capitalism, American policies
J.E.L. classification: B

A particular topic of debate in social science and policy through the 1990 was *globalization*. The theme emerging in the 2000s *is imperialism*. Imperialism, as defined by *The Dictionary of Human Geography*, is "the creation and maintenance of an unequal economic, cultural and territorial relationship, usually between states and often in the form of an empire, based on domination and subordination." The Imperialism of the last 500 years is described in the above work as a primarily western undertaking that employs "expansionist – mercantilist and latterly communist – systems."[1] The United Nations ESCWA has written that globalization "is a widely-used term that can be defined in a number of different ways. When used in an economic context, it refers to the reduction and removal of barriers between national borders in order to facilitate the flow of goods, capital, services and labor... although considerable barriers remain to the flow of labor... Globalization is not a new phenomenon. It began in the late nineteenth century, but it slowed down during the period from the start of the First World War until the third quarter of the twentieth century. This slowdown can be attributed to the inward-looking policies pursued by a number of countries in order to protect their respective industries... however, the pace of globalization picked up rapidly during the fourth quarter of the twentieth century..."[2]

But how does globalization relate to empire? Should we consider imperialism as a phase or a modality of globalization, or as a fundamentally different dynamic? Globalization seems to be a dynamic of far greater moment and historical duration than empire. Globalization refers to the long-term historical trend of greater worldwide interconnectedness; imperial episodes are part of this trend, so empire is part of globalization. Globalization also serves as a flag word for concurrent changes that unfold amid unequal relations of power, and imperialism is but one form that unequal power relations take. Empires come and go, globalization continues.

Globalization and imperialism should be understood in a kaleidoscopic fashion since they are Globalization and imperialism are multidimensional and kaleidoscopic. Looking at globalization and American policies not just from the point of view of political science and international relations, but also in light of economic dynamics and global inequality, technological changes and military affairs, and cultural attitudes and discourses, is more realistic than a single disciplinary perspective. The segmented approach to globalization (globalization *and*

the state, culture, political economy, development, the South, etc.) reflects the disciplinary dispersion in social science, which is understandable but old-fashioned.

The language and conduct of American politics changed markedly since 9/11. Various articles and books now recommended imperialism: "the logic of neoimperialism is too compelling for the Bush administration to resist … a new imperial moment has arrived."[3] Robert Kaplan called for *Warrior Politics* and militant foreign policy. Michael Ignatieff deemed American imperialism necessary. Robert Cooper, a senior British diplomat, argued that in addition to "voluntary imperialism" through the IMF and World Bank, "What is needed is a new kind of imperialism, one compatible with human rights and cosmopolitan values, " which he generously referred to as the "export of stability." [4] Until recently imperialism was a left-wing term, but now empire has become a mainstream theme and makes a comeback in everyday language. [5] In this climate, past empires are revisited and whitewashed.

A common view, almost a collective cliché in the global South during past decades is that contemporary globalization is imperialism, recolonization or dependency by another name. [6] Debt, conditionalities of the international financial institutions, and in the cultural sphere McDonaldization all point in this direction. Domination is now exercised through financial and economic regimes. Sanctions on Cuba and Iraq, the Plan Colombia, and the occasional invasion and bombing are outliers in this pattern.

Some of the literature on globalization since the 1990s reinvokes empire and this usually involves redefining empire in a looser sense. The shadow of empire has been gradually lengthening. Thus, for Chalmers Johnson imperialism refers not to "the extension of one state's legal dominion over another" but to "imposing one's own social system" by various means. According to Michael Parenti, "By 'imperialism' I mean the process whereby the dominant politico-economic interests of one nation expropriate for their own enrichment the land, labor, raw materials, and markets of another people." In this casual treatment, the actor is "politico economic interests of one nation" (not even transnational corporations) and the target is a people (not a state). [7]

The problem is that these views don't usually distinguish between economic regimes and formal political control; in Nye's words, "they mistake the politics of primacy for those of empire." [8] Control exercised by the Wall Street-Treasury-IMF complex means control of *part* of domestic policy and not foreign policy, and falls short of empire. It's true of course that the line between economic and political control is fine.

According to Michael Hardt and Antonio Negri, imperialism ended in the 1970s and was followed by a new constellation they call Empire: "The concept of Empire is characterized by lack of boundaries: Empire's rule has no limits…. Second, the concept of Empire presents itself not as a historical regime originating in conquest, but rather as an order that effectively suspends history and thereby fixes the existing state of affairs for eternity…. Third, the rule of Empire operates on all registers of the social order extending down to the depth of the social world…. The object of its rule is social life in its entirety. [9]

Conceptualizing globalization as Empire stretches the meaning of empire to the point of defining it in contrast to imperialism, which is a little confusing. This exercise combines features of Foucault (power is everywhere), Fukuyama (end of history), and Marcuse (hope lies with the multitude). Encompassing all space and existing outside history, Empire becomes a metaphysic of power, which is countered by a metaphysic of transcendence (by the multitude). If Empire is everywhere, it is nowhere. As a result, "empire" is used metaphorically, just as Habermas's "colonization of the life-world" by capitalist commodification. As a metaphor "imperial" means domineering, aggressive, and expansive.

Because of reasoning by similes the differences between imperialism and contemporary globalization seem to fade, thus: capitalism = imperialism + capitalism = globalization, therefore globalization = imperialism. "The bouillabaisse approach, viewing history as a stew with everything mixed in, and the failure to use precise terms, makes it impossible to identify different periods, designs, and configurations. If the new imperialism of the late nineteenth century, the cold war, neoliberal globalization and present times are all empire, in what then resides the difference between these

periods?" [10] Obviously contemporary equation according to which globalization = imperialism is confusing. Both terms share common features, for example they are intentional and involve multiple actors. Yet, contemporary globalization is marked by a greater diffusion of power, including international institutions and NGOs. Another difference is that globalization is plural: *globalization;* that is to say, there are multiple globalization projects and designs-from.

In addition, from taking a historical angle on globalization it follows that empire is a *phase* of globalization (as is decolonization). Because globalization means not just Westernization but also Easternization, as in the influence of Japanese and East Asian forms of capitalism. Besides, "the West" is not unified. [11] To sum up, "empire is primarily of a political nature, state-centered and territorial and involves central authority, while late-twentieth-century accelerated globalization is intrinsically multidimensional, involves multiple actors, and is in significant respects decentered and deterritorial, involving multiple and diverse jurisdictions" [12]

References:

[1] Johnston, Ronald John (2000). *The Dictionary of Human Geography* (4th ed.). Wiley-Blackwell. p. 375

[2] Summary of the Annual Review of Developments in Globalization and Regional Integration in the Countries of the ESCWA Region by the United Nations Economic and Social Commission for Western Asia

[3] Mallaby, "The Reluctant Imperialist, " 2002.

[4] Kaplan, *Warrior Politics*. M. Ignatieff, "Nation-Building Lite, " *NYT Magazine*, July 28, 2002. R. A. Cooper, "Why We Still Need Empires, " *The Observer*, April 7, 2002. M. Boot, "The Case for American Empire, " *Weekly Standard*, October 15, 2001.

[5] Thus, a headline reads "The Imperial Presidency vs. the Imperial Judiciary" (L. Greenhouse, *NYT*, September 8, 2002).

[6] An example is Mohammadi and Absan, *Globalisation or Recolonization?* Some would consider "development" recolonization since it is externally imposed. According to Edward Goldsmith, what Marxists refer to as "imperialism" and what western governments today call "development" amount to much the same thing ("Development as Colonialism, " 2002). A rejoinder is that development is not merely externally imposed but owned as much by the global South.

[7] Johnson, *Blowback*, 19-20. Parenti, *Against Empire*, 1. Cf. Petras and Morley, *Republic or Empire?* ; Petras and Veltmeyer, *Imperialism Unmasked*; Furedi, *The New Ideology of Imperialism*.

[8] George, Susan. *How the Other Half Dies: The Real Reasons for World Hunger*. 2nd edn. Harmondsworth: Penguin, 1977

[9] Hardt, M. and A. Negri. *Empire*. Cambridge, MA: Harvard University Press, 2000, p.54

[10] Pieterse , Jan Nederveen *Globalization or Empire?*. Routledge. New York. 2004,p.35

[11] his discussion contrasts *contemporary* globalization (not globalization tout court) and empire. A wider discussion is in Nederveen Pieterse, *Globalization and Culture*.

[12] Pieterse , Jan Nederveen *Globalization or Empire?*. Routledge. New York. 2004, p. 41

Impact of Local Autonomy in Administrative-Territorial Decentralization in Republic of Moldova

Bilouseac Irina
Zaharia Petronela
"Stefan cel Mare" University of Suceava,
Faculty of Economics and Public Administration
irinab@seap.usv.ro
petronelaz@seap.usv.ro

Abstract

The evolution of governance at European and global level in the last half century has outlined a clear trend-government decentralization and strengthening of local autonomy. In the Republic of Moldova, since independence until now, several actions have been taken to reform the public administration. But their controversial nature, lack of continuity and uncertainty of the goals have not allowed evolution to a genuine local autonomy. So far, the effect of laws enacted for redistribution of functions mainly focused on the transfer of tasks and responsibilities, and less on the proper allocation of resources to execute them. Meanwhile, the European perspective encourages public administration reform in the Republic of Moldova. One of its priorities is related to the financial area, which can be achieved by fiscal decentralization. The European Charter of Local Self-Government, ratified by the Moldovan Parliament, points out that a genuine local autonomy is essential to democracy. And true local autonomy is possible only in conditions of independence and financial autonomy.

Key words: public administration, administrative-territorial units, local autonomy, decentralization, local community
J.E.L. classification: H83

1. Introduction

Following the implementation of the decentralization strategy, the Republic of Moldova proposes the objective of having an administrative system and government institutions able to transpose, implement and translate into life the acquis communautaire and to approach the quality criteria required for the allocation of EU membership, adopted by the European Councils in Copenhagen, Madrid and Luxembourg.

Under the Constitution of the Republic of Moldova [7] the local government is achieved through the will of the people, exercised through forms of direct and representative democracy, i.e. through public participation in discussing and solving the most important issues, the choice of representative bodies, participation in solving decisions taken and by exercising control over the activity of local administration. Territorial decentralization implies that the territory is divided into administrative-territorial units, enjoying independence from the central authority.

Thus, with reference to local government, the Constitution establishes in Art. 109, 112 and 113, as well as in the Law on Local Public Administration in the Republic of Moldova No. 436-XVI from 28.12.2006 a number of principles on which the organization and functioning of local government is based. They refer to local autonomy, decentralization of public services, the principle of eligibility of local government, the principle of consultation of citizens in local issues of particular interest, legality in the relations with public authorities and cooperation in resolving common problems.

Therefore, among the purposes of territorial-administrative reform initiated in 1999 was to strengthen decentralization and local autonomy in Moldova.

A special role in the public administration system in the Republic of Moldova occupies local government bodies with general or special jurisdiction, established to meet the general interests of the inhabitants of a territorial-administrative unit. The second

component of the government structure is the level of local councils and mayors as part of all levels in villages, towns, cities and counties.

Since gaining independence, the Republic of Moldova has taken concrete action concerning the reform of public administration. The local government is constantly changing as the economic and social problems continue to grow.

Local government comprises all the authorities with general or special jurisdiction, created for the general interests of the inhabitants of a territorial-administrative unit.

The Constitution of the Republic of Moldova places primary attention to the principle of local autonomy, which underlies the organization and functioning of local authorities, local autonomy assuming solving local problems by the local administrative authorities.

2. Administrative-territorial Units of the Republic of Moldova

The territory of the Republic of Moldova is administratively organized into districts, towns and villages (Art. 110 of the Constitution of the Republic of Moldova), and the authorities which local autonomy is exercised through in villages and towns are the elected local councils and the elected mayors, the district council coordinating the work of village and town councils towards satisfying the public services of the district.

By December 1998 the Republic of Moldova was divided into districts – administrative-territorial units of level II. These districts, however, were too small to be able to talk about regional development. The districts stood for decision centers of the old management system. The territory of the Republic of Moldova being of 33,700 km., and the population of 4.3 million, such a territorial-administrative unit had an average of 86.000 inhabitants, but there were also districts which had a population well below the average.

Since it was clear that the old foundation of the former MSSR will not allow for reform, in 1999 the Republic of Moldova, following the general trend in the EU Member States, proceeded to replace the old administrative-territorial organization, consisting of 40 subordinate districts and 10 cities of Republican subordination, with 10 administrative territorial units of level two, named counties.

It also has reduced the number of basic administrative-territorial units by merging villages into communes.

Gagauzia and Chisinau have retained their status of administrative-territorial unit of level two. The five districts formed and controlled by self-proclaimed authorities in Transnistria have provided a possible autonomous status. [4]

So, in 1999, a territorial-administrative reform was implemented according to which from a territorial division into 49 regions ("districts") and 1600 rural localities, it gets to 10 regions ("counties"), 4 municipalities and about 629 communes.

This reform has favoured greater autonomy for the territorial units; the regions have gained more rights, both as regards economic activity and the cultural field.

Counties, compared to the former districts are better endowed economically and socially, having greater development potential than districts. [5]

However, the accession to power in parliamentary elections in February 2001 of the Communist Party that promised in its election program to return to the Soviet system of administrative-territorial organization, resulted in a return to the district system of local government organization and the number of basic administrative-territorial units was increased.

Thus, in May 2003, after general elections, local elections were held early, being suppressed the mandates of local elected in May 1999, although the Constitutional Court pronounced itself on the unconstitutionality of such elections and they return to the district system, with 32 administrative-territorial units, remaining the Autonomous Territorial Unit of Gagauzia, municipalities of the left bank of Dniester and with some exceptions Chisinau. To enhance opportunities related to the government authorities to meet local community needs, in 2003, instead of 10 districts, 32 districts were formed.

According to Article 110 of the Moldovan Constitution and Article 4 of the Law on Administrative-Territorial organization of Moldova no.764 - XV: "The territory of the Republic of Moldova is organized administratively into administrative-

territorial units: districts, cities and villages". And under the law, some cities may be declared municipalities.

The administrative organization of the territory of the Republic of Moldova is carried out on two levels of local government – the first level (in villages (communes), cities (municipalities)) and second - Intermediate (districts, Chisinau municipality and autonomous territorial unit Gagauzia). Left-bank settlements of Dniester and settlements in southern Republic of Moldova may be assigned special forms and conditions of autonomy, by special statutes adopted by organic laws. [1]

At the first level, the administration of public affairs is conducted by the mayor (executive authority) and the local council (peer deliberative authority). Public administration authorities through which local autonomy is ensured in villages (communes) and cities (municipalities) are the elected local councils as deliberative authorities and the mayors elected as executive authorities and the district council coordinates the work of village and town councils to achieve public service at district level.

The village is an administrative-territorial unit comprising the rural population sharing a territory, geographical conditions, economic relations, socio-cultural traditions and customs. Two or more villages may join to form a single administrative-territorial unit called a commune.

The city is an administrative-territorial unit, more developed than the village economically and socially, with commercial and industrial urban-household structures, whose population works mostly in industry, in the public serving area and in various fields of intellectual, cultural and political life (Article 6 of the Law on administrative-territorial organization of the Republic of Moldova).

The municipality is an urban type village with an important role in the economic, social, cultural, scientific, political and administrative life of the country, with large industrial and commercial structures, and institutions of education, health and culture.

The district, bearing the name of the town of residence, is an administrative territorial unit of the second level consisting of villages, communes and towns, sharing territory, economic, social and cultural relations.

There are views that argue that the Republic of Moldova should be divided into 10-12 regions, that changing into the territorial-administrative system through districts and the elimination of counties has hindered the state from a true reform.

In recent public administration reform process, the main emphasis was placed on the decentralization of functions and responsibilities through the reorganization of local authorities. The decentralization process in the Republic of Moldova has been conditioned, in these years, largely by the territorial structure of the country. In Chisinau, the capital, where about a quarter of Moldova's population lives, the most important economic potential is concentrated. The remaining of 75% of the population lives in small towns, of around 30-50,000 people, or in communes of 5-15,000 people.

The SAR Project made by World Bank project "Does Romania need regions" [9] compares the average number of inhabitants of the territorial-administrative units in Central and Western States. Thus the Republic of Moldova, with two levels of local government, has the average number of inhabitants in the upper level of 76,000 and in the lower level of 4,400, unlike Romania, which having two levels of local government as well has the average number of inhabitants around 550,000 in the upper level and in the lower level of 7,730. The average area of a district as well is 990 km2, hovering below the average of EU countries. Moldova has the highest population density in the former republics of the USSR. The population of the country amounts to 4,463,800 (according to the 1996 estimations). The population density is about 130 people per km2. Approximately 47% of the population lives in urban areas.

We believe that the return to the old system of administrative-territorial organization, from 10 counties to 35 districts will decrease their social and economic potential, being too small to achieve effective decentralization of public services offered to citizens.

Since the phenomenon of excessive fragmentation of the national territory does exist, the number of municipalities has increased in recent years, without taking into account the capacity of the administrative-territorial unit to self govern; the bill contains a new concept of *administrative capacity*, which consists in the capacity of the

administrative-territorial unit under discussion to have sufficient material and financial resources needed to manage the local public domain of the concerned organization.

It is considered capable the unit in which administrative expenses do not exceed 50% of their total income.

3. Application of local autonomy in the administrative-territorial organization of the Republic of Moldova

The Constitution clearly sets only local representative authorities participating in the realization of local autonomy, and these authorities have a general competence established by the Law concerning local government as well as other laws. The local government, under the basic principles, stipulated in Article 109 of the Constitution, is not a state administration anymore, being an autonomous structure, which allows local communities to solve some local public affairs independently, through representative authorities, established by them.

Article 7 of the Local Government Law provides that in their duties, local government authorities have the autonomy enshrined and guaranteed by the Constitution, international treaties to which the Republic of Moldova is part and other laws. The administrative-territorial units have legal personality, have possessions, financial autonomy, and have the right of initiative in all matters of local administration of public affairs, exercising its authority under the law, within the administrative-territorial boundaries established.

This principle grants local authorities the right and effective capacity to take all measures to satisfy the interests of the inhabitants of these units. [6] Under current legislation, each administrative-territorial unit has a heritage, distinct from the state's, and its own budget, managing them according to the law, in order to satisfy local needs as well, in the field of local finance. The Local Government Law bases their administration by the communes, towns and counties on the same principle of local autonomy.

The supreme law contains legal rules with value of principle underlying the whole system of law of the country.

Local autonomy cannot take the meaning of independence granted to a political collectivity. However, the Moldovan legislation contains a number of provisions contrary to the principle of autonomy. For example, the Law on Special Legal Status of Gagauzia no. 344-XIII of 23.12.1994 established as to be People's Assembly competence to "find solutions in the law to the problems regarding territorial organization of Gagauzia, to establish and modify the locality categories, the boundaries of the districts, towns and villages, and to name them" (Article l2, page 3, Paragraph a). The fact that the Tiraspol administration granted special autonomy status to the left bank towns of Dniester and to some settlements in the southern republic, which have been assigned special conditions of autonomy, adopted by organic laws under Article 111 of the Constitution of the Republic of Moldova, is a misunderstanding of the principle of autonomy.

We have to mention in this context that the Constitution is required to make the necessary modifications in relation to the special status of autonomy provided by constitutional provisions, namely: state that it is an administrative autonomy and not a political autonomy. [2]

The Republic of Moldova adhered to the principle of autonomy when signing with the European Charter of Local Autonomy on May 2, 1996, and on July 16, 1997 the Parliament ratified the document, assuming the obligation to hold a local government system of European standard.

The autonomy of local government consists in the right of the administrative-territorial units to satisfy their own interests without interference by central authorities, which entails administrative decentralization. Decentralization is a system which includes territorial decentralization - districts, towns (municipalities), villages (communes), - having the rights of a public person, with all its powers. The authorities of such public persons, decentralized, are not subject to hierarchical power of the central authorities, being independent of them. Hence the local government authorities cannot be appointed and dismissed from the centre; they must be elected and revoked by the citizens of the administrative-territorial units.

Autonomy regards both the organization and functioning of public administration and the management of the communities they represent. (Article 109, Paragraph 2 of the Constitution). The contents of this constitutional principle is reflected both in local government activities in the Republic of Moldova, but also in the relations between local authorities. In this regard, Article 113, Paragraph 3 of the Constitution provides that: "the relations between local authorities are based on the principles of autonomy, legality and cooperation in solving common problems". This paragraph also emphasizes the lack of subordination of local government authorities as a result of local autonomy.

For the principle of local autonomy not to remain something on paper, the Law on Local Public Administration establishes certain safeguards to enforce it [3]:

- in exercising their powers, local government authorities have autonomy, enshrined and guaranteed by the Constitution of the Republic of Moldova, through the international treaties in which Moldova is a part and through other legal acts;
- the relations between central and local public authorities as well as those between public authorities of the second and first level are based on the principle of autonomy;
- local government authorities benefit of financial autonomy, have the right of initiative in all matters of local administration of public affairs, exercising, according to the law, their authority within the territory administered;
- to ensure local autonomy, local public authorities draw up and approve the budgets of the administrative territorial units, having the right to implement and determine the amount of local taxes.

Referring to state intervention in local affairs, the Constitutional Court [8] mentions that local government is an administrative structure that allows local communities to solve local affairs through their own administrative authorities under the control of central authorities. Although the Law of Administrative Contentious was adopted, controlling the legality of acts issued by local authorities, the Law concerning local government allows administrative control not only concerning the legality but also the control of opportunity by the central administrative authorities regarding the execution of powers delegated by the state to the local authorities.

Thus, it must be concluded that central authorities may influence local communities only through judicial review of acts of these authorities and vice versa: local authorities are defending the abuses by central authorities by means of reviewing the legality of acts of the central authorities. Elections are the criterion of decentralization, which is based on free exercise of rights and freedoms of citizens at local level, considered by the Constitutional Court as an essential part of the state based on law. Decentralization is provided by citizens through their active participation in local public affairs, in the election and dismissal, if necessary, of representatives that constitute the local government authorities and through control of their decisions.

4. Conclusions and proposals

The analysis of local government activity in recent years, including the period following the return to districts, recorded some deficiencies such as lack of a clear delimitation of powers between state and local governments and between different levels of the local government, and the intervention of central authorities in matters within the remit of local government.

We cannot speak of a clear distinction of responsibilities of both levels of the local government, which prevents the synchronization of effort in order to meet a higher standard of public services. Transferring these responsibilities to local governments is in many cases exclusive as they are often either shared between central and local government, or between different levels of the local government.

The limits of these powers in the areas of reference are not set either; they are set rather arbitrarily by the central and district authorities.

There is not a clear distinction between state property and that of the administrative-territorial units.

Continuing decentralization at local public administration level will involve the formation of efficient institutions and mechanisms of administration, which will be flexible, transparent and accessible to the public. To promote decentralization policy, the following priorities will be considered:

- improvement of legislation on local autonomy and local public administration;
- clear delineation of functions and responsibilities between central and local government;
- continuation of administrative reform and strengthening of local administration in line with European standards;
- more open to partnerships with private companies that master modern technologies of the great needs of the population;
- increased decentralization by professionalizing the civil service, taking into account modern technologies;
- establishing a system of public administration and efficient functioning, able to meet the EU standards and implement the acquis communautaire in an effective manner;
- supplementation of financial means in order to cover the responsibilities given to local authorities and not to get to the "limitation" of financial autonomy;
- clear delimitation of powers between state and local governments, and between different levels of the local government;
- growth of the economic and financial independence of local authorities;
- developing a national and regional strategy to monitor the decentralization process by conducting socio-economic studies, establishing local policies and identifying the priorities.

If we were to draw a conclusion, we would say that the administrative reform is reduced to the most simplistic possible formula by the rebirth of small districts, which are unable to achieve an effective decentralization of public services, being characterized by the indecision between not transmitting too much power and the transmission of services without ensuring the appropriate financial support.

Therefore, we cannot talk about a real reform, as it is actually only a return to the old administrative-territorial system (districts), contrary to the trend in the European Union Member States to reduce the number of basic administrative-territorial units.

In the context of local government reform, rethinking the administrative-territorial structure of the Republic of Moldova is becoming increasingly brought into question, especially when it comes to an effective process of decentralization of public services, the current division of territory not being proper to the efficiency criteria.

But despite the obstacles and difficulties in the way of territorial-administrative reform, with the administrative decentralization and local autonomy, the state planning organization reform will turn the Republic of Moldova into a modern, civilized state.

5. References:

[1] I. Bilouseac, "The decentralization of local public services in the Republic of Moldova", International Colloquium Papers "The reform of public administration in the context of European integration", Bucureşti, 2005, p.175-180

[2] V. Cuşnir, "Unele aspecte ale reformei administrative-teritoriale şi administrării locale", în Probleme ale edificării statului de drept în Republica Moldova, Chişinău, Tipografia centrală, pp. 201-321

[3] I. Guceac, "Forme şi condiţii de exercitare a democraţiei în statul de drept, Edificarea statului de drept", Transparency International - Moldova, pp. 103-109

[4] I. Osoianu, "Prioritățile reformei administrației în perspectiva elaborării strategiei de integrare europeană şi a planului de acțiune Republica Moldova – UE", Chişinău, februarie 2004, pp.1-30, www.ipp.md/publications

[5] V. Popa, "Efectele descentralizării: Rolul reprezentantului Guvernului în unitățile administrativ-teritoriale", Institutul Pentru Dezvoltare şi Inițiative Sociale IDIS „Viitorul" - Chişinău, Editura TISH, 2008

[6] Ghe. Zaharia, T. A. Chiuariu**,** *Tratat de drept administrativ***,** Ediția a II-a revăzută şi actualizată, Iaşi, 2004

[7] Constituția Republicii Moldova din 29 iulie 1994, publicată în Monitorul Oficial al Republicii Moldova nr. 1/18.08.1994, cu modificările ulterioare

[8] Hotărârea Curții Constituționale cu privire la controlul constituționalității unor prevederi ale Legii cu privire la alegerile locale şi Legii privind administrația publică locală nr. 750 din 06.11.95, Monitorul Oficial al Republicii Moldova nr. 65-66/750 din 24.11.1995 http://www.ccrm.rol.md/decisions_ro/95/750.htm

[9] www.sar.org.ro - Proiectul SAR realizat de Banca Mondială "Are România nevoie de regiuni".

A Method for Increasing the Randomness of Lagged Fibonacci Generators

Boriga Radu
Dăscălescu Ana Cristina
"Titu Maiorescu" University of Bucharest, Faculty of Computer Science
radu.boriga@utm.ro
cristina.dascalescu @utm.ro

Abstract

Most of the current economic software solutions are based on distributed Web technologies. This fact has led to a new world of business, full of opportunities. Businesses can benefit now from faster communications, advanced methods of data collection, electronic chains of suppliers and other benefits offered by this new era of information processing. These solutions have increased the efficiency with which firms operate and their financial performances, but, at the same time, have increased the risks of computer insecurity. So, it is required a better level of security of the economic data, reason for what the role of cryptography is becoming increasingly higher. In this sense, the article presents an innovative method to build a cryptographic keystream based on a Fibonacci type pseudorandom number generator.

Key words: security of economic data, Lagged Fibonacci Generators, keystream.
J.E.L. classification: C88

1. Introduction and motivation

Development of e-business has led to a new security level, much higher than previously. The security technologies of information, especially when it is distributed in computer networks, are absolutely necessary for success, therefore they must be included in the strategic thinking of firms. Thus, modern cryptographic systems must be present in any actual economic process. Yet, should not be neglected but the fragility of the encryption it is offered by the commercial products. The vulnerability of encryption systems can be much accelerated if the generating process of the keys is predictable. The proposed objective of this article is to identify a safe way to build a symmetric cryptographic keystream.

The symmetric algorithms string type can be used in cryptography for secret information exchange on the basis of a key that is shared in common both by the sender and the receiver, as well. Even though the type block algorithms are considered safer, the string type algorithms of the modern cryptography are four or five times quicker. Nevertheless, very few efficient string type algorithms have been published. In one of the amplest European projects that evaluate the cryptographic algorithms, *NESSIE* (New European Schemes for Signatures, Integrity and Encryption), the results of the chapter *string type algorithms* have been surprising: none of the proposed algorithms has fulfilled the security and performance conditions requested.

A symmetric algorithm of string type generates the keys string independent of the clear text and the cipher text. Thus, the running characters $x_1x_2x_3...$ from the clear text are combined with a string of keys $k_1k_2k_3....$ In this case, the encryption may be described by the equations $S_{i+1} = f(S_i,k)$, $z_i = g(S_i,k)$, $y_i = h(z_i,x_i)$, where S_0 is the initial status and can be determined by the key k, f is the status function, g is the function that produces the keys string z and h is the exit function which combines the string of keys with the clear text x_i in order to obtain the ciphered text y_i.

The main problem is to generate such a encryption key theoretically unlimited. This can be realized either randomly, either on the basis of an algorithm that starts from a small

sequence of encryption keys. In this sense, the article presents a innovative method for the construction of a keystream based on Lagged Fibonacci Generator.

2. The Lagged Fibonacci Generator

It is hard to imagine that a cryptographic application that is well defined does not use random numbers. The session keys, the initialization vectors, the single parameters from the digital signature operations, all of them have are based on random numbers.

A pseudorandom number generator (PRNG) is an algorithm used for generating a sequence of numbers, relatively independent, that approximates certain properties of random numbers. Examples of this include the ANSI X9.17 key generation mechanism and the RSAREF 2.0 PRNG. Any PRNG has a secret state denoted by S. Upon request, it must generate outputs that are indistinguishable from random numbers to an attacker who doesn't know and cannot guess S. In this, it is very similar to a stream cipher. Additionally, however, a PRNG must be able to alter its secret state by processing input values that may be unpredictable to an attacker. A PRNG often starts in a state that is guessable to an attacker (usually unintentionally) and must process many inputs to reach a secure state. Sometimes, the input samples are processed each time an output is generated (e.g., ANSI X9.17). Other times, the input samples are processed as they become available (e.g. RSAREF 2.0).

In order to generate string of numbers the initial values $x_1, x_2, ..., x_k$ are established and form the seed of the generator using the recurrence relation:

$$x_n = g(x_{n-1}, x_{n-2}, ..., x_{n-k}) \qquad (1)$$

where $g : M \to M$, $n > k$ and M is a finite set, due to which the recurrent string x_n is periodic.

For the generator thus defined to be acceptable it must fulfill at least two conditions:

- the period must be large relative to the generated number of values;
- the generated values shouldn't sequential correlated: considering substrings of p values that are successively generated representing coordinates of points within the space with p dimensions; these points must fill out the p dimensional space. In the presence of a sequential correlation, these points group in a short number of hyperplanes. The fulfillment of these conditions can be ensured by a good choice of function g.

In the last years the pseudorandom numbers generators, based on Fibonacci recurrence, have become more and more popular both in serial and parallel applications. This is because it is easy to implement it and responds quite well to random tests. These generators, named in the specialized literature *Lagged Fibonacci Generators* (*LFG*), have been extremely studied. George Marsaglia has made an extensive study on these generators in order to determine their maximum period and how to select the parameters for the initial state. The general form of a LFG is $LF[r,s,m,\circ;x_t\{0,...,r\text{-}1\}]$, where $r > s > 0$ are gap parameters, $\circ$ is a binary operation, m is the base and $x_t\{0,...,r\text{-}1\}$ is a sequence of r initial values (seed). For $n > r$ the recurrence may be defined as follows:

$$x_n = x_{n-r} \circ x_{n-s} \qquad (2)$$

The regular operations are addition, subtraction, multiplication – mode m and bitwise exclusive - or if m is a power of two. Usually, $m = 2^N$ where N is the length of the memory word. [6]

The maximum repetition period can be achieved only if certain conditions are satisfied by the initial values and by the gap parameters. Brenet has recently showed that if $m = 2^N$ and the polynomial $x^r + x^s + 1$ is irreducible primitive over $GF(2)$, the maximum repetition period is $p = 2^{N-1}(2^r - 1)$ ([2, 3]).

In practice, the LFG generators still shows a number of lacks. The output is sensitive to initialization conditions. Another problem is related to its random quality. Its is known the fact that LFGs don't pass certain random statistic tests, such as the *Birthday Spacing Test* from the test battery Diehard proposed by Marsaglia. Moreover, by the way of implementation of the binary operations there is a leak of information from the least significant bits to the significant ones, information which does not transfer in contrary. To eliminate this shortcoming

various options have been tried, such as transport to the most significant bit, operation which improves the length of the period but not the random character ([5]). So, in 1997, the Danish Agner Fog proposes a new class of pseudorandom number generators based on the Fibonacci recurrence. Known as the RANROT generators, they realize a disturbance of the insignificant bits with the bit rotation operations ([4]). Initially proposed for applications like Monte Carlo, the RANROT generators can be successfully used in cryptography if the gap and rotation parameters are secret. Unlike conventional generators, the RANROT generators have random lengths of the cycle, i.e. inclusive their period is random. Also, the disturbance created by the bit rotation operations greatly increases the length from the LFG.

Several types of generators RANROT are shown below. In the case of the type A generator the bits are rotated after addition and in the case of type B the bits are rotated turned before addition. There is a case when there are more than two terms, as the type B3 below, and there is a case in which parts of the bits strings can be rotated, separately, as the generator of type W.

Type A:

$$X_n = ((X_{n-j} + X_{n-k}) \bmod 2^b) \text{ rotr } r \quad (3)$$

Type B:

$$X_n = ((X_{n-j} \text{ rotr } r_1) + (X_{n-k} \text{ rotr } r_2)) \bmod 2^b \quad (4)$$

Type B3:

$$X_n = ((X_{n-i} \text{ rotr } r_1) + (X_{n-j} \text{ rotr } r_2) + (X_{n-k} \text{ rotr } r_3)) \bmod 2^b \quad (5)$$

Type W:

$$Z_n = ((Y_{n-j} \text{ rotr } r_3) + (Y_{n-k} \text{ rotr } r_1)) \bmod 2^{b/2}$$
$$Y_n = ((Z_{n-j} \text{ rotr } r_4) + (Z_{n-k} \text{ rotr } r_2)) \bmod 2^{b/2} \quad (6)$$
$$X_n = Y_n + Z_n \cdot 2^{b/2}$$

Each X_n is an unsigned integer represented on b bits, Y_n and Z_n are unsigned integers represented on $b/2$ bits and i, j and k are unsigned integers with the property $0 < i < j < k$. The operation *rotr* represents a circular rotation of the bits to the right ([4]).

The values are calculated in a vector with k elements, named S_n. The initial status is $S_1 = (x_1, x_2, \dots, x_k)$ and the transition from one state to another is accomplished by a shift to the left of the form $(x_{n-k}, x_{n-k+1}, \dots, x_{n-1}) \rightarrow (x_{n-k+1}, x_{n-k+2}, \dots, x_n)$, where x_n is calculated according to the recurrence (4).

The seed of the generator W is given by the movement parameters j and k, circular rotation parameters r_1, r_2, r_3, r_4, the length of the buffer k and the initial state $S_1 = (x_1, x_2, \dots, x_k)$.

Even though the choice of parameters for RANROT generators is not critical, to obtain the best performance, a few rules must be complied ([4]):

- an important aspect is that all bits in the buffer state to be independent. For this reason the movement parameters j and k must be prime numbers between them and their odd difference;
- to eliminate possible symmetries in the generated string, the circular rotation parameters r_1, r_2, r_3, r_4 must be distinct and nonzero integers, prime with the length of the buffer k and the length of the memory word b;
- the results are poor if the rotation parameters r_1, r_2, r_3, r_4 are too small or too close to the value $b/2$. Thus, the circular rotation parameters are generated as random numbers from interval $[0, b/2)$ that meet the restrictions from 2.

The seeding of the W generators was done randomly using random function. Therefore, are initially generated the movement and circular rotation parameters as well as the first k values of the initial state S_1. The following values are calculated using the recurrence given by the formula (6).

The self-test proposed by Agner Fog is implemented by saving a copy of the initial contents of the state buffer. After each step of the algorithm, the current state of S_n is compared to the initial state S_1. In this case,

the maximum period that can be obtained for a generated pseudorandom string is $2^{k \cdot b}$.

It is obvious that the perturbation increases dramatically the randomness mand the period of the generator.

3. The proposed algorithm

We show that the perturbation achived by the rotation parameters from (6) increases dramatically the randommnes and period of the generator. Although Fog has proposed that all the four rotations r_1, r_2, r_3, r_4 from the relation (6) to be made to the right, we had the idea to try to improve the randomness by combinating the rotations to the right with those to the left. Thus, the four parameters r_1, r_2, r_3, r_4 will offer 16 rotating modalities (e.g. all the rotations to the right, one rotation to the left and three to the right, etc.). Practically, we will encode a rotation to the right with 0 and one to the left with 1, then we will assign to each of the 16 modalities of rotating a serial number, obtained by concatenating the 4 values of 0 and 1 corresponding to the rotations r_1, r_2, r_3, r_4. Thus, the modality of rotation 0 will have the corresponding binary number 0000, so all four rotations will be done to the right, the modality 1 will have the corresponding binary number 0001 (the first three rotations will be made to the right and the fourth will be made to the left) and so on until the modality 15 in which all the four rotations will be made to the left).

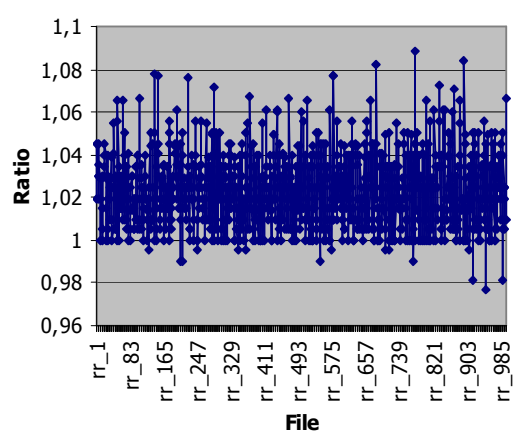
To test the quality of randomness for the generated sequences we will use the DIEHARD battery, which was proposed by Marsaglia in 1997 to determine certain weaknesses of a PNRG. The battery includes 17 statistical tests, most of them generating a p-value, which is distributed uniformly within interval (0, 1).

These p-values are obtained through p=F(X), where F is the distribution function attributed to sample the random variable X. If a p-value is equal with 1, then the string is randomly perfect. A p-value of zero indicates a completely not random string. For tests is chosen a level of significance α. If the p-value is greater than α, then the string appears to be random. Typically α is chosen in the interval [0.001, 0.01]. A value α = 0.001 indicates the possibility that 1000 of strings to be rejected by the random test. For a value $p \geq 0.001$ will be considered a random string with a confidence level of 99.9%. The Diehard battery of tests provides a total of 215 p-values.

The proposed algorithm is as follows:

1. it is established a minimum acceptable threshold for the number of successfully passed tests from the 215 provided by DIEHARD battery and then go to step 2;
2. it is generated and saved a set of initial parameters for relation (6), the current rotation method is set to 0 and then go to step 3;
3. it is generated a pseudorandom numbers string using the relation (6) with the current rotation method and then go to step 4;
4. the generated string is tested using DIEHARD and if the threshold is reached then the algorithm it is finished successfully, otherwise increment the current rotation method with 1 and go to step 5
5. if the current rotation method is less than or equal to 15 then repeat step 3, otherwise repeat step 2.

Statistical analysis of the proposed method was performed using the automated system for testing the randomness of a PRNG presented in [1]. It was generated 1000 sequences of random numbers using relation (6), denoted by $s_1^{(0)}, s_2^{(0)}, \ldots, s_{1000}^{(0)}$. For each sequence $s_k^{(0)}$ $(1 \leq k \leq 1000)$ another 15 strings, denoted by $s_k^{(1)}, s_k^{(2)}, \ldots, s_k^{(15)}$, were also generated starting from the same initial parameters and using the other 15 modalities of rotation. By $\#_p(s_k^{(r)})$ we will denote the number of Diehard tests which was passed by the string $s_k^{(r)}$, where $1 \leq k \leq 1000$ and $0 \leq r \leq 15$.



In figure above, we plotted the ratio $r_k = \frac{max\{\#_p(s_k^{(1)}),\ldots,\#_p(s_k^{(15)})\}}{\#_p(s_k^{(0)})}$.

4. Conclusions

As in more than 98.5% of tests the randomness was increased or not alterated (in 883 tests the randomness was increased, in 102 tests it was kept the same and only in 15 tests it was decreased), we can say that the proposed algorithm could be successfully used in the process of generating a key for a symmetric cryptographic keystream. Moreover, because the serial number associated with the modality of rotation used to generate keystream must to be included in the initial key as a 4-digit binary number, it will get an increase of the confidentiality of the encryption system.

A further improvement of the proposed algorithm could be achieved by its parallelization, so that all the 16 ways of rotation to be carried out simultaneously. In this way, the execution time could be decreased considerably.

5. References

[1] Boriga, R. and Dăscălescu, A.C. - *An Automated System for Testing the Period and Randomness of a PRNG*, Proceedings of the 4th International Conference "Education and Creativity for a Knowledge Society", Bucharest, 2010

[2] Brent, R.P. - *Fast and reliable random number generators for scientific computing,* Proceedings of PARA'04 Workshop on the State-of-the-Art in Scientific Computing, pp. 1–10, 2004

[3] Brent, R.P. - *On the periods of generalized Fibonacci recurrences*, Math Compute 63, pp. 398-412, 1994

[4] Fog, A. - *Chaotic Random Number Generators with Random Cycle Lengths,* www.agner.org, 2001

[5] Marsaglia, G. - *Diehard battery of tests of randomness*, The Marsaglia random number CDROM, Department of Statistics, Florida State University, 1995

[6] Marsaglia G. and Tsang W.W. - *Some difficult-to-pass tests of randomness,* Journal of Statistical Software, Vol. 7, Issue 03, 2002

The Economic Crisis Impact on Labour Productivity

Borza Mioara
Mardiros Daniela-Neonila
„Alexandru Ioan Cuza" University of Iasi,
Faculty of Economics and Business Administration
mardirosdaniela@yahoo.com
mioara@uaic.ro

Abstract

Economic growth and development are notions widely studied in specialized literature, and at the same time with the apparition of disruptive economic phenomena such as an economic or financial crisis, these notions have to be approached in a special way. In this paper we propose to analyze one of the reference aspects with significant contributions to the economic development: the contribution of the industrial workforce to the industry growth. The present analysis is focused to the industrial labour productivity indicator. We chose to make reference to this issue because in the last two years has seen a decrease in the level of production and industrial activity, as a result of measures taken in terms of national character in the context of the financial crisis: layoffs and the decrease of the wage level. The analysis is effectuated on 2007-2010 period of time and refers to the main productive sectors of national industry. On the basis of centralized data processing at the National Institute of Statistics and using the theoretical and methodological information we drew the conclusion that an improperly management of the financial crisis draws an economic crisis, and the phenomenon is done in a closed circle, because the economic crisis impact shows repercussions overall economic sectors of a country.

Key words: crisis, development, labour, economics, industry.
J.E.L. classification: E, E2, E20

1. Introduction

A country's economic development is one of the present common objectives to all countries of the world. Regardless of size, geographic location, number of inhabitants, culture and traditions, every state has included in national strategic plans clear objectives for growth and economic development, in order to ensure a better life and the welfare of the population. Since the orientation evolution of human society, in accordance with the requirements of economic development, now we have a difficult, and a difficult to manage situation, given that the development and the economic growth determines, along with multiple benefits, also a number of economic and financial, social and environmental issues. One of those problems is the economic and financial crisis that has been installed in many states, including Romania.

According to the economic theories of acknowledged specialized literature, the economic growth is measured by the GDP (Gross domestic product) level. During the period of time when the economic crisis was felt in all countries, the reference indicator, GDP, has experienced significant declines. According to Eurostat data looking the GDP growth in first and second quarters of 2008, compared to the third and fourth quarters of 2007, a comparative analysis of the three world economic powers, show that in the EU-27 but also, in U.S. and Japan was recorded a GDP growth rate decrease, as follows: in EU-27 from 2.9% (2007 third quarter) to 1.7% (2008 second quarter), in U.S. from 2.8% (2007 third quarter) to 2.1% (2008 second quarter) and in Japan from 1.8% (2007 third quarter) to 0.8% (2008 second quarter) [4].

In terms of the financial crisis fully felt in Romania in the last two years, it is estimated that this phenomenon will lead, further on, to the decrease of the demand for products and goods produced in areas of vital productive economy such as: construction industry, motor vehicles industry, horizontal industries

(textiles, metal products, plastics, wood, furniture, etc.). So, we can say that one of the direct effects of economic and financial crisis are being felt in the decrease of the global consumption, with effects on national industrial production and, also, on the entire economy.

2. The economic crisis in national context

The national economy developing and sustaining is based on the productive activity of the major economic sectors: industry and agriculture. In the conditions in which the national agricultural systems have registered many setbacks, in financial, political and strategically reasons, the industry sector is destined to remain a pillar of economic support, because of the fact that the tertiary economic sectors (tourism and services) are not yet ready to achieve a necessary growth and progress higher levels for the strengthening of the Romanian economy.

The economic crisis represents a situation where a country's economy sudden goes through a decrease in the intrinsic strength, decrease which is usually brought by financial crises. An economy that is undergoing an economic crisis will experience, definitely, on one hand, a GDP decrease, a reduction in liquidity and, on the other hand, an increase (decrease) in prices due to inflation (deflation). The uncontrolled and inadequate managed economic crisis, by government measures, it may turn into recession and may even lead to economic collapse. [3]

The financial crisis closely related to the economic crisis, which can cause, is a condition in which the money demand is greater than the availability. [1]

The national economy has gone through a series of profound and sudden changes, in a relatively short period of time; after almost 50 years has moved from a centralized economy to a market economy, the transition period being characterized by many difficulties and obstacles. Greater difficulties occurred in the last two years as a result of the propagation of financial crisis in our country. Thus, economic sectors that had started to stabilize its direction and progress have been confronted with the inherent problems of an economic crisis. Among these sectors, industry is one that had registered numerous losses, with consequences including the social welfare.

At present, the Romanian industrial output registered dramatic declines due to the decreasing of the economic agents' financial strength. The main sectors caught in this bad situation are: the production of components and motor vehicles, the metallurgy industry, the construction industry, the wood processing industry, the textile industry, etc.

One of the direct consequences of the economic crisis experienced in industrial sectors is observed over the quantity and quality of labour. The analysis of that component can be done in several ways. We consider that one of the most representatives is the analysis of the evolution patterns of *labour productivity* indicator so we will analyze it in the present work. The starting point in choosing this option is to identify, according to Eurostat, the main indicators of short-term labour: used working time, *used labour* and earnings. Based on the „used labour" indicator we may proceed to the observation and to analyse of the "industrial labour productivity" and, also, we can establish correlations with the economic crisis situation.

3. Labour productivity in Romanian industry sector

The labour productivity indicator measures the work efficiency done in a certain period of time in an economic unit (enterprise). The assessment of indicator can be made including the macroeconomic level, being determined as the ratio between GDP and the number of employees in the economy.

Through that paper we propose to realize an achieve regarding the insight into the evolution of the labour productivity in the industrial sector in Romania for the 2007-2010 period of time, while the financial crisis context determined negative repercussions in all sectors of productive activity. The industrial sector has been affected in different ways, and one of these is the labour one for which has seen a noticeable impact. From this point of view it appears that draconian measures such as layoffs and lower wage levels have affected one of the main indicators characterizing economic activity: labour productivity.

According to the Eurostat methodology [6], regarding how to calculate the labour productivity in industry, the *industrial labour productivity index* is calculated as the ratio between the index of the industrial production and the time used for work index, expressed in hours - man (hourly labour productivity), because on short term it is considered that the influence of other factors of production (in particular the quantity and quality of capital) is unchanging:

$$I_{W1/0} = \frac{Ip_{i1/0}}{It_{l1/0}}$$ where,

$I_{W1/0}$ = the labour productivity index in the current period compared to the base;

$Ip_{i1/0}$ = the industrial production index in the current period compared to the base;

$It_{l1/0}$ = the working time used index in the current period compared to the base.

In order to analyze the evolution mode of labour productivity in Romanian industry, given the conditions when the economic crisis has manifested on the national economy too, we used the statistical data with which we can draw conclusions regarding the impact of economic crisis on labour productivity in the industrial sector. In Table 1 are presented the values of industrial labour productivity index in Romania, in comparative evolution from 2006 until present, compared with 2005, for two months on each year, considered to be the beginning of each semester.

To overtake the industrial sectors affected by economic crisis, we decide to present the values of the indices, in monthly evolution, on total industrial and on activities areas. These are: all extractive industry, manufacturing (food products and beverages, tobacco products, textiles, wearing apparel, leather and related products, paper and paper products, rubber and plastic products, construction materials manufacturing and other products of non-metallic minerals, wood and wooden products processing, furniture and other industrial activities non-classified elsewhere, manufacture of motor vehicles, trailers and semi-trailers, basic metals, machinery and equipment, electricity, gas, steam and air conditioning supply). [5].

Table no. 1. The indices of industrial labour productivity

Labour productivity indices in industry activities					
Industry – total					
Y/M	2006/ 2005	2007/ 2005	2008/ 2005	2009/ 2005	2010/ 2005
Jan.	109.2	110.1	108.8	119.3	151.3
Feb.	108.4	115.1	111.0	135.1	158.3
Mar.	108.1	113.1	106.5	150.9	185.6
April	104.7	106.6	117.1	144.8	177.4
May	120.2	111.4	106.1	156.7	187.0
June	114.7	108.7	107.7	165.3	196.7
July	113.5	111.3	108.8	168.6	-
Aug.	110.1	109.5	102.1	143.2	-
Sept.	109.7	107.3	107.7	175.1	-
Oct.	113.3	110.4	101.1	183.5	-
Nov.	110.5	108.7	93.1	177.6	-
Dec.	106.3	106.8	87.8	157.7	-
Mining and quarrying - total					
Y/M	2006/ 2005	2007/ 2005	2008/ 2005	2009/ 2005	2010/ 2005
Jan.	129.5	115,7	126,9	136	134
Feb.	129.1	118,6	127,4	128,5	133,2
Mar.	123.8	119,3	143,1	149,7	140,6
April	123.4	115,6	134	125,4	134,9
May	131.4	119	143,5	139,5	129,8
June	131.8	123,8	139,7	126,3	142,4
July	128.0	111,9	146,2	142,3	-
Aug.	122.5	124,1	150	145,9	-
Sept.	120.1	115	149,4	149,2	-
Oct.	126.3	112,3	152,3	157,7	-
Nov.	121.0	111	146,4	154,2	-
Dec.	117.6	107,8	143,5	143,8	-
Mining of coal and lignite					
Y/M	2006/ 2005	2007/ 2005	2008/ 2005	2009/ 2005	2010/ 2005
Jan.	111.6	140,7	130,1	129,5	121,2
July	145.4	107,7	165,3	115,9	-
Metalliferous ores quarrying and preparation/Mining of metal ores					
Y/M	2006/ 2005	2007/ 2005	2008/ 2005	2009/ 2005	2010/ 2005
Jan.	117.1	183,3	6	-	135,2
July	141.7	37,8	35,4	14,4	-
Other extraction activities					
Y/M	2006/ 2005	2007/ 2005	2008/ 2005	2009/ 2005	2010/ 2005
Jan.	143.7	121,6	81,2	66,4	76,4
July	114.9	123,3	160,7	171,4	-
Manufacturing – total					
Y/M	2006/ 2005	2007/ 2005	2008/ 2005	2009/ 2005	2010/ 2005

Jan.	108.4	110,9	129,2	116,1	149
July	112.7	111,8	153,1	177,9	-
Manufacture of food products and beverages					
Y/M	2006/ 2005	2007/ 2005	2008/ 2005	2009/ 2005	2010/ 2005
Jan.	114,4	109,7	111,2	106,1	102,3
July	113,8	111,2	115,5	131,9	-
Manufacture of tobacco products					
Y/M	2006/ 2005	2007/ 2005	2008/ 2005	2009/ 2005	2010/ 2005
Jan.	79,1	131	167,2	157,6	132
July	65,6	228	153,6	325,1	-
Manufacture of textiles					
Y/M	2006/ 2005	2007/ 2005	2008/ 2005	2009/ 2005	2010/ 2005
Jan.	86,7	120,6	111	112,3	134
July	78	118,9	130,9	114,3	-
Manufacture of wearing apparel					
Y/M	2006/ 2005	2007/ 2005	2008/ 2005	2009/ 2005	2010/ 2005
Jan.	97,7	90,1	94,9	90,1	95,2
July	94,1	85,5	104,7	106,5	-
Manufacture of leather and related products					
Y/M	2006/ 2005	2007/ 2005	2008/ 2005	2009/ 2005	2010/ 2005
Jan.	104,6	117,7	114,5	119,6	123,7
July	101,6	112,7	132,2	128,6	-
Paper and paper products					
Y/M	2006/ 2005	2007/ 2005	2008/ 2005	2009/ 2005	2010/ 2005
Jan.	91,4	123,4	113	100,3	123,8
July	104	115,1	117,8	138,3	-
Manufacture of rubber and plastic products					
Y/M	2006/ 2005	2007/ 2005	2008/ 2005	2009/ 2005	2010/ 2005
Jan.	97	119,9	141,5	125,7	152,7
July	100,7	117,5	178,3	191	-
Construction materials manufacturing and other products of nonmetallic minerals					
Y/M	2006/ 2005	2007/ 2005	2008/ 2005	2009/ 2005	2010/ 2005
Jan.	80,2	199,3	95,6	81,5	69,2
July	120,3	114,4	239,9	239,3	-
Wood and wooden products processing (excluding furniture)					
Y/M	2006/ 2005	2007/ 2005	2008/ 2005	2009/ 2005	2010/ 2005
Jan.	103,5	126,3	137,7	147,6	215,2
July	120,3	117,2	144,4	248,6	-
Furniture and other industrial activities non classified else where					
Y/M	2006/ 2005	2007/ 2005	2008/ 2005	2009/ 2005	2010/ 2005
Jan.	124,1	109,7	123,8	119,2	134,5
July	132,6	95,9	124,7	142,9	-
Manufacture of motor vehicles, trailers and semi-trailers					
Y/M	2006/ 2005	2007/ 2005	2008/ 2005	2009/ 2005	2010/ 2005
Jan.	123,3	101,4	150,6	89,3	182,6
July	117,7	132,9	148,5	197,9	-
Manufacture of basic metals					
Y/M	2006/ 2005	2007/ 2005	2008/ 2005	2009/ 2005	2010/ 2005
Jan.	105,3	111,6	110,2	53,9	98,4
July	131,8	112,2	122,8	97,5	-
Manufacture of machinery and equipment					
Y/M	2006/ 2005	2007/ 2005	2008/ 2005	2009/ 2005	2010/ 2005
Jan.	104	103,4	136,7	144,3	136,1
July	107,2	108,9	147,1	156,6	-
Electricity, gas, steam and air conditioning supply					
Y/M	2006/ 2005	2007/ 2005	2008/ 2005	2009/ 2005	2010/ 2005
Jan.	105,9	101,4	123,4	126,8	159,7
July	119,6	116	100,4	116,7	-

Source: data from the Industry Statistical Bulletin no. 5/2007, 5/2008, 5/2009, no.5/2010 (National Institute of Statistics)

By analysis and interpretation data from the above table and from the monthly statistical bulletins between 2007-2010 periods, we can draw the next synthesis elements:

a. total industry labour productivity indices have registered increases in each year of 2006-2010 period compared to 2005 year (ranging between 1.1% and 96.7%) excepted November and December months of 2008, when were registered the decreases with 6.9%, respectively 12.2%. It is note that in 2008, who announced the "arrival" of the economic crisis in Romania, the values of industrial labour productivity index has registered continuous decline since July month.

b. in minning and quarrying sector (total) in 2006-2010 years, compared to 2005, it was registered the permanent increases between 11% (November 2007) and 57.5% (October 2009); overall, this sector has not been affected by specific governmental measures specific to the counteract the economic crisis.

c. on minning and quarrying subsectors, the situation in value of industrial labor productivity index is as follows:

- in sector of minning of coal and lignite were registered increases for labour productivity index values, except during April 2009 (with 6.7% less than in 2005) and the months of November and December 2007 (with 5,3% and 4.6% less than in 2005); the increases were relatively constant, ranging between 11.6% (January 2006 over 2005) and 70.6% (June 2006 over 2005); the most "weak" year in terms of labour productivity growth is 2007;

- in the metalliferous ores quarrying and preparation/mining of metal ores sector, it is registered one of the unfavourable situations; after 2006 year it was registered extremely high oscillations, and most analyzed index values are decreasing; so in July we can note continuous declines from 2007 until 2010 compared with 2005 (with 62.2% in 2007, with 64.6% in 2008 and with 85.6% in 2009); these figures entitled us to conclude that the dismissal in the minning and quarrying sector had directly influenced this indicator;

d. in the manufacturing total sector, the general situation is presented as relatively favourable because does not register steady decline and at high level; so, in January month is registered increases compared on 2005 with 8.4% (in 2006), with 10, 9% (in 2007), with 29.2% (in 2008), with 16.1% (2009) and with 49% (in 2010); we observed that the year in which is registered a smaller increase than in previous years is 2009, so exactly time when the economic crisis was more accentuated;

e. on sectors of total manufacturing, the situation is as follows:

- manufacture of food products and beverages: on every year, compared to 2005, the labour productivity index was registered increases (less in March 2006 and December 2007); even these increases are not at very high level (between 3.4% and 60.8%), we remark that in 2009 and first part of 2010, the situation has improved, the increases being constant; so, the necessity to ensure the food needs of the population determine the correct decisions at enterprise level, with beneficial effects on the macroeconomic level;

- manufacture of tobacco products: in this sector, for January analysis, the only year of analyzed interval in which was registered the decrease of labour productivity index is 2006 (-20.9%); ulterior were registered constant increases (31 % in 2007, 67.2% in 2008, 57.6% in 2009 and 32% in 2010); we observed that this is a sector where the labour productivity is at high rates (in 2009 the value of index has exceeded, for 11 months, the percentage of 200%);

- manufacture of textiles: for this sector, the situation was very unfavourable in 2006, with declines in each month (except December) from 2005; thereafter, we noticed increases for index value on every year, but more modest increases were in 2009, too (with 12.3% more than in January 2005 and with 14.3% better than July 2005); the first months of 2010 year indicate the promising results, the increase rate being between 34 % and 66.6%;

- wearing apparel: in this area the situation is moderately unfavourable, observing that in January, in all analyzed years were registered decreases (between 8.9% and 2.3%); the situation is more optimistic in July, when was an increase with 4.7% in 2008 compared to 2005 and 6.5% in 2009 compared to 2005;

- paper and paper products is a sector where the increases registered for labour productivity index have made felt from one year to another (with more modest values in 2008 and 2009 – years of accentuated crisis), but with chances to recover the losses in 2010;

- for wood and wooden products processing sector (excluding furniture) is registered the best results regarding the evolution of labour productivity index value; from one year to another, it were produced significant increases for the months presented in Table 1 (in January: from 3.5% increase in 2006 compared with 2005, to 115.2% increase in 2010 compared with 2005, and in July: from 20.3% increase in 2006 over 2005 to 148.6% increase in 2009 compared to 2005);

- a sector where were registered negative results is the manufacture of basic metals; in 2009 held the biggest decrease compared to 2005 (-46.1% in January); the economic regress of big industrial units that was observed in 2008 and 2009 is identified from labour productivity index, too, with an accentuated decrease from the end of 2008;

f. for the electricity, gas, steam supply air conditioning supply sector we remark an unfavourable situation for the years 2007 and 2008 compared to the based year – 2005, in almost months of the year; but the declines were not so great (between 0.1% and 9,6%)

therefore may have been recovered since 2009 to present.

4. Conclusions

The progress of current society depends decisively by the effectiveness level of human, natural and financial resources used and by the company selected for analysis. The general economic objectives of any enterprise are oriented towards ensuring the increase of production volume and quality production and obtaining a gain quantity of goods and services. On this basis it can reinforce a strong and advanced economy that can handle to socio-economic impediments like "economic and financial crisis". The measurement of productivity continues to generate substantial interest in many countries, since productivity is a key yardstick of economic performance. [2].

After statistical analysis data from national level, we concluded that the labour productivity in Romanian industrial sector has increased significantly in January 2010 (with 27.8% compared to 2009), as resumption the production in most industrial units, the resumption of exports and dismissing realized at began of economic crisis [National Institute of Statistic, 2010]. The most significant increase (29.9%) was recorded in manufacturing industry. The next favoured sector was the production and supply of electricity, gas, steam and air conditioner where the labour productivity has increased by 24.2% in 2010.

Increase and improve the economic competitiveness of a country is closely linked to the increased of efficiency and labour productivity. For these reasons we conclude that the objective to increase the labour productivity should be registered into strategy of any enterprise, regardless the activity profile, so the efforts produce positive effects on the macroeconomic level. Because the national industry can become a competitive sector in Romanian economy, can be established the strategic measures through which follow an increase for productivity labour indicator based on industrial production growth, while decreasing the average number of employees, preferably through the purchase of modern technologies and not by redundancies caused by lack of payment for employers.

Certainly, the aspects regarding the social consequences of labour productivity growth due to dismissing process may be a separate theme of analysis, given that the National Agency for Labour Employment declared that the number of unemployed in January 2010 was 740,982 persons (maximum level of the last six years and ten months) of which mostly come from the industry sector.

5. References

[1] N. Dobrota, *Political economics*, Economic Publishing House, Bucuresti, 1997.
[2] P. Schreyer, D. Pilat, "Measuring productivity", OECD Economic Studies No. 33, 2001/II 127.
[3] *** Dictionary of Economics, Economic Publishing House, Bucuresti, 1999.
[4] *** *The effects of financial crisis on Romanian industry*, viewed on 25 September at: http://www.ugir1903.ro/download/CrizaMondiala.pdf.
[5] *** *Industry Statistical Bulletin*, No.1-12 from years 2007, 2008, 2009, 2010; viewed at: http://www.insse.ro/cms/rw/pages/index.ro.do
[6] *** *The methodology for calculating the labour productivity in industry*; National Institute of Statistics, June 2005; http://www.insse.ro/

The Development of Public Services Through Decentralization During the Financial Crisis

Bosie Irina
"Alexandru Ioan Cuza" University of Iasi,
Faculty of Economics and Business Administration
irina.bosie@uaic.ro

Abstract

Romanian public administration reform is one of the main challenges Romania faces today. The development of the public services is one of the main goals of the administrative reform. This article contains information about the efforts that Romania made in the process for reform through long term development, public services evolution boosted by the financial decentralization but reduced by the effects of the financial crisis.

Even though the European Commission recognized the progress made so far by the Romanian authorities, strengthening the institutional framework and stressed in particular the importance implementation of various measures, urgent needed to address the weaknesses that persist as the central government and in the local. This process is slow and the performance is compromised by the financial crisis. We are on the verge of elections time to stabilize the system although we predict that we should orient towards progress instead of stagnation.

Key words: financial decentralization, good administration, development, subsidiarity, public services
J.E.L. classification: D73, G01, G28

1. Decentralization principle of organization and functioning of local government

The need for administrative reform comes from the ongoing transformation of society, and financial decentralization is one of the key points of the streamlining and modernization of public services. Strengthen democratic system, creating an economic and social climate to give maximum benefits and efficiency of market economy structures and mechanisms, are some of the advantages of being a member of the European Union.

Early interest granted administration is found in the nineteenth century, linked to scientific work of researchers such as the french engineer Henri Fayolle, at the technical level and Lafervier at the legal level. Later on we find that interest on administration aims the decentralization process in all the forms: administrative, political, territorial, technical and last but not least financial decentralization. So administrative science arose relatively recently, in the present, it is growing due to widening the scope of administrative activities and bodies that form the basis of these activities both in private and in public sector.

The administrative era constitutes the essential characteristic feature of modern societies, bearing the label of so called administrative revolution that distinguishes modern societies from traditional ones.

Henri Fayolle said that the administration is the center of our civilization. In other words, it provides stability and social cohesion and a harmonious and orderly transformation of community living conditions, introducing elements of nationality and unity. Otherwise we can say that is the intermediate between political power and individual.

Romanian society facing a continuous process of change in which all economic, social, political, civic are attempting to adapt to present conditions.

In this transformation process, Romanian society can't ignore the public administration system, also the need to introduce a European dimension in this field, in accordance with the values of this administrative area. Public administration reform involves changes in its components, both at central government and local public administration and public

services in general. In designing public administration reform strategy, were taken into account the fundamental principles like the principle of separation of political and administrative functions, legitimacy and the principle of proper administration, the principle of subsidiarity, principle of decision-making autonomy, the principle of transparency of governance and the administration.

The decentralization, involving the devolution of powers and new responsibilities at local government level is a process started in 1991 when it was adopted the Constitution of Romania. By decentralization we refer at the process of transfer of authority, responsibility to local government structures. This transfer of authority and responsibility refers to planning, the decision about finance and taxation, legal responsibilities about issuance of regulations, local decrees and the management of public services for which it is transferred. The objective of decentralization is to improve management of public services and increase their quality by allocating more substantial responsibilities, financial resources, the rights related services, analyzing the motivations, by reducing existing conflicts in the public administration system. [5]

Local autonomy and decentralization represent the defining principles in the organization of local public administration, according with the European Union standards. Romania adhered to this principle assuming the obligation to hold a local government system of the European standard.

In line with the Public Administration Reform approved by the European Commission, the concept of decentralization in Romania is defined by three major elements.

These elements refer to a further decentralization by transferring administrative and financial powers and responsibilities from the central public administration authorities at local level. The second is further deconcentration process through delegation of responsibilities in the territory according to local needs, within the same administrative structure. The structure is decentralized services subordinated to the ministry which has delegated responsibility. The third is about transformation deconcentrated services in the territory, according to the needs of their citizens and streamline the services decentralized local responsibility.

All these elements of the strategy of Public Administration Reform of 2001 have been supported to some extent by European funds. Civil service reform interventions have addressed the fundamental change of status, conditions and remuneration of civil servants at central and local level.

2. The need for decentralization in the administrative activity. Does the crisis affect the decentralization process?

The changes in our country after 1990 were required to reform the whole business of economic life and social sectors, especially in the public administration sectors. The necessity of reconsidering the need for a national position against the very administration of its mission ensures the execution of laws and enforcement of their meeting in the context of general interests. The administrative reform, as is appreciated in by Charles Debbasch in the paper "Science administrative, cinquieme doctrine", consistently occupy an important place both in the electoral programs but especially almost unanimous demands of citizens.

The theme became a way of thinking and even a myth in this regard is proof that the speeches of politicians, thus inducing the illusion that the administrative reform of public administration permanently cleanse all vices. The constant basis of the theme, remove this illusion, because it could improve its public administration reform function "administrative machine" but not perfection will never reach perfection

Decentralization, sustainable development, strengthening administrative capacity, efficient public policies, decision to increase transparency, improved public services, local government challenges and needs, are a series of goals today, extremely present in Romanian society. Decentralization is a more efficient way to respond to the local needs of central planning.

The transfer of responsibilities in service delivery is increasingly accompanied by decentralization of powers over political and fiscal decentralization.

An important element is improving the definition and correlation of income from taxes. Considerable efforts are still needed to improve financial management and to

compensate for the lack of equipment and knowledge necessary for its use.

The main problem the administrative institutions are trying to solve is the need to increase confidence in the central government. This is a problem for main countries affected by the financial crisis, apparently even the government tries to take measures to pass the crisis period this aren't consider to be the right ones. As studies show more than half the urban population of Romania perceived as poor or very poor relations with the authorities and institutions that provide citizen-oriented services. Most people are dissatisfied with the length too large and the large number of steps you have to travel to receive basic public services, as Charles Debbasch said.

The advantages of decentralization are democratic government by encouraging citizen participation in administrative process, efficient way of providing public services, accountability of public administration authorities involved in the decentralization process.

Reorganization processes of government institutions, strengthening decentralization and local autonomy, subsidiarity has created new horizons of government missions can be achieved only through increased involvement and responsibility of civil servants, and not least, through their constant improvement. Decentralization has been evoked as a means of combating poverty and foremost a way to reduce inefficiencies due to the centralization of public services in Romania. Decentralization is also a way of transparency and accountability that comes from the central level by involving local governments and greater citizen participation.

Decentralization is considered to be a strategy to combat poverty, according to some authors, although opinions are divided. Kuschick (1995) present decentralization as a viable alternative to address poverty because it allows greater efficiency in implementing programs, other authors stated that the municipality is the natural space to conduct programs to confront poverty.

Performing problem analysis on the process of decentralization of financial crisis, we find that technical and administrative deficiencies of municipalities can become a major obstacle, so it is necessary to prepare properly for municipal officials. While these problems existed before the crisis have been felt in Romania, we notice that has widened and the precarious financial situation faced by local governments that are serious enough to slow the progress of decentralization.

Finally, there is sufficient reason to believe that the decentralization process can create a suitable environment for financing development projects that are designed to supplement local financial and increase the effectiveness of public services. Financial decentralization can be considered a tool to help achieve these goals more effectively after the crisis will no longer be that pronounced.

3. Is the concept of good administration the consequence of the implemented decentralization?

We can refer at the concept of good administration as the accomplishment of success implemented decentralization. While governance is a phenomenon understood as an exercise of economic power, political and administrative authorities, which are designed to manage the country's resources, good governance is defined as a series of processes that politics and social structure of economic relations. Absence or existence of good governance is implicitly determined by several characteristics: participation means involving people with the right decision, direct or through intermediary institutions. Rule of law and fairness concerns the direct involvement of people available. Good governance means the institutions and processes undertaken by them and promptly service for mutual benefit of stakeholders.

However, in the current climate there could be a conflict between short and long term objectives. Good governance is the orientation towards the common interest generally achieved a broad consensus through mediation. Effectiveness and efficiency of processes and institutions produce results that lead to citizen needs and efficient use of resources.

On the basis of good governance and the proposed change in the White Paper are the following principles: openness, participation, accountability, effectiveness and coherence. Central government must follow the rules it adopted the regulations issued. Note of these rules: transfer of responsibilities to local government authorities, the decentralization of public services or creating new public

services can't be determined or imposed by central government authorities without ensuring adequate financial resources to achieve these responsibilities, before any decision, the central government should consult the associative structures of local authorities in all matters that concern them directly.

Administrative society of whether and to what extent public administration system is penetrable by the social environment, and on that basis, whether or not compatible with the global society. The report system compatibility between government and society is stemming from the lack of adaptation to the requirements of the social administration. Compatibility between the public administration system and society is ensured, and how this system fails to self-regulating structures and actions to the needs of society, requiring detailed knowledge is a global social system needs.

An important role in the conduct of civil society it is good administration, it can be amplified by approaching civil society makers, in addition to the rule of law institutions to influence them in the sense of defending the rights and interests of citizens groups that they represent. It is part of the society it is connecting individuals with the public domain, and represents the interface of the policy of the society.

All around the world, the public sector begins to take modern management techniques and practices used in private sector. Sometimes this means changing established structures and patterns in time and there is always the argument that private companies must pass the test market while public sector test is a more complicated problem. And public sector must pass a kind of test market, which takes the form of political dispute for power, expressed in part by the Government of votes won through achievements. There is still the same thing. The difference clearly appears when we talk about responsibility and its different forms, applicable to private organizations and the public ones too.

Operation of a modern public administration, flexible and efficient is a prerequisite for the structural transformation of Romanian society, to achieve a profound reform in all spheres of socio-economic growth of the citizen's role in decision making but mostly it's reffering to the need of implementing in a deeper way of the administrative reform of all kind, the implementation is the link to a good administration.

4. Conclusions

Romanian authorities through administrative cooperation actions aimed at supporting state reform in Romania, especially decentralization.

Administration for citizens must be the objective, inalienability of different processes involving administrative reform through decentralization process. There are many avenues for advancement, the relationship between state and citizen, political objectives are linked and synergistically combines with economic progress. But the most important ways of making the process possible is to overcome the periods of crisis.

The reform of European governance and administration is pursuing a number of goals through better use of powers and efficiency of the manipulation tools available to states to achieve this. We should not ignore the fact that reform should ensure close linkage between the European Union and its citizens and increase the effectiveness of policies.

Local economic development is consistent with the general process of decentralization. Local autonomy gives substance, because we can not only give local administration activities required to ensure that it keeps the center of economic levers. Public administration must learn to cope with current demands due to the speed of social exchanges, in which communication and information flow is vital and where it produces a general phenomenon in the administration, this stretch is in continuous expansion.

Acknowledgements
This work was supported by the European Social Fund in Romania, under the responsibility of the Managing Authority for the Sectoral Operational Programme for Human Resources Development 2007-2013 [grant POSDRU/88/1.5/S/47646].

5. References

[1] Commission of the European Communities: European Govemance. A White Paper, 2001 428 final, 25.VII.2001

[2] Decentralization Framework Law no. 339 of 12.07.2004, Official Gazette no. 668 / July 26, 2004

[3] S. Parrado, "Failed policies but institutional innovation through 'layering' and 'diffusion' in Spanish central administration", International Journal of Public Sector Management, Vol. 21 No. 2, 2008, p. 230-252

[4] G. Pearce, J. Mawson, "UK Governance in the English regions: moving beyond muddling through? "*International Journal of Public Sector Management*, Vol. 22 No. 7, 2009, p. 623-642

[5] A. Profiroiu, I. Popescu, *Bazele administrației publice*, Ed. Economică, 2004, BucureSti

[6] L. Vochița, A. Găină, "Globalisation and European Union Strategy for Sustainable Development", *Journal Economy and Business, International Scientific Publications*, vol 1, 2007, p.114-123

Elements of Masculinity/Feminity Cultural Dimensions Between Authority and Success

Bostan Ionel
Morariu Alunica
"Stefan cel Mare" University of Suceava,
Faculty of Economic Sciences and Public Administration
ionel_bostan@yahoo.com
morariua@seap.usv.ro

Abstract

Some organizations favour more typically masculine values and reward their associated practices. Attributes considered as being masculine as dominance, determination or strength are protected, rationality is considered superior to intuition, task orientation is considered more effective than interpersonal relationships orientation. In principle, things made by men strengthen the competition and the determination; women's worries strengthen the female character, the concern for family and lifestyle. The question that emerges is: Can men and women in Suceava organizations transfer typically male or female characteristics to each other? And if so, what can provide professional and organizational success? Through this paper, we propose to study and analyze issues to which we referred in the arising questions.

Key words: staff, management, cultural dimensions, masculinity, femininity, authority, success
J.E.L. classification: M10, M14

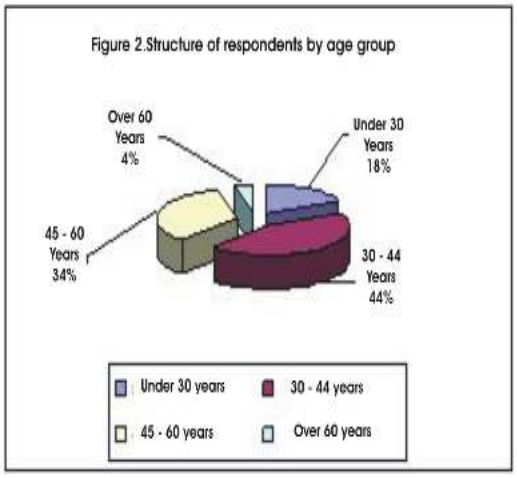
1. Introduction

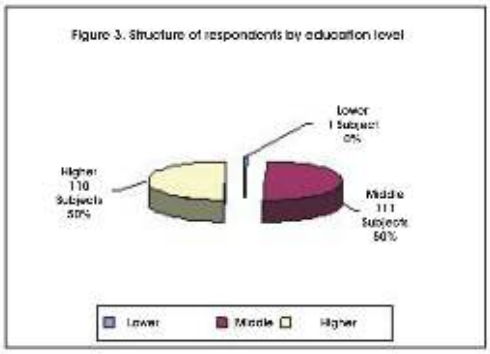
In the recent years, we note that among employees (managerial and implementation staff) there are increasingly more women. Increasing the number of employed women is due to their superior qualification. In France, for example, they tend to adopt the Scandinavian model where the percentage of employed women is almost equal to the men percentage.

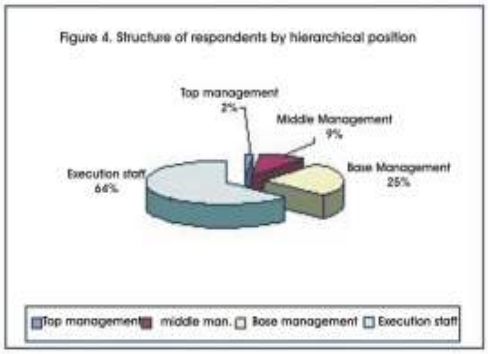
In this paper, we propose to analyze the distance between authority and success between masculinity and femininity cultural dimensions among Suceava county organizations.

2. Cultural dimensions of masculinity and femininity between authority and success in Suceava county organizations

The collective that has been under investigation "Managerial Behaviour in Organizations from Romania – COMOR" in Suceava county (conducted by the Scientific Society of Management in Romania and the Faculty of Economics and Public Administration from the "Stefan cel Mare" University of Suceava, 2009-2010), was composed of 222 respondents (150 men and 72 women) from 15 companies in Suceava. Other characteristics of respondents that were taken into account in carrying out this study are: age group, respondents' studies and not least, their hierarchical position. We report, below, the share of subjects grouped according to the criteria listed above:

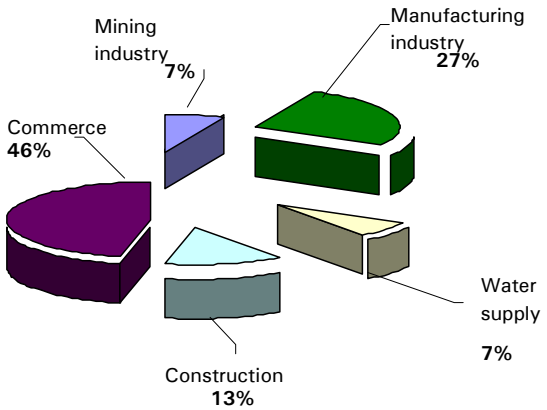






The main criterion for selection of private organizations participating in the study was the counting procedure applied to companies in Suceava county. To the personnel of these companies was applied a questionnaire by which were collected data on the employees' opinions on various cultural managerial dimensions. The **average** of questionnaires applied in firms of Suceava is 15 questionnaires/firm. The distribution of respondents according to the scope of firms is shown in Figure 5.

Figure 5. Distribution of respondents according to the scope of firms



Thus, we show that the companies having as main business *the commerce* (46%) prevail, followed by *the manufacturing industry* (27%), *construction* (13%) and a 7% each, the *mining industry* and *water supply* areas. The share held by men in the COMOR study - Suceava County - 68%, is justified by the difficulty of the companies' activities included in the study seeking rather typical male skills.

In general, organizations favour more typically masculine values and reward associated practices. Attributes considered as being masculine as dominance, determination or strength are protected, rationality is considered superior to intuition, task orientation is considered more effective than interpersonal relationships orientation. In principle, things made by men strengthen the competition and the determination; women's worries strengthen the female character, the concern for family and lifestyle.

In Romania, according to the Statistical Yearbook - 2009, of *the total population* of 21,504,442, the number of women is 11,026,831, namely 51.28% (and a number of 10,477,611 of males). According to the same National Institute of Statistics, Suceava county has a total of 706,407 inhabitants, of which 357,220 women, that is 50.57%, a level almost equal to the national level.

The same source presents, for Romania, a total of 9.369 million employed population (that is 43.57% of the total population of Romania) - of which 5.157 million males (55.04%) and 4,212,000 females (44.96%). In the county of Suceava, from a total of 706,407 inhabitants, *the employed population* totals 241,500, of which 115,900 (47.99%) are women, a percentage increased by 3 units compared with the weight registered at the national level.

Performing the comparative analysis of male and female working population, we find out that the national proportion of men is higher than that of women by 10%, and in Suceava county, higher, by only 4%.

The increasing number of female staff, who occupies positions of management or execution, may be based on multiple factors: women's emancipation, the development of knowledge, skills and abilities that allow/encourage the increasingly active involvement in social and professional life, the concern for professional success, the specialization and the continuous

improvement, the promotion of equal opportunities, etc.

In the modern world, the European Union assiduously promotes *equal opportunities* for all. It is well known that equality of opportunities is based on ensuring the full participation of all persons to social and economic life, irrespectively of ethnic origin, sex, religion, age, disabilities or sexual orientation.

Each European country has adopted the common European legislation, depending on the specific legislation, on the specific culture and on the support people give to a certain type of actions. Amid concerns of the European Union and its Member States on equal opportunities, at their level, is recorded the increasing involvement of women in professional life activities both in the executive activities and in the managerial ones, placed at the top of the pyramid.

According to sociologists, the current *modernity century* will be a *predominantly female* one, even if the positions of power and leadership are occupied predominantly by men. (Vlăsceanu, 2007) On the other hand, it appears that in some socio-professional backgrounds, different from one region to another, from one area of activity to another, from one culture to another, typically male traits have been or are taken by the female sex.

However, if in Peter Drucker's opinion "there are no companies with good or bad results, but with good or bad leaders", we believe that the performance or economic growth is not achieved by women or men, *but by smart, well trained, competitive, motivated people.*

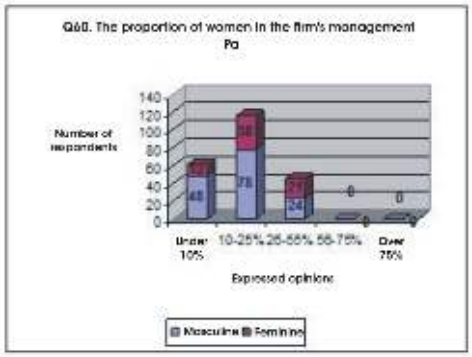
Let us return, however, to our study results and interpretation.

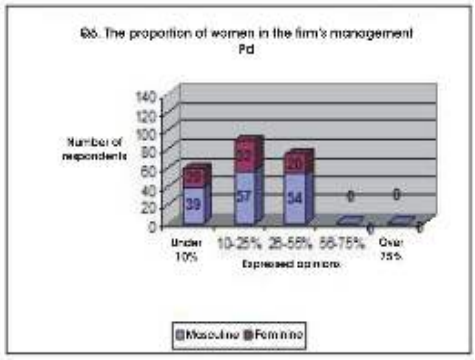
Through question Q60, we studied the data collection, their analysis and interpretation of the proportion of women who are part of the management team of companies surveyed in the county of Suceava.

Q60	In the management of the company where you work, the share of women	**Pa** is **Pd** should be

Note: Pa - Current practices in the organization

Pd - How should be these practices.



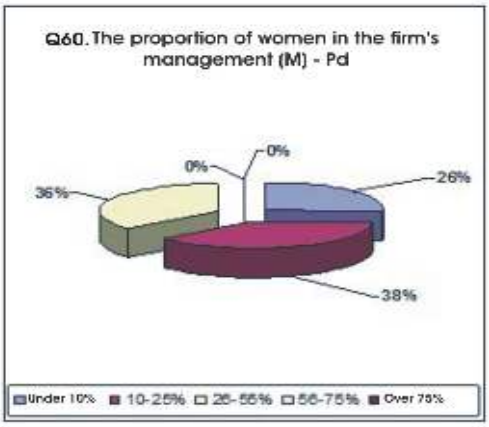


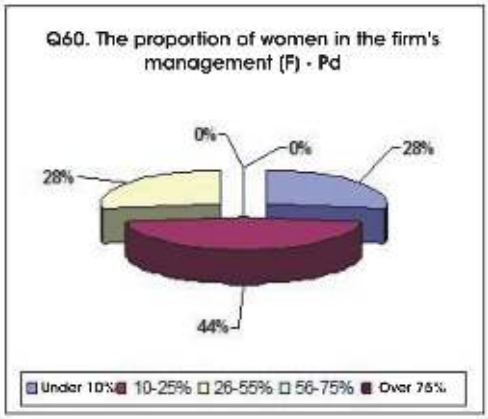
116 respondents (52% of the total number of respondents) think that women in Suceava firms are present in the management of companies at a rate of 10-25%. The remaining responses (to a lesser extent) show that women are present in the firm's management team in a percentage below 10% or 26-55%. Results also show that, at the level of firms surveyed in Suceava, the share of women managers does not exceed 55%.

As the proportion of women wanted in the firm's management, the opinion of the most respondents, is around the same intervals. More specifically, subjects say that in most companies a woman manager is wanted in a share of 10-25% (89 choices), followed by the 26-55% range (74 options) and then below 10% (59 options).

None of the answers does not express that women are desired in the organizations direction at a rate of over 55%.

In the management of companies interviewed, as it results from the following drawings, the masculine staff claims that, in the firm's management, women would be desirable to be in the range of 26-55% percentage, at a rate of 36%, while the female one sustains the same interval to a lesser extent (28%). On the other hand, the female staff believes that women should be reflected in the company's management in a share of 10-25%, to a greater extent (44%) than the masculine one (38%).





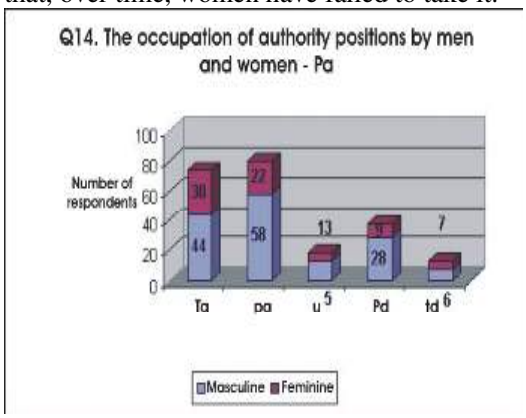
Note: M – *Masculine*
F – *Feminine*

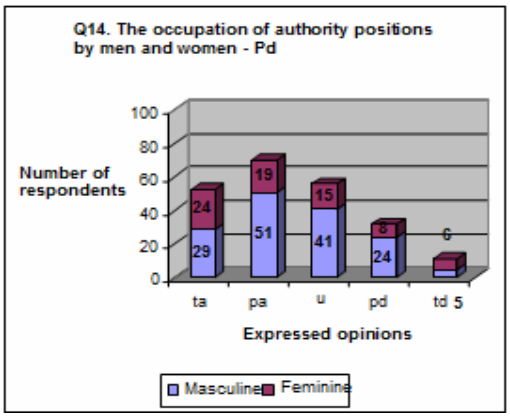
In conclusion, men have greater confidence in women's managerial skills than women themselves. This could be in touch with the established opinion (Hofstede) that *a man can behave in a female way and a woman in a male manner*. Masculinity has nothing to do with the development of a state or with the increasing profit of organizations: we find both rich and poor countries/performing or non-performing organizations with index of masculinity as rich and poor countries/organizations, performing or non-performing organizations with femininity index.

The occupation of authority positions by women and men are analyzed by question Q14, as follows:

Q14	Authority positions	**Pa**	are occupied mainly by men
		Pd	if they were occupied by more women, the work would be more efficient

Some believe that employees work better if their manager has "authority". Since ancient times, the authority is a specific feature of masculinity, but it does not mean that, over time, women have failed to take it.





Note: *ta – total agreement*
pa – partial agreement
u – undecided
pd – partial disagreement
td – total disagreement

According to the above graphs, 33% of respondents answered by total agreement that within the organization they work, the positions of authority are generally occupied by men, 36% by partial agreement, 8% said they were undecided, while the remaining 23% considered the statement by partially or totally disagreement. This means that men are

preferred in positions of authority over women.

With regard to the desired situation, namely: *if the positions of authority would be occupied by more women, the work would be more effective*, in total agreement, 24% of respondents express their opinions, 32% of partial agreement, 25% are undecided, and the remaining 19% were those who did not agree with this statement nor in part neither in full. With reference to the views of our respondents, it appears that over 50% favourable agreement encourages the involvement of women in positions of authority, with real opportunities to achieve efficiency.

Effective managers are seen in many countries as being aggressive, dominant and motivated by achievements (characteristics of masculinity), rather than caring, supportive, passive, concerned with interpersonal relationships (characteristics of womanhood). Thus, many management activities appear compatible rather with male persons. Because people expect men to have several characteristics consistent with managerial activities than women, they will expect them to be more effective than women in managerial roles.

However, not all management activities are associated with masculinity (office work, reporting and informing), so they could be rated less positively, rather by men than by women.

Also, activities as direction, reward, support are compatible with femininity, the employees expecting more of these activities from women managers, penalizing their absence. This induces women leaders to lower or eliminate the social pressure, by being supportive, people-oriented, by adopting positive attitudes toward such activities.

Consequently, the authority and efficiency do not characterize, necessarily, a certain kind of people (either male or female), but are directly proportional to the human individual self-improvement.

In 1960, two American researchers at the University of Michigan, R.L. Kahn and D. Katz (Cornescu et al., 2004) identified the characteristics of an *effective manager:*

• spends more time planning, talking with and instructing his subordinates, solving interpersonal problems of their jobs and informing people about their work in the company;

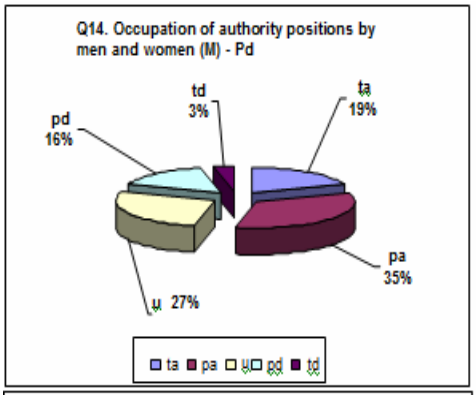
• gives more freedom to subordinates and relies on delegation. Lower-level managers are influenced by higher levels of managers, and managers who are monitored closely by their leaders tend to closely control, in turn, their subordinates;

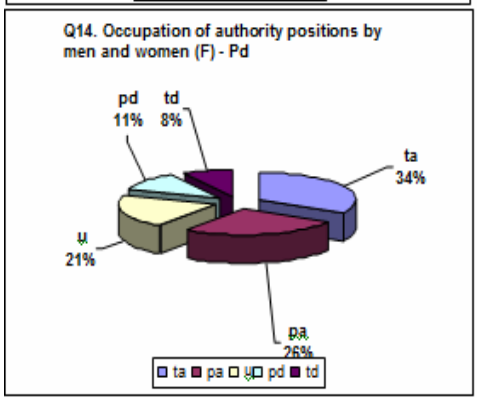
• is perceived by employees as being interested in them, trying to understand them and to keep them in touch with the level of their performance;

• facilitates increased productivity and morale, prompting the employees to become more involved in their activities. The productivity and the pride of belonging to a particular group are probably dependent variables, the increasing of one of them determining the growth of the other. The result is to strengthen team cohesion.

Practice has confirmed that the authority is a relationship built on trust, and for this reason the managers need to be accessible, to express the appreciation for the employees, to consult them in making decisions.

Although women may adopt different leading styles, they are or may be at least as effective as men. This also results from the graphs below, where according to the opinions of the study subjects, it is considered that the efficiency in the organization can be achieved by women, in a rate of 54% in men's opinion and of 60% in women's opinion. These results lead us to conclude that women see themselves authoritative and consider they can obtain performance and efficiency by using this specific feature of masculinity.



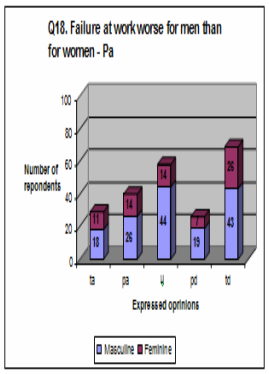


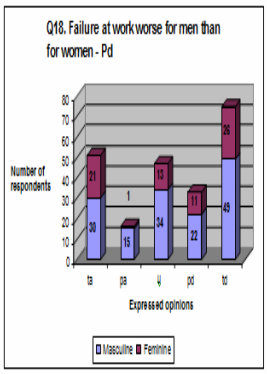
Regarding *the structure of respondents by age group*, we highlight the fact that the staff in the range of age 45-60 years, in a proportion of 60%, believes that women managers could make work more efficient, while respondents aged between 30 and 44 years, in a percentage of 55%, are undecided or disagree in whole or in part. This means that women enjoy a much higher trust from the employees with experience providing solid contributions to the direction of organization and subordinates development, rather than from those who are at the stage of stabilization and career development.

By applying question Q18 was achieved the analysis of *the manner in which men and women react in case of success or failure* at work. The success at work is a successful adaptation to the work demands. Personal orientation, as well as the affiliation, success or achievement needs, influence the career choice. Failure to work can affect men and women differently. For employees whose career is maintained and who, in many cases, have the same sense of failure is necessary a certain type of support: organizational support should include the use of lateral career paths, job enlargement, continuous education and the use of a flexible system of rewards etc.

Q18	In the case of a failure at work	**Pa**	is worse for a man than for a woman
		Pd	should be worse for a man than for a woman

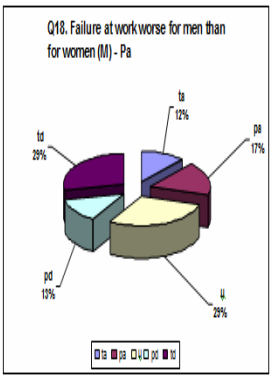
Thus, 13% (18 men and 11 women) of respondents said they agree that it is worse for a man than for a woman in case of a failure at work, 18% said they partially agree with this statement and 26% said they were undecided, not knowing what to answer. 12% (19 men and 7 women) chose disagreement in part as a response to this statement, while 31% completely disagree with this idea (43 men and 26 women).

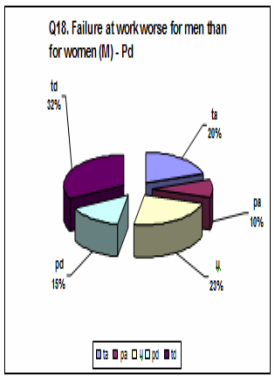


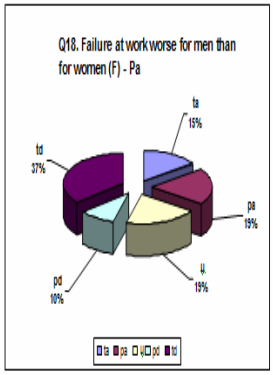


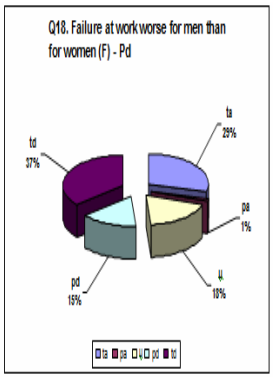
Asked if in case of a failure at work, it should be worse for a man than for a woman, 23% said they are in total agreement, 7% partially agree and 21% are undecided, 15% believe in a moderate extent, that failures should not affect men more than women, while 34% believe that this situation should not exist at all.

Analyzing the data collected for the two cases, the current and the desired one, there are no major differences, excepting a weak transfer between partial and total agreement, as well as in the case of the two options of disagreement. This leads us to conclude that failure to work does not have and neither should it have less pleasant effects for men than women.









Analyzing the responses of the 150 males and 72 females, for the two situations, the current and the desired perceptions, we do not find very high perception differences as regards the failure at work for men and women. This leads to the assumption that, in the market economy, the staff of the companies surveyed in Suceava, perceives the failure as a situation that could or should affect every employee in a balanced way, depending on the level at which failure manifests, whether male or female.

3. Conclusions

If gender differences are the product of the interaction of biological characteristics of women and men with the environment, reflecting the individual differences in biological, psychological and behavioural variables (Ruble and Martin, 1998), this means that the management styles of women and men are differently influenced by the cognitive, emotional and behavioural features.

According to the current involvement of women in management organizations in Suceava, 10-25%, in the opinion of 116 respondents (52% of the total number of respondents) and of the desired involvement, according to the presented data related to the occupation of positions of authority and work efficiency, we conclude that the involvement of women in management activities, even if the authority of men is higher, tends to increase.

In terms of features relating to the management authority, some male managers consider that employees work better if their manager has "authority". Authority is built on a relationship of trust, and for this we need the managers to be accessible, to express their appreciation to employees, to seek their advice and opinion in making decisions. The importance of relationships with the manager and the colleagues corresponds to the feminine role, caring and oriented towards the relationships with the others. The importance of the wages and of the advancement corresponds to the masculine social role, which is strong and competitive. (Hofstede, Geert, 1996). Money is not the main reason why employees stick to their job, but the relationships they establish with their colleagues and bosses. These work relationships confirm and strengthen the KAIZEN management style, according to which the participation of the whole team to the development of strategies based on the exchange of ideas and overall efficiency - reducing costs to achieve goals - leads to immediate gains by eliminating losses, by increasing labour productivity, by reducing the equipment needs and by increasing the usage degree of the remaining ones, by increasing staff motivation, etc.

Thus, the ideas emanating from more than one person are better than the idea of one person. The greatest influence is the mentality, the psychological profile of employees with index of masculinity and femininity, which promote the achievement of requirements of performance management styles.

Based on the results of our study, we found that men have greater confidence in women's managerial skills than women themselves. On the other hand, masculinity has nothing to do with the development of a state or with the increasing profit of organizations: we find both rich and poor countries/performing or non-performing organizations with index of masculinity as rich and poor countries/organizations performing or non-performing organizations with femininity index.

The success of employees at work, for the two situations, the current and the desired one, leads us to the assumption that, in the market economy, failure is seen as a status that could affect every employee, in a balanced way, depending on the level where failure occurs, whether male or female.

Promoting equal opportunities will continuously contribute both to social cohesion, as well as to professional success and growth of performance of local companies, but also to regions of development, as well as to the national or international level.

4. Bibliography

[1] Cornescu, Viorel et al. (2004) *Management – de la teorie la practică,* University of Bucharest Publishing House;
[2] Hofstede, Geert (1996) *Managementul structurilor multiculturale*, Economic Publishing House, Bucharest;
[3] Masaaki, Imai (2007) *Gemba Kaizen, o abordare practică cu costuri reduse, a managementului*, translation in Romanian, Finmedia Publishing House;
[4] Ruble, D.N., & Martin, C. (1998) *Gender development*. In N. Eisenberg (Ed.), Handbook of Child Psychology: Vol. 3, Personality and Social Development. New York: John Wiley & Sons, Inc.;
[5] Vlăsceanu, Lazăr (2007) *Sociologie şi modernitate,* Polirom Publishing House;
[6] Statistical Yearbook (2009).

Accounting for Fair Value Headging

Botea Elena Mihaela
Stănilă Oana Georgiana
Sahlian Daniela Nicoleta
The Academy of Economic Studies, Bucharest
mihaela.botea@yahoo.fr
gostanila@yahoo.com
daniela.sahlian@gmail.com

Abstract

The derivatives appearance was generated by the discovery of new ways to limit and manage current activity risks. Derivatives couldn't hedge any type of risk. Derivative operations can be used to hedge: interest rate risks, foreign currency exchange rate risks, credit risks. Derivatives used to hedge these risks can be handled to cover fair value exposure, cash flow exposure and exposure to changes in the value of a net investment in a foreign operation. The hedging accounting roll is to protect the profit against losses generated by fluctuations of: prices, currency exchange rates and interest rates. Hedge accounting applies to recognized assets and liabilities, but also for unrecognized firm commitments. The fair value hedge is defined as a hedge of the exposure to changes in fair value of a recognized asset or liability. The accounting for change in fair value of a derivative depends on whether the derivative has been designated as part of an effective hedging relationship.

Key words: hedge accounting, hedge effectiveness, fair value exposure, cash flow exposure, fair value hedge
J.E.L. classification: M41

1. Introduction

As the use of derivatives increased on a global scale, the appearance of new accounting standards was necessary. This is why IAS 32 and 39 were issued: to provide a comprehensive list of all disclosures and presentation issues that are relate to financial instruments. Although they were issued as separate standards, they are applied in practice as a unit because they deal with the same accounting phenomenon.

The introduction of fair value as an evaluation method for financial assets has increased since the introduction of IAS 39 and thus, has generated a series of problems. The ones directly facing these problems are the companies that chose to use derivatives, weather for hedging or speculative purposes. When it comes to recording derivatives in financial reports, the most important issue is the treatment of the gains or losses resulting from the adjustment of the derivative's carrying value to fair value.

The main reason for hedging accounting is to protect the profit against losses generated by fluctuations of: prices, currency exchange rates and interest rates. Gains and losses on the derivative used for hedging should be in the opposite direction from and of similar magnitude to the gain or loss on the hedged item.

2. Requirements for Hedge Accounting

When using hedge accounting, three conditions must be met simultaneously:

- the nature of the hedge risk
- the hedge effectiveness
- the documentation

The derivatives appearance was generated by the discovery of new ways to limit and manage current activity risks. Of course, derivatives couldn't hedge any type of risk. Derivative operations can be used to hedge the following risks: interest rate risks, foreign currency exchange rate risks, credit risks.

Derivatives used to hedge these risks can be handled to cover three types of risk exposures:

Fair value exposure: A fair value risk exists if fair value can change either for a recognized asset or liability, or for an unrecognized firm commitment. To qualify for hedge accounting, the fair value risk must have the potential to affect reported earnings if it is not hedged.

Cash flow exposure: A cash flow risk exists if amounts of future cash flows that could affect earnings can change. The future cash flow at risk can be a contractual cash flow related to an existing asset or liability, or it can be a forecasted cash flow from a transaction that is expected to occur but is not yet subject to a contract.

Exposure to changes in the value of a net investment in a foreign operation: This type of risk relates to changes in the value of an investment in a foreign subsidiary or in a foreign company accounted for by the equity method. Such changes in value can occur when exchange rates increase or decrease.

In any case it is very important to calculate the value of the exposure and the potential to affect reported earnings. If the changes of the assets and liabilities value are recognized immediately in earnings do not qualify for hedge accounting. Matching the recognition of gains and losses occurs without any need for special accounting. For hedge accounting to be used, a company must expect that the hedge will be highly effective in offsetting changes in the value of the hedged item or changes in cash flows related to the hedged item.

In order to apply hedge accounting, you have to take into consideration the following:

Step 1 – choosing the derivative instrument has to generate gains and losses that offset losses and gains on the hedged item.

Step 2 – selecting a method to measure the portion of the change in value of the derivatives and evaluate hedge effectiveness (at the beginning, and while the hedge is active).

Measuring Offsetting Changes in the Derivative's Value Effectiveness tests can be based on changes in the value of the entire hedged instrument or can exclude changes in the value related to passage of time. For example, futures and forward prices can be viewed as the total of the current spot price plus a forward discount or premium. The change in forward discount or premium is unrelated to any changes in an item where futures are used to hedge, so a valid approach is to exclude the changes in discount or premium from the measurement of hedge effectiveness. In this case, hedge effectiveness would be evaluated by comparing changes in the spot rate component of futures prices to changes in the value of the hedged item. Similarly, the entire premium on an out-of-the-money call option represents the time value related to the possible gains should the option end up in the money. As the time to expiration draws closer, this time value gradually decreases. The changes in the time value component of the option is unrelated to any changes in an item that the option is used to hedge, so a valid approach is to exclude the changes in time value from the measurement .of hedge effectiveness.

Hedge effectiveness would be evaluated by comparing changes in the intrinsic value of the option to changes in the value of the hedged item.

3. Hedge Accounting for Fair Value Hedges

IAS 39 defines the fair value hedge as a hedge of "the exposure to changes in fair value of a recognized asset or liability". If a fair value hedge is effective, it creates a risk exposure in the opposite direction from the risk exposure of the hedged item.

Hedge accounting applies to recognized assets and liabilities, but also for unrecognized firm commitments. An unrecognized firm commitment is a contractual obligation that is not yet reflected on the balance sheet, but in the future it will become an asset or a liability once it will appear in the balance sheet. The firm commitment must be for a fixed quantity, price, and date and has to be binding both parties (costumer and supplier). In order to use hedge accounting to cover fair value risk, the hedge item must be a single asset, liability, or commitment or a group of assets, liabilities, or commitments whose values change together.

All changes that occur in the process of hedging will be reported in current earnings, the carrying value of the derivative is adjusted to fair value on the balance sheet, and the change in that carrying value from period to period is included on the income statement. At the same time, the balance

sheet carrying value of the hedged item is also adjusted so that unrealized gains and losses due to the hedged risk offset the gains and losses on the derivative.

3.1. Example for Fair Value Hedge of Exposed Asset

In October N a refinery who's processing crude oil from import has an inventory of 80.000 barrels (12. 720.000 l) at 72 $/barrel, 1$=3lei. The company anticipates that the crude oil will be used in producing products that will ultimately be sold in June N+1.

Because on the market cruel oil's price registered an increase the company decides buying futures contracts (short position) on the American market (CME - Chicago Mercantile Exchange) in order to hedge the value of its crude oil. The company buys 10 June futures contracts at a price of 85,09 $ per barrel . CME requires a margin deposit for 800$ per contract (each contract refers 1000 barrels)

Hedging Designation

The refinery designates the futures contracts as a fair value hedge of the change in the value of the crude oil inventory due to changes in spot prices. It is a fair value hedge because the company is hedging the value of an existing asset. It might seem strange that the company is hedging the value of the inventory it already owns since the company has already spent the money to purchase that inventory, and the amount cannot increase. The company has a continuing need for oil in its production, however, and future purchases of oil would be at higher prices if the price of crude oil rises. Although the company designates the existing inventory as the hedged item, it is really hedging the cost of replacing that inventory once it has been used up.

Expected Hedge Effectiveness

If the value of crude oil drops, the company's inventory of it decreases in value, but it expects to make an offsetting profit on the short position in crude oil futures. It might seem that this hedge would be highly effective based on the critical terms of the derivative.

Subsequent Price Behavior the spot prices and futures prices subsequently change as follows:

Months	CME	Spot cruel oil per barrel	Futures per barrel
Nov	15	80,00	79,65
Dec	31	84,15	83,75
Jun	15	85.49	85,09

Accounting treatment

Since all of the conditions for hedge accounting were met, the refinery accounts for the futures contracts as a hedge of the fair value of its copper inventory. The carrying value of the inventory is adjusted by the amount of effective hedging, and changes in the futures position not attributable to effective hedging are recognized in earnings. Because CME (like all futures exchanges) requires daily settlement of futures positions, the changes in value are realized through cash payments to or from the exchange, and the open futures position always has a fair value of zero. Required journal entries at each date are as follows:

* November 15 – to record the margin deposit 800$/contract
(800 $ x 10 Contracts x 3lei/$)

Commodities Accounts =
Bank Account 24.000 lei

* December 31 – payment to CME in order to cover losses:
1.000 barrels x (79,65 - 83,75) x 3lei/$ per contract

Commodities Accounts =
Bank Account 123.000 lei

– to record losses on futures positions

Profit & Loss Account =
Commodities Accounts 123.000 lei

– to adjust the carrying amount of cruel oil for changes on spot price:
80.000 barrels x (84,15 – 80,00) x 3lei/$ per contract

Cruel oil inventory =
Profit & Loss Account 996.000 lei

* June 15 – payment to CME in order to cover losses:

1.000 barrels x (85,09 – 83,75) x3lei/$ per contract

Commodities Accounts =
Bank Account 40,200 lei

– to record losses on futures positions

Profit & Loss Account =
Commodities Accounts 40,200 lei

– to adjust the carrying amount of cruel oil for changes on spot price:

80.000 barrels x (85,49 – 84,15) x 3lei/$ per contract

Cruel oil inventory =
Profit & Loss Account 321.600 lei

- to record the return of the margin deposit

Bank Account =
Commodities Accounts 24.000 lei

3.2. Fair Value Hedge of a Firm Commitment

On October 1, N, the refinery enters into a fixed-price contract to sell 10.000 barrels of gasoline at $125 per barrel in December N. This is a firm commitment that exposes the company to risk because the cost of the cruel oil used to make the wire could increase, reducing the company's profit on the contract. The company decides to hedge this risk by taking a long position in cruel oil futures. The company buys 10 December CME futures contracts at a price of $90,42 per barrel. The refinery has to pay a margin deposit of $400 per contract.

Hedging Designation

The refinery will use the futures contracts as a fair value hedge of the firm commitment to sell its finish product: gasoline.

If the company intends to purchase additional copper to make the wire, the futures could instead be designated as a cash flow hedge.

Based on an analysis of gasoline and cruel oil futures prices, the company concludes that cruel oil futures should provide a highly effective hedge of cruel oil sales prices.

Subsequent Price Behavior The spot prices and futures prices subsequently change as the following table indicates:

Months	CME	Spot cruel oil per barrel	Futures per barrel	Gas.spot per barrel
Oct	1	86,27	86,61	125
Nov	30	88,71	89,07	127
Dec	31	90,42	90,42	129

Accounting treatment

Since all of the conditions for hedge accounting were met, the refinery records in its accounting the futures contracts as a hedge of the fair value for this firm commitment to sell gasoline. The commitment is recorded on the balance sheet at the amount of the effective hedging, and changes in the futures position not attributable to effective hedging are recognized in earnings.

The daily settlement of futures positions is realized through cash payments to or from the CME, and the open futures position always has a fair value of zero. When the hedged transaction finally occurs, the balance in the commitment account adjusts the recorded amount of the hedged transaction. See the following:

* October 1– to record the margin deposit 400$/contract (400 $ x 10 contracts x 3lei/$)

Commodities Accounts =
Bank Account 12.000 lei

* November 30 - to record gains on futures positions
1000 barrels x (89,07 – 89,61) x 3lei/$ per contract

Commodities Accounts =
Profit & Loss Account 73.800 lei

- to record firm commitment to sell
10.000 barrels x (129 - 125) x 3lei/$:

Profit & Loss Account =
Firm commitment 60.000 lei

* December 31 - to record gains on futures positions
1000 barrels x (90,42 – 89,07) x 3lei/$ per contract

Commodities Accounts =
Profit & Loss Account 40,500 lei

- to record firm commitment to sell
10.000 barrels x (129 - 127) x 3lei/$:

Profit & Loss Account =
Firm commitment 60.000 lei

- to record withdrawal of gains and the margin deposit
73.800 + 40.500 + 12.000 = 136.300 lei

Bank Account =
Commodities Accounts 136.300 lei

- to record sale of 10.000 barrels of gasoline at $125 per barrel

Accounts receivable =
Sales revenues 1.250.000 lei

- to reverse firm commitment balance and adjust recorded revenues

Firm commitment =
Sales revenues 120.000 lei

4. Conclusions

Hedge accounting applies to recognized assets and liabilities, but also for unrecognized firm commitments

In absence of hedging the firm sales commitment would not be recorded on the balance sheet.

All derivatives are to be shown at faire value on the balance sheet as either assets or liabilities, depending on the specifics of the contract

The accounting for change in fair value of a derivative depends on whether the derivative has been designated as part of an effective hedging relationship.

5. Bibliography

[1] Nielsen, LT – *Pricing and hedging of derivative securities*, Oxford University Press, 1999
[2] Steinhherr A, Folkerts-Landau – *Derivatives: The wild Beast of Finance,* John Wiley & Sons, Inc, 1998
[3] Trombley, M – *Accounting for derivatives and hedging*, McGraw-Hill, 2003
[4] Van Greunic H, Brajovic Bratanovic S – *Analyzing and managing banking risk*, IRECSON, Bucharest, 2004
[5] Van Greunic H – *International financial reporting standards – A practical guide*, IRECSON, Bucharest 2005

Actuarial Accounting – the New Dimension of Accounting

Botea Elena Mihaela
Stănilă Oana Georgiana
Sahlian Daniela Nicoleta
The Academy of Economic Studies, Bucharest
mihaela.botea@yahoo.fr
gostanila@yahoo.com
daniela.sahlian@gmail.com

Abstract

Starting from the international convergence and reseat of accounting as a general rule and actuarial accounting particularly context, this thesis wants to be part of the harmonization world movement, of the research and application of new settles, bringing forward for the insurance and private pension experts an entire set of good aspects and specific applications.

The goal is to offer practical alternatives in accomplishing financial reports, in estimation, recognition and evaluation of premiums and technical reserves belonging to the insurance and private pension field.

The study is based on the experience and casuistry of the national and multinational companies that perform in the wide area of insurance and private pensions.

The thesis brings originality through the new concepts used that form the content of actuarial financial accounting, and the high value of the research is produced by the new approach of the accounting based on actuarial calculations, which is a beginning in Romania, lining up to the international accounting research.

Key words: Actuarial calculation, gross/net premium, fructification factor, current value, commutation-number, mortality table.
J.E.L. classification: M41

The XXI century, century described by convergence and harmonization, defines itself by starting the bases of actuarial accounting, based on: actualized values and actuarial calculating.

The actualized and stocked value represents a present estimation of the value, depending of the future benefices fluxes that will appear during the activities that means bringing to date a value that will became **available** later. As the IASB general frame says, the actualized value is defined trough the future cash flows at the present time, the basic principal being " money earned today have more value that the money earned in the future" .

Actuarial accounting finds it self at its best in the insurance system. In the market economy, insurances represent, on one hand, a business and citizens money protection device, and on the other hand a commercial activity that generates profits. In this context the enterprise as an independent element of the economical system interacts with the business partners, with the different level budgets, with the stock owners and other subjects, process that conditions the economical relations. In this case, the role of accounting is to assure with true and impartial information all the user, especially the enterprise owners and the stock investors.

With the help of actuarial accounting:

- We can measure and register possible variables of the **interest** rate and the inflation rate
- We quantify in monetary terms the risk of the economical activity
- We use the actuarial calculation for estimating, evaluating and recognizing the wealth and profitability

This type of accounting uses the actuarial calculations for maximizing the enterprise value.

The concepts of actualized value, current value and future value, insurance rate**,** voyager fructification factor, mortality tables, commutation numbers, technical backup,

mathematical backup, solvability, margin of solvability, insure risk, risks management, actuarial calculations, covering accounting against risks, time periods, immediate/delayed payments/incomes.

1. Actuarial accounting types regarding the estimation, recognition and evaluation of the life insurance rate.

In life insurances the preoccupation of the insuring is to obtain the stability of the activity financial results. He must work so that he will cover entirely; based **on the collected insurance rate,** the obligations he has for the insured ones. The insurance rates must also cover the expenses regarding the signing of the contracts, the purchasing of the insurance, etc. because of this the technique used to calculate the insurance rate and the mathematical backup is very important.

At the base of calculating life insurance rates stands the principle of a person's loss, who suffered in the result of the insurance case, among more insured persons, that have not suffered any loss. The payment for the case that came up are made from the fund formed by all the insured as the result of paying the insurance rate. The quantum of the insurance rate represents the expected value of the insurance payments which belong to an insured person on the entire duration of the insurance. The insurance fees, in form of insured sum, belong to the insurance company and are made, in the case of life insurances, as the result of the decease of the insured during the insurance period or his/her survival until the end of the contract period.

So, to calculate the insurance rate we need to know: the number of deceased, the number of the survivors and the current value of the sum that will be paid (the sum that must be obtained by the insuring part from the insured persons, so that it could cover the future payments in case of death or survival at a certain age, with the condition that the incoming sums will be invested, that means fructification)

It results that to calculate the insurance rate, we start from the data that we obtained fructifying the insurance founds, and also from the mortification table of the analyzed country.

2. The fructification of the insurance founds

So that he can honor the obligations regarding the payment of the insured sum in case of death or at the end of the period (survival), the insurance company creates for it self, based on the incomes from the insured persons, a fond that, fructified as a bank deposit or other placements in the economical circuit, revenues. These profits are taken in consideration when we calculate the size of the insurance rate and depend on the insurance rate value existing in the fond, on the period of time in the economical circuit and on the fructification factor.

The fructification of this founds has as basic principal the composed interests. In the end of every year, at the initial sum deposited by the company it's added afferent interest, which is also fructified in the next period in the same conditions. That means it remains at the disposition of the credit institution, and it also produces interest.

2.1. Determination of the final value by using the fructification technique

A sum of money deposited in order to be fructified on a period of n years, at the end of the cretin period, it becomes:

$$S_n = S_0 (1 + i)^n$$

where:

S_n - the sum obtained after fructification;

S_0 - the sum deposited in order to be fructified;

$(1 + i)$ - fructification factor ;

n - number of years on which the sum was deposited to be fructified.

Example:

A 25 year old person concludes insurance through which over 10 years, if he is still alive, he is going to receive the sum of 15.000. The interest rate is 10%.

- For the survival insurance due in 10 years the sole net insurance is the following:

$$P_{nu} = S \cdot \frac{D_{x+n}}{D_x} = 15.000 \cdot \frac{D_{35}}{D_{25}} = 15.000 \cdot \frac{3.311,70569}{8.777,62631} = 5.660 lei$$

Accounting registering

- unique prime subscription

5660 lei	401	=	701	5660 lei
	Accounts receivable regarding life insurance		Revenues from total life insurance rate	

- cashing prime through current account

5660 lei	5441	=	4011	5660 lei
	Bank accounts concerning life insurance		Accounts receivable regarding due life insurance rate	

- if the sum corresponding to the insurance was
- deposited in a bank for the same interest percentage and period of time, then when it is due the following sum would be gained:

$$SF = 5.660 \cdot (1 + 0,1)^{10} = 14.680\, lei$$

The sum gained by bank deposit fructification is smaller than the one gained by buying survival insurances. For the respective person, concluding survival insurance is more advantageous.

2.2. Determination of the actual value by using the actualization technique

In the world of insurance, the determining of the present value of a sum which will be paid or recovered over a certain number of years is of grate interest. In other words, we can calculate the sum that needs to be deposited for fructification in the present, at a certain interest rate, so that over a certain number of years it reaches the staked level:

The present value S_0 is calculated by the actualization technique as following:

$$S_0 = S_n \cdot \frac{1}{(1+n)^n}$$

By noting the actualization faction as $v = \frac{1}{(1+i)^n}$ the actualization formula for one currency unit becomes:

$$S_0 = S_n \cdot v^n$$

where: v^n - represents the actual value of 1 leu which will be paid or recovered over n years, having the interest rate *i*.

The actualization factor shows what sum has to be invested with an effective rate of the interest *i* in order to gain the sum of 1 leu over one year

Example:

An insurance company wishes to dispose of a sum of 1.000 lei over 5 years, by deposing a sum X in a credit institution where the interest rate offered is 5%.

To do this, the determination of the actualized sum of 1.000 lei, is necessary:

$$S_0 = S_n \cdot \frac{1}{(1+n)^n} = 1.000 \cdot \frac{1}{(1 \cdot 5)^5} = 784\, lei$$

Consequently the company has to monthly deposit the sum of 784 lei for fructification, with an interest rate of 5%, so that over 5 years it will dispose of a sum of 1.000 lei.

3. Tables of mortality and commutation numbers

Tables of mortality and commutation numbers contain a series of demographical indexes determined based on the data on the number of survivors and deceases, birth years and ages for men and women and both genders, they can also be laid down on demographical regions or social-professional categories. Because of certain necessities, starting from general (complete) tables of mortality, or using estimation functions, abbreviated tables are made, meaning tables for different age intervals (for example from 5 to 5 years). In order to facilitate the study and use of the table of mortality in calculating the insurance rate, the actuarial science uses an International Actuarial Symbolization System.

The calculating of the insurance rate in life insurances necessitates the use of the demographic indexes of the table of mortality, as well as the data regarding the value of the actualization factor obtained in the financial actuarial tables. In the actuarial practice it is desirable to estimate the insurance rate tariff for each age and the duration of the insurance accepted by the insurer, which contributes to the performing of some huge arithmetic operations based on big volume data series.

In order to simplify calculating the insurance rate tariff, the life insurance technique use a series of auxiliary measures, known as commutation values, which are enlisted in the table of commutation numbers. These values are obtained by combining indexes enlisted in the tables of mortality and financial actualization. Thus the replacing of the digits with different values from this two tables is done and their aggregation in a single table.

The predetermined calculus from the table of commutation numbers take in consideration a basic insured sum equal with one.

Table 1. Commutation values obtained with the number of the survivors $[l_x[$

Formula	Formula explanation
$D_x = l_x \times v^x$	The actualized value of the product between the number of survivors of x years of age and the unitary insured sum.
$N_x = D_x + D_{x+1} + ... + D_\omega = \sum_{t=x}^{\omega} D_t$	The actualized value of the product between the total number of survivors and the unitary insured sum..
$C_x = d_x \times v^{x+1}$	The actualized value of the product between the number of deceased persons of x years of age and the unitary insured sum.
$M_x = C_x + C_{x+1} + ... + C_\omega = \sum_{t=x}^{\omega} C_t$	The actualized value of the product between the total number of deceased and the unitary insured sum.

4. Example regarding life insurance rate's estimation, evaluation and recognition

A 30 years old person contracts a life insurance with the AVIVA insurance company corporation, through the insurance agent Ion Marian through which he is going to receive the sum of 2.000 lei at the end of each year for the rest of his life. In the insurance agent contract concluded between the insurance company and Mr. Ion Marian the commission stipulated was of 10% of the collected insurance rate. In these conditions:

- The sol net income money is:

$$P_{nu} = S \cdot a_{30}^{P} = S \cdot \frac{N_{x+1}}{D_x} = 2000 \cdot \frac{N_{31}}{D_{30}} =$$

$$= 2.000 \cdot \frac{50.418,87600}{5.403,27964} = 18.663\, lei$$

Accounting booking

- Insurance rate subscription

18.663 lei	4011	=	701	18.663 lei
	Accounts receivable regarding life insurance rate		Revenues from total life insurance rate	

- The collecting of the insurance rate through the current account at the bank through the insurance intermediates.

18.663 lei 54411 = 4041 18.663 lei
Lei bank accounts concerning life insurance — Accounts payable dueto intermediary life insurance rate

- Insurance rate discount collected through insurance intermediates with the company

18.663lei 4041 = 4011 18.663 lei
Accounts payable due to intermediate concerning life insurance rate — Acc. receivable regarding life insurance rate

- Booking the owed commission to contract and collect the insurance policy (10%*18.663)

1.866 lei 62612 = 4221 1.866 lei
Bank fees and other charges — Accounts payable concerning life insurance rate

According to the effectual legal stipulations, out of the commission of the insurance agent, the company calculates, retains and transfers to the state budget a percentage of 10% representing anticipated tax.

- Retaining the tax (10%*1.866)

186,60 lei 4221 = 4441 186,60 lei
Accounts payable due to intermediate concerning life insurance rate — Payroll tax fee for life insurance rate incomes

- Tax payment to the state budget

186,60 lei 4441 = 54411 186,60 lei
Payroll tax fee accounts concerning life rate incomes — Lei bank for life insurance

- Paying the net commission for the insurance income (1.866 – 186,6 = 1.679,4)

1.679,40 lei 4221 = 54411 1.679,40 lei
Accounts payable due to intermediate concerning life insurance rate — Lei bank accounts concerning life insurance

5. Conclusions

The main problem that appears in the Romanian specialized literature in that at the moment we can not talk about actualized accounting, personalized as evaluation, recognition and calculus system.

This is why the applicative value of the paper consists in elaborating a new concept – the one of the actuarial accounting – which will contribute to perfecting the methodological base of the accounting of the insurance companies in Romania, which will allow:

- Only including in the insurance organizations income the quota of the insurance rate obtained form direct insurance and reinsuring gained, this way the cases of information distorting in the financial reports settled by this economic agents will be excluded;
- A better risk estimation in insurance, which will make the information presented in the financial situation come closer to the truthful image principle;
- Bigger stability of the financial results of the developed activity, as a consequence of the full covering of the obligations towards the insured as well as the expenses related to contracting and insurance rate collecting, from the insurance rate income;
- The use of the fructification and actualization techniques in detriment of the final value and the actual value;
- Taking in consideration ,in order to establish the insurance rate, the number of deceased, the number of survivors, the current value of the sum which will be paid in the future (the sum needed to be collected by the insurer from the insured persons in order to cover for future payments in case of decease or survival at a certain age, with the condition that the collected sums are to be invested, meaning fructified);
- The use of tables of mortality and commutation numbers for a better estimation of the insurance rate;
- The use of the "pro rata temporis" method by the Romanian insurance organizations for calculating the not gained insurance rate reserve at the end of the fiscal period. The use of this method improves the exactness levels of the actual won income calculus from the insurance activity in the managing period, except the case when the insurer doesn't dispose of means in the not

gained insurance income reserve, in the contract action period, and guaranties to fulfill the obligations undertaken according to the conditions stipulated in the insurance contract.

6. Bibliography

[1] Epstein B.J & Mirza A. (2005) IFRS 2005 – *Interpretatation and aplication of IAS / IFRS,* Bucureşti, BMT.

[2] Cenuşă G., Burlacu V. – *Mathematics for insurance*, Ed. Teora, Bucureşti, 2000.

[3] Ciurel V. – Insurance and reinsurance , Ed. All Back, 2000.

[4] Daykin C.D. – *The Developing Role of the Goverment Actuary's Department in the Supervision of Insurance*, vol.119, part II, no.473.

[5] Daykin C.D., Pentikainen T., Pesonen M. – *Practical Risk Theory for Actuaries,* Chapman&Hall, 1993.

[6] Dobrin M. - *Insurance accounting,* Ed. Bren, Bucureşti, 2005.

[7] Gart A., Nye D.J., Harrison C.M., Gibbons R.J., - *Insurance Company Finance and Investments,* Insurance Institute of America, Malvern, Pennsylvania, 1994.

[8] Murray A, Gohil H., Buckley K., Burke J,- *Mind the GAAP: Fitch's view on Inssurence IFRS* –Special report Fitch Ratings, may 2004

[9] *** Accounting reglemantations concerning insurance domain

[10] http://www.cea.assur.org/
http://www.actuaries.org/
http://www.jia.com/

External Debt – Evolution Trends

Botescu Ion
"Ovidius" University of Constanta, Faculty of Economic Sciences
ion_botescu@yahoo.com

Abstract

The deficit of the balance of payments, the governmental expenses larger than the budget incomes, the excessive consume of the population, the needs of national economic restructuring etc represent many motives for applying for external credits.

If the economically advanced countries have enough resources to sustain external debt, for developing countries the debt proves it's self to be a true difficulty with grave perspectives of development.

Besides the presentation of the evolution of external debt, in this material I have inserted a series of aspects meat to complete the problematic in this field. Aspects such as the asymmetrical repartion of risks between debtors and international creditors, the actions that debtors can resort to when having difficulties in paying external debts and the rigors with which they have to comply when applying for financial assistance from the IMF.

Key words: external debt, the service of external debt, level of debt, World Bank, International Monetary Fund
J.E.L. classification: F34

1. Introduction

In order to assure the necessary financial resources, states can obtain external lending or they can make internal debts. The difference between internal debt, that represents a transfer of resources in the interior of a country, and external lending is that the resources are transferred from abroad, making a contribution to the creation or increase of capitals that can sustain economic growth. It is necessary that states decrease the sums of money borrowed from foreign creditors and that they use this money for restructuring their economies, so that they can pay back the credits and interests.

Comparable to FDI, under some aspects, external credits bring more advantages because in the case of correct utilization they generate enough money for paying back the foreign creditor and for the creation of profit for that country. Moreover, the state or internal debtor keeps control over the phenomenon over which they have applied for the credit. On the other hand, in case of FDI, multinational companies depending on how they administrate their business more or less risk losing their own money.

2. The evolution of external debt

The most affected countries by external debt are the developing ones. The evolution of the weight of the external debt in the GDP and the weight of the external debt in the total debt is determined by the trends recorded on economic growth in some parts of the globe, but also on the overall global economy. According to statistic data of the weight of the external debt in the GDP and of the weight of the external debt in the total debt, for developing countries there are recorded reductions in the years with economic growth (2000-2007) and increases in periods of recession caused by local crisis (the Asian crisis of 1997) and the global crisis of 2008.

Many developing countries have accessed 30-40 years ago, substantial credits, sometimes disproportionate with their economic powers or economic growth perspectives. Moreover, external creditors have pushed the governments of less advanced countries to borrow money that they didn't really need or that didn't have any real perspectives of reimbursement. The principle was if a country accesses and consumes an external the credit, the bigger it is the better. We have to keep in sight the material advantages that the members of the cabinet and their connections can have and

the positive position of the voters. Obviously, the reimbursement of the credits will fall on the shoulders of future governments along with all the unpleasant things that will come with it. More grave, are the situations of the type of Ethiopia, when in the years '70-'80 the president Mengistu Haide Marian with the money came from external credits bought weapons that he used in suppressing political opposition. Fortunately, the instauration of democracy brought to power those who escaped Mengistu's bullets and the new government was forced to pay back the external debt.

The risks determined by the evolution of the exchange currency, the unfavorable dynamics of export prices, the increase of interests on an international level have a huge impact on debtor countries, respectively on developing countries.

There are cases of countries less economically advanced that have correctly measured the accessed external credits and that have had goodwill regarding the financial institutions, but for reasons no depending on their will have nor recorded the forecasted economic growth and have had problems in paying the credits back.

The factors enumerated above, and not only, have put especially the poor countries in the situation of not being able to fulfill international financial obligations, with grave consequence on their economic development perspectives and on the living standard of their people.

From the perspective of its evolution, the external debt of developing countries (128 states) has increased from the year 2008 with 2008% comparable with the year 1990. Increases well above the average have recorded the developing stated in Europe and Central Asia (984%) due to reduced initial level of external debts and the major need of financing of the restructuring of centralized economies. At the opposite pole we can find the poorest area in the world Sub-Saharan Africa with increases of borrowing of 11% due to the big level of debts that characterized many of the countries in the begining of the '90s.

The evolution of external debt in developing countries
- billion dolars-

Table no. 1

Years / Category of countries	1990	1995	2000	2004	2005	2006	2007	2008
Eastern Asia and the Pacific	234	456	497	586	633	668	750	772
Central Europe and Central Asia	129	290	432	639	712	893	1243	1399
Latin America and the Caribbean	423	598	733	802	736	731	839	894
Middle East and Northen Africa	119	140	117	148	139	130	141	131
Southern Asia	126	152	161	193	188	217	288	326
Sub-Saharan Africa	176	236	211	237	214	171	189	196
Total developing countries	1207	1872	2152	2606	2622	2810	3450	3718

If we view things through relative indicators we can say that even though the external debt of developing countires has increased by 3 times, we can say that the trends have been positive.

The level of debt (the weight of the external debt in the GDP) for developing countries has decreased for that interval of years from 29.5% to 21.3%. With only one exception, all the developing area of the globe have seen reductions in external debt. This indicator has fallen from 35.4% in 1990 to 13.6% in 2008 in the case of Eastern Asia and the Pacific, from 39% to 21% in the case of Latin America, from 76.7% to 11.7% for the Middle East and North African from 31.5% to 21.2% for Southern Asia and from 59.6% to 19.8% in the case of Sub-Saharan Africa. The exception has been the developing countries of Europe and Central

Asia, respectively the countries that in the beginning of the '90s gave up the socialist planned economy.

According to the World Bank, the weight of the external debt in exports, that represents the capacity of a debtor state to generate income in a foreing currency sufficient for the reimbursement of it external debt, has known in the past eight years a permanent favorable evolution for the general view of the developing countries and for each zone in particular, the lead being given to Sub-Saharan Africa with a reduction from 180.6% to 48.6%and Latin America and the Caribbean with a reduction from 159.1% to 80.8%.

Regarding the weight of the service of the external debt in the GDP, in the interval 2000-2008. The developing countries from Europe and Central Asia have seen a relative constant evolution of around 18%. But the situation is to be appreciated for all the other zones, especially for Sub-Saharan Africa and Eastern Asia and the Pacific with reductions of 3.4 and 2.9 times respectively. The positive evolution of the two zones is mainly owed to the PRESCRIPTION of the debts of these countries and to the economic successes registered by China.

The globalization of the financial crisis has led to the deterioration of many indicators for many of the worlds countries, due to the amplification of financing needs doubled by a negative economic growth. The external debt, at a global level has grown from 38.170 billion dollars in 208 to 59.600 billion dollars in 2009, while the global GDP has been reduced from 60.500 billion dollars to 58.060 billion dollars.

With all these evolutions, in part satisfying for developing countries, in the last years there have been recorded significant increases on the amounts of money not paid on time to foreign creditors by poor countries.

We have to state that in all the six zones put into question, the weight of the external debt in the exports is less than the level of 20%. Any increases over this level by a country or by a group of countries, raises questions over the potential of the respective entity to support the costs generated by external debt.

The external debt of developing countries at the end of 2008

Table no. 2

	External debt			**The service of the external debt**	
Zone	Billion USD	Weight from PIB	Weight of exports	Billion USD	Weight from exports
Eastern Asia and the Pacific	772	13,6%	30,9%	97	3,9%
Central Europe and Central Asia	1399	36,2%	93,3%	279	18,6%
Latin America and the Caribbean	894	21,0%	80,9%	155	14,0%
Middle East and Northen Africa	131	11,7%	33,3%	21	5,3%
Southern Asia	326	21,2%	74,7%	37	8,4%
Sub-Saharan Africa	196	19,8%	48,0%	13	3,3%
Total developing countries	3718	21,3%	58,6%	602	9,4%

Over the years, there has been a general opinion that external debt is linked with developing countries, maybe because of intensed discussions in the media, linked with the difficulties encountered by some of them in the returning the borrowed sums. We should emphasize that in the year 2008, the weight of the external debt in the total of external debt, at a global level was of 90.3%. The external debt of the most important state in the world (USA) is only 2% smaller than the GDP of the country, just over the

substantial number of 13.000 billion dollars. The level of external debt, respectively the proportion of the external debt of country in its GDP is at least extremely worrying, in the case of many economically advanced countries such as: Holland (470%), The United Kingdom (426%), Switzerland (271%), Belgium (267%), Portugal (223%), Japan (205%) etc. These last numbers are regarding 2009 when the level of global debt was of 98%, with a powerful growth from the previous year when it was 63% on the background of an increase in the demand for financing of many countries affected by the crisis.

3. Resolving the difficulties generated by repaying external debt

In the case of many developing countries, external debt has proven to be hard to face. The difficulties concerning the payment of external debts and the payment of the service of external debt have become acute in the moments in which the respective countries were affected by external crises. In the next paragraphs there will be discussed the options that a country has when facing special problems in the payment of financial obligations to foreign financers.

The restructuring of external debt demands negotiations of the interested parties regarding the modifications of the loan terms. The desired effect is usually either the rescheduling of call dates on a longer period of time or the refinancing of credits in the cases where there have been reductions on the interest markets. The debtor government is this way avoiding not paying external financial obligations, that would generate doubts to foreign financers and amplify the difficulties in obtaining new loans with direct consequences over the welfare level of the populations. We have to mention that the restructuring of the external financial debt does not imply its reduction.

The obtainment of new external credits that are used to pay back the old ones, in the majority of cases weakens even more the financial situation of countries that resort to these measures instead of concrete and rational measures that can lead to the regulation of the external debt. In this way they postpone the ending, which is the incapacity of payment.

The erasing of debts is in general done for the poorest countries. The creditors that do not agree with this measure are: the IMF, the WB, the developed countries and extremely rarely the private banks. In the year 2005 a program of erasing the debts of 28 poor countries started. The result was the reduction of almost 70% of the external debts of the mentioned countries. In other cases, the erasing of the debts was made due to political reasons. Egypt and Iraq benefited from the annulment of debts, especially to American creditors, due to the Golf war, respectively the military intervention in Iraq. When annulling debts, the actions must be backed by good judgement because they concern countries that due to objective reasons cannot be able to pay their foreign creditors and not due to a bad administration of the money. On the other hand countries that have made efforts to pay their debts find themselves feeling discriminated, being stimulated in accumulating even bigger debts with the idea that they will be erased in the future.

The refusal to pay external debt has an ilustation the case of Argentina. On the background of an economic growth and through the recommendations of the IMF, Argentina welcomed the trust of foreign creditors, that by pumping money in the country only managed to increase consume. The financial crisis in Asia fastened the fall of the Argentinian economy. The delays in payment were no surprise to the main foreign creditors. The novelty element was the refusal of Argentina to sign a new agreement with the IMF that have meant that besides the obtainment of new external loans, necessary for paying the external creditors, also the obligation of the Argentinian government of some conditions that in fact had represented the premises of the crisis in the country. The Argentinian government considered that a new agreement with the IMF would have had some minor positive effects, on a short term, but on a medium and long term the population would have had suffered. The acutization of the Argentianina crisis towards the end of the year 2001, determined the stopping of the effectuations of payments in the cont of the external debt. Affirming it wishes to pay the external debt, but saying that it doesn't dispose on the necessary resources in this sense, the Argentinian officials called the external creditors to the table of negotiations.

Aware of a possibility of a total loss, the vast majority of creditors accepted the reduction with approx. 2/3 of the sums that the Argentinian state had to return. In a similar situation, maybe even graver, is now Greece. As a member state it seems that Greece has the advantage of more goodwill from the part of international creditors. We also have to take into consideration that in a more globalized economy, an attitude towards not paying external debts can have for the country major repercussions in the area of FDI attraction, participation at world exports, economic growth etc.

On the other hand neither do the international creditors action in the direction of „destroying" the debtor state, because a crisis in a certain area can spread generated effects not taken previously into consideration due to the multiple interdependencies that exist on a global level.

As previously mentioned, the poor countries are the ones who encounter problems when reimbursing external debts, therefore applying for financial assistance from financial institutions. This is the moment in which the respective countries meet the rigors of the IMF. Practically these countries are depending on the IMF, having to increase budget incomes (new taxes or the increase of existing ones) and to reduce expenses, increasing this way their liquidities. Respecting the IMF conditions can have negative on a healthy economic development and of the population's life standards. Sometimes there are emphasized aspects concerning the weakening of national suveranity.

The renegotiation of the external debt of a state revolves around a significant number of creditors: both in state and private institutions. Everyone wants to recover its money as fast as possible while taking into consideration the interests of the other creditors. In the scope of interest harmonization, the creditor states reunite regularly in the Paris Club and the creditor institutions in the London Club.

Over the years the idea that the concept of external debt is linked to developing countries has been accredited, maybe because of intense media discussions, linked with the difficulties that some of the have had and still have in returning the borrowed sums. In the year 2008, the weight of the external debt of developed countries in the total of external debt was of 90.3%. The external debt of the most powerful state in the world (USA) is only 2% smaller than its GDP, overcoming not by much the substantial number of 13.000 billion dollars. The graced of external debt, respectively the weight of the external debt of a state in its GDP, is at least very worrying for many of the economic advanced countries like: Holland (470%), the UK (416%), Switzerland (271%), Belgium (267%), Portugal (223%), Austria (212%), Japan (205%) etc. These last numbers stand for the year 2009 when the global level of debt was of 98%, in strong growth from the previous year when it was only of 63% on the background of the growth of financing demand came from by the countries affected by crisis.

4. Conclusions

Logically, the developing countries need financing under diverse forms from advanced countries in order to catch up on the gaps that separate them. Paradoxically, in the last years due to returning the received loans and the payment of the service of external debt towards developed countries, the capital flow that comes from developing countries towards the developed ones has become bigger than the sums that go in the opposite way.

We can affirm that for the transformation of external credits into true development engines, the debtor states must assure: a well fundamented and stable legislative regime, a competitive government from a professionally and morally point of view, investments in infrastructure, the orientation of a segment of the national economy towards the manufacturing of products designed for exportation, etc. Only in this way can developing countries obtain through external credits the economic results that can on one hand allow the payment of external credits and their interests, and on the other to generate wealth in their own economy.

5. References

[1] Bari, Ion, *Globalizarea economiei*, Ed. Economică, Bucureşti, 2005
[2] Goldstein, Joshua, Pevehouse, Jon, *Relaţii Internaţionale*, Ed. Polirom, Iaşi, 2008
[3] Stglitz, Joseph, *Mecanismele globalizării*, Ed. Polirom, 2008
[4] www.worldbank.org

Dilemmas in the Banking Laws

Botină Mădălina
Marin Marilena
« Ovidius » University of Constanta
Faculty of Law and Administrative Sciences
madalinabotina@yahoo.com
marilenamarin@yahoo.com

Abstract

Although they have gained important experience in the 20 years following the passage to a market economy, banks remain vulnerable to criminal attacks and are defeated by judiciary errors. On the other had, life shows the impressive number of facets of a bank manager's responsibility. In addition to all these issues, banks also face numerous dilemmas in the juridical relationships they establish.

Key words: bank manager's responsibility, bank dilemmas, judicial error
J.E.L. classification: G21, K19

1. The countless facets of a bank manager's responsibility

"*Just remember this: if bankers were as smart as you are, you would starve to death.*"
(Henry Harfield, Esq of the New York Bar)

A bank manager's responsibility differs from that of other professionals, is a guarantee offered to the public in exchange for the trust received, the prerogatives acknowledged and the dominant position held in the money trade.

Banks are intermediaries between those who need money and those who own money, and the bank manager is a speculator in money and credit.

The act of receiving money from the public and using it on his own account involves a certain risk, which explains the nature of his responsibility.

The bank has a contractual responsibility towards its clients and a delictual responsibility towards third parties. A bank manager's responsibility is first of all that of the bank as juridical person and his own, as moral author, for the mistakes made by the suspected during the commission of their duties.

Following a natural evolution, a bank manager's responsibility has passed from the general regime of civil responsibility to professional specific responsibility, which acquires new dimensions.

At present, the bank manager's responsibility is not confined to paying for the damage his client suffered because of him but also comes to cover other types of damage with the promotion of the precaution and prevention principles. The obligation of organizing money trade has become much more of a technicality.

Doctrine has put forward the idea that the bank manager is the instrument of a public credit distribution and regulation service. There has thus been a transition from the bank manager responsible for the money entrusted to him and the bank manager responsible for what he finances or refuses to finance.

The centre of gravity of this responsibility expresses the tendency to move from common law to the responsibility function. The bank manager fulfils a social function, which justifies his acknowledged prerogatives but the moment he stops fulfilling this function his responsibility is engaged. Sometimes responsibility is not based on an undeniably culpable act, or even on connections between the bank manager's attitude and the damaging event. The bank manager emerges as the one responsible for not covering the damage undergone and thus becomes a sort of guard of an undamaging situation.

Banks are original enterprises, thus justifying the derogatory laws that apply to them. For instance, the stopping of payments and the insolvency procedure have derogatory dispositions as compared to common insolvency law.

A bank manager's responsibility is complex because although it follows in all cases from not fulfilling an obligation, this is sometimes not manifest enough, either because it is very far from a bank manager's activity or because it is proved on the basis of some latent obligation. His responsibility is thus complex and under certain aspects paradoxical.

The main domains of a bank manager's responsibility are:

1) refusal or interruption of crediting;
2) reckless credit;
3) not respecting formalities;
4) prudential surveillance;
5) following the clients' orders;
6) returning the assets received;
7) confidentiality;
8) informing the clients and guarantors as well as third parties;
9) counselling;
10) optional information;
11) secondary obligations and so on.

2. Bank dilemmas: The contribution of the mortgaged building to social capital

"The knowledge of the Law is like a deep Well out of which each man draweth according to the strength of his understanding."

(Sir Edward Coke, 1552-1634)

The bank's client is under an obligation to return the credit guaranteed by means of a mortgage on a joint ownership building. The joint-owner spouses intend to use the building as contribution to the capital of a trading company. Can the bank oppose this contribution?

Subject matter: the Civil Code, Article 1746 line (1), Article 1790-1794, Article 1802-1803, Law Nr. 31/1990 Article 16 line (2), Article 83.

Through contribution, the right of ownership over the building is transferred to the trading company. The rent roll only records the operation on sheet B, without influencing the contents of sheet C, where the mortgage is recorded. The mortgage creditor preserves the right to bring an action concerning the building, even after it has become the property of the trading company.

The right to prosecute, as a collateral preservation instrument, fulfils three functions:

a) it allows prosecution to any of the future owners, who are conditioned by a *propter rem* duty, also maintaining the credit receiving debtor, as a person involved in debt.

b) the law can be enforced without the need to render the property inalienable within the same property.

c) the exclusion of chirographic creditors in the instance of enforcement procedure.

By means of contribution, the trading company gets the right of ownership saddled with the mortgage. It has the possibility to use the mortgage purge offering to return the credit to the bank up to the value of the contribution, determined in the contract or the capital increase act. The bank is under no obligation to accept the purge offer.

- **Mortgage specialization**

"Let all the laws be clear, uniform and precise. To interpret laws is almost always to corrupt them."

(Voltaire, 1694-1778)

Article 1776 line (1) of the Civil Code: "conventional mortgage can only be valid if the sum for which the mortgage is made is determined by the act" (the principle of specialization).

Using mortgage to ensure that that debtor who managed to open a bank account will fulfil his obligation must take into account the specialization prerequisite, even when the obligation to return the money has not yet emerged because the funds have not been unfrozen. Nevertheless, mortgage rank is considered starting with the date of the mortgage contract.

The principle of mortgage specialization protects to the same extent the interests of debtor, creditor and third parties.

The debtor is protected against his own vulnerability because the only way he can constitute a mortgage is by means of specialization concerning each asset and the credit quantum, being thus motivated to keep the appropriate proportion between the desired loan and the required collateral.

The creditor's guarantee as ensured by the mortgage specialization gains in terms of certainty what it loses in terms of extent, the liquidation of specialized assets being easier to accomplish.

Third parties will gain advantage by being aware of the existence of the mortgage and the size of the debt they secure in view of contract with the debtor. They will assess the credit they can grant to the debtor taking into account the debt secured by means of the mortgage.[1]

An indeterminate debt quantum would inhibit third parties – hypothetical associates of the debtors – and would paralyse the debtor's ability to get into other debts that he can honour with the value of the same building.[2]

The question whether the specialization is clear enough remains to be appreciated by the judge of first instance, in the case in which it is disputed. Doctrine has put forward the idea that in our legislative system, where a debt is fixed when the parties give their consent, the lack of some indications can be supplied, thus avoiding the ratification of annulment.[3]

French doctrine is similar, being based on the same texts (Article 2132, Article 2146 of the French Civil Code).

The mortgage contract must mention the definite amount of debt, its means (natural, for instance) as well as the cause (for example credit opening or current account balance).[4]

The mortgage cannot be constituted as a whole, for all the debtor's debts, but only for some debts. The constitutive act must mention the cause and quantum of the guaranteed debt, which raises problems when the mortgage guarantees the opening of a current account credit.[5]

The mortgage creation conditions favouring the bank are those of common law, Article 2132 of the French Civil Code. The relatively rigid text fitted the specific nature of bank activities. Doctrine admitted that if the quantum of the guaranteed debt was known for sure, the only thing necessary was an evaluation when the mortgage was registered in order to meet the demands of the Civil Code. A mortgage meant to guarantee the final debt balance of the account could not be constituted without this flexibility.[6]

For debts that can only be determined, for example the opening of an account, a quantum evaluation is required, but for the sole purpose of allowing it to be recorded in the publicity register. Since this performance follows from the mortgage specialization, it is meant to inform and protect the constituent, but also serves the creditor as it deprives the debtor of the possibility of subsequently asking for the sum to be reduced.

The claim of some practitioners for mortgage specialization to go as far as one mortgage for a single debt cannot be justified. The principle of specialization is thus unjustly converted into the principle of uniqueness. On the contrary, the mortgage can guarantee several debts, including future debts, such as for instance the likely and future debt of the debt balance of a current account or account opening.[7]

3. Conclusions

In the case of short-term credit facilities, mortgage contracts no longer make reference to a specific credit contract, but only to the quantum of funds granted plus interest. The mortgage will guarantee the return of all credits, together with the respective interest, within the limits of the maximum ceiling approved. The principle of mortgage specialization (Article 1776 Civil Code) will thus be obeyed, because the guaranteed sum is determined, but the guarantee will also cover all the credit facilities that the bank will grant to the client for the following 15 years (Article 1776 Civil Code) within the limits of the ceiling, as long as the total value of the credit facilities granted to the client does not decrease. In the event of an increase in the course of the 15 years, new mortgage contracts could be signed, but only to guarantee additional facilities. Similarly, in the event of a decreased ceiling during the same 15-year interval, mention will be made in the additional act that the return is guaranteed by the initial mortgage. The third party, the mortgage surety (who provides real estate collateral to guarantee the fulfilment of the debtor's obligations) will expressly consent to the renewal of facilities, as well as to the preservation of the guarantee through an additional act to the initial mortgage contract.

4. References

[1] Dimitrie Alexandresco, *Explicaţiunea teoretică şi practică a dreptului civil român*, Tom X, Editura Socec & Co, Bucharest, 1911, pp. 596-599.

[2] Rosetti-Bălănescu, Al. Băicoianu, *Drept civil român, Studiu de doctrină şi de jurisprudenţă*, Vol. II, Editura Socec, 1943, p. 511.

[3] Matei B. Cantacuzino, *Curs de drept civil*, ediţia a II-a, Editura Ramuri Craiova, p. 589.

[4] M. Barthelemy Mercadal, *Mémento pratique Francis Lefebvre, Droit des affaires*, pp. 4815-4816.

[5] J.Y. Thomas, *Le droit du credit,* IV edition, Aengde-Dunod, 1992, p. 107

[6] Christian Gavalda, Jean Stoufflet, *Droit bancaire*, IIIe édition, Litec, 1997, p. 332.

[7] M. Cabrillac, C. Moulv, *Droit des suretes,* IV edition, Ed. Litec, 1997, p. 634.

Romania's Role in the New Global Security Architecture

Braşoveanu Florica
Lisievici Brezeanu Alexandru Petru
"Ovidius" University of Constanta, Faculty of Law
floriordache@yahoo.com

Abstract

Profound changes produced in the world by tilting the balance of power in favor of Western pole led to the design and construction of a new security architecture that reflects the new balance of power on regional, continental and global plane. Basically, we are witnessing a reconstruction of national and collective security system, where global interests prevail, being considered vital for the progress of all mankind.

The reconfiguration of the global security system is driven by new risks and threats to be countered by creating the appropriate legal framework and institutions to verify and enforce compliance with the principles, rules and regulations adopted internationally.

Key words: international organizations, defense, alliance, states
J.E.L. classification: K11

1. Introduction

In addressing the concept of security and national defense we're considering a series of geostrategic tests that were favored by the evolution of international relations from confrontation to dialogue. These measurements are the result of the interference of large European or Euro-Atlantic world processes, such as dissolution of the bipolar structure of the security architecture and creating conditions for the multipolar structures, which, in turn, compete with the unipolar; integralist phenomena manifest in all areas, both in terms of states as subjects of international law and of the organizations and institutions, increasing the role of international security organizations to prevent and resolve, to reduce risks and enhance the conventional and unconventional threats, the opening of NATO enlargement process and adoption of new strategic concepts, firm option of states in Central and Eastern Europe for integration into Euro-Atlantic security structures.

2. The Matter Seat

Romania, European-oriented state, located at the junction of at least three areas of interest (U.S., Western European and Russian) expressed and acted in pursuit of two goals vital to national security and defense: North Atlantic Treaty Organization membership and integration into political, economic and military aspects of the European Union. Currently, the idea that security and national defense can not be achieved only within a system (political-military alliance or coalition), because the risks and threats beyond its borders of states and their possibilities to prevent and counteract them is clearly expressed.

The security system includes a set of principles, rules and knowledge about this area, adopted by a group of states, internationally recognized and institutions and instruments to monitor and enforce them. Romania has adopted the strategy of national defense and security through integration into European and Euro-Atlantic structures, which is the best way to promote and defend their own best interests.

Security and defense policy of Romania is part of the general state policy aimed at ensuring the promotion and protection of fundamental interests necessary for maintaining national identity, includes measures and actions in all fields, the relevant institutions to develop, promote and enforce the concepts and ideas allowing preservation of national interests. Security Strategy of Romania ensures the rights and freedoms of citizens, improving living standards in terms of their compliance with the rules of law and democratic institutions. In other words, it is

done for the benefit of citizen security and participation of ones interested and aware of it. Next higher level of individual security is the security of the group where the citizen operates to promote their personal interests (group) that must be in proper relationship with other social groups and at national level (higher level of security).

Romania's national security strategy is the option of the political factor on the directions and ways of action to promote and defend the fundamental interests and take into account the internal situation, the international security environment and opportunities to prevent and counteract threats.

The globalization of security threats requires a solution at the same level - overall - for the manifestation of a mechanism for effective, peaceful change , to identify and resolve the great problems of humanity: the removal of war in the sphere of international relations, general prosperity, providing resources, preserve the environment. Protection from the effects of the phenomena of globalization and at the same time, exploiting the advantages offered by this phenomenon by the small / medium, will be ensured by the integration into the European and Euro-Atlantic security. Integration into the social system means adapting these structures to the requirements of national security structures that we want to integrate, which cover all fields: political, diplomatic, economic-financial, social, demographic and military.

Throughout human existence, security and national defense, regardless of how these concepts have been formulated over the years, were mostly conducted by the alliance between two or more states, realized on multiple levels, as well as military coalitions. Human existence in general, organizational structures in particular, historically shaped up, determined individuals, peoples and states, regardless of their size, to be found in different stages and moments in a state of peaceful coexistence, but most often in conflict, and adversity caused by conflicts of interest. Objective or subjective nature of conflicts of interests that have evolved to the state of military confrontation, it is something almost impossible to estimate, analysts from different fields of social life in states with open conflict, even those in neutral countries, having different perceptions, some very subtle about their immediate cause or lasting effect.

A brief retrospective on the history of mankind shows that individuals, communities, peoples and nations, formed in pre-state and state parties have not lived in isolation, often alliances were formed to cope with situations created, acquiring, with traditional or short term allies, a greater force in the approach taken.

Security and national defense is conducted exclusively by a state's own forces and an exceptional situation, and isolation is a generator of risk, due, mostly,to objective causes.

The approach taken, result of a study on national security and defense issues in the context of a state belonging to the politico-military alliances and coalitions, is topical, given the new situation following the accession of Romania to NATO, and once integrated, since 2007, the European Union.

We considered necessary a conceptual overview of security issues, defense system, military-political alliances and coalitions. Documentation effort and focus in this paper was on the harmonious interweaving of the theoretical aspects of contemporary world realities, highlighting the place, role and steps taken internally and externally by Romania, by policy makers and political structures and military authorities,to get access to NATO and European structures.

Analyzing the problems of national defense and security, based on geopolitical and geostrategic developments in Europe and worldwide, we concluded that membership of a politico-military alliance and action within a coalition, where the general interests and national security so require, is an objective necessity.

Further, we strengthen what we have stressed in the paper that the position of neutrality and isolation is not a guarantee of security of a state but can be in some situations, sometimes, a more difficult obstacle to overcome for development on multiple levels. The claim is based on analysis of the political, economic and military states that have adopted such a position. With the exception of Switzerland, which enjoy a perpetual neutrality, most countries in Europe from the late 19th century until today have been forced, sooner or later, to join an alliance or coalition of

political-military to ensure national security and preserve national interest.

Showing some aspects of the legal bases of military-political alliances and coalitions, we wanted to highlight their lawful nature, their need for the formation and action in agreement with the UN Charter. Analysis of political and military alliances and coalitions to conclude that NATO is currently only able to manage crisis situations in different parts of the globe, work to ensure timely and effective global, regional and national Member States.

Organizations responsible with security concerns and actions (OSCE, WEU, EU) have in their structure NATO countries that have capabilities to work within the humanitarian and rescue missions, peacekeeping, crisis management and peace enforcement.

3. Conclusions

At the current level of organization, particularly in the military component (driving forces, resources, logistics), European security structures are not able to respond to major requirements of national defense and security, but to the tasks mentioned above.

Therefore, we believe that only an alliance or coalition military, currently NATO, is able to respond to such a type of goal.

This belief has led us to pay due attention to the place and role of NATO in the current global and regional security, which ensures national security of Member States and under Article 5 of the Washington Treaty, defence of Member States will be the result of joint effort.

Romania has acted in all the ways to join Euro-Atlantic security structures, obtaining NATO membership, as a result of the commitments undertaken by Plan Membership, and through practical action in various conflict areas and theaters of operations, making evidence that a state must not only be consumers of security, but also a credible supplier, timely, effective and even essential. We believe that security and national defense is not done within the borders of Romania, the defence of national interests is done in any place where they require, including by military actions in the spirit of UN Charter and international law.

4. References

[1] *** (2000). *History of political ideas.* Timişoara:Amacord

[2] *** (1982). *Consequences of the race social.economice înamărilor political economy.* Bucureşti:Editura Didactică şi Pedagogică

[3] *** (2002). *Nord Atlantic Treaty Organization.* Bucureşti:Agenția Națională de Presă Rompres

[4] *** (2002). *National Sovereignty and European integration.* Iaşi:Polirom

[5] *** (2003). *Romania and the Council of Europe (1993-2003)*. Bucureşti:Rompres

[6] Arsîntescu, M., Găinuşe, Ghe. şi Lustig, O. (1985). *Components of the national military doctrine*. Bucureşti:Editura Militară

[7] Bălan, E. (2003). *Public institutions.* .

[8] Beck, U. (2003). *What is globalization?*. Bucureşti:Editura Trei

[9] Cloşcă, I. (1988). *Intenational law and the prohibition of weapons of mass destruction.* Bucureşti:Editura Militară

[10] Cloşcă, I. (1980). *Settlement of disputes by peaceful means*. Bucureşti:Editura Politică

[11] Galiceanu, V. (2001). *Legislation on national defense, public order and national security.* Bucureşti:All Beck

[12] Grozea, T. (1987). *Implications of the military factor in international life*. Bucureşti:Editura Politică

[13] Mathieu, M. (2000). *Le pouvoir des medias*, Cerime Strasbourg

[14] Mihăilă, M. (2001). *Elements of public and private international law*. Bucureşti:All Beck

[15] Moreau-Defarges, P. (2001). *International relations since 1945.* Iaşi:Institutul European

[16] Munteanu, M. (2002*). Mysteries of 11 September and the new world order*

[17] Preda, M. (coord) (2002). *Policy in 2001 Romania*. Bucureşti.Nemira

[18] Rials, S. (2002). *Declaration of Human Rights and the Citizen*. Iaşi:Polirom

[19] Mazilu, D. *European integration. European Community Law and Institutions* – curs.

[20] Munteanu, R. *European Law. Evolution, institutions, legal order*, Editura Oscar Print, 1996

[21] Nastase, A., Aurescu, B., Jura, C. *Public International Law*. Sinteze pentru examen. Editura All Beck, Editia a II-a, 2000

[22] Niciu Martian, I. *Public International Law*, Editura Servosat, 2001

[23] Simon, D. *Le systeme juridique communnautaire*, PUF, Paris, 1998

Marketing in the Economic Crisis

Brunello Adrian
Petruşcă Claudia-Ioana
„Alexandru Ioan Cuza" University of Iaşi, Doctoral School of Economics
adrian_brunello@yahoo.com
petrusca_claudia@yahoo.com

Abstract

The current financial crisis has spread around the world and no business sector has stayed untouched. Some companies in different sectors have been forced to close down or lay off employees, companies while others simply have to adapt to their customers´ preferences which are continualy changing in times of financial crisis. When a financial crisis occurs, customers change their buying behavior. Therefore companies have to adapt their marketing strategies and particularly the marketing mix, to be able to satisfy the customers' new needs and desires.

The paper focuses on the main aspects which influence the elements of the marketing mix and marketing strategy a firm has to addapt in order to survive to the financial crisis.The purpose of this article is to examine how marketing strategies can meet the customers changing buying behavior in these times of financial crises.

Key words: financial crisis, marketing strategy, marketing mix, economic downturn, brand
J.E.L. classification: M310

1. Introduction

The global financial crisis began in American at the end of the 1990´s. In order to limit what was going to become an economical prejudice due to the declining of the American stocks, the Federal Reserve lowered the interest rates. This lead to a increase in the demand for houses and people started taking new mortgages to pay of the old ones. They were borrowing money, and at the same time as the industry grew, the mortgage quality went down. In 2006 the banks started to realize that people cannot pay off their loans with anything else than their own houses. Banks and investors started to sell these mortgage securities, not knowing that they were tainted with what nowadays is called toxic mortgages.

No business sector stayed untouched, but while it for example to the industrial sector, in particular the car industry means the end of their business, for other sectors such as the retail sector, it means that store chains have to cope with the buyers changing behavior. to Ang, Leong, & Kotler (2000) consider that people change their buying patterns during financial crisis and under stress. They start to worry about their jobs and do not enjoy spending their money anymore. The buyers change their buying behavior, as an effect of the financial crisis, so the companies have to change their strategies in order to meet the customers' new preferences.

Ang, Leong and Kotler (2000) state that companies have to adapt their marketing mix during financial crisis by concentrating on the necessary products of cheaper brands or even private labels, decrease the prices and use informative marketing instead of imagery-based advertisements.

At the moment there is a financial crisis going on, affecting basically the whole world and all business sectors. As a consequence, people are changing their buying preferences (Shama, 1978; Ang et al, 2000) and companies have to cope with this situation in one way or another.

There are some things that companies can do during a financial crisis (**Jean McIntyre,2008**):

- Invest in PR – people want to hear good news
- Go back and look at their database and find the value in their existing customer relationships

- Do some thorough research and find out what opportunities there are resulting from the crisis for products and services to meet new needs
- Invest in expert help from someone who knows how to do it – it's a wise alternative to losing everything.
- Don't panic – remember it's swings and roundabouts and if you are smart – you'll survive.

2. Brand considerations during financial crisis.

The marketing mix, or 4P´s, is the tool through which organizations operate their strategies and where the changes can be seen. We don't really know yet what the downstream impact of this current crisis will be but the question to ask is: "When the rain comes down which are the businesses that are going to stand?" It will be the ones that have made the effort to create strong customer relationships and build a brand that's well-known within their market. They will have a solid, integrated marketing strategy using a range of tactics designed to communicate the message of their 'unique selling proposition' to people ready to hear that message.

During difficult financial times, the strength of the brand is companies greatest asset(Wernerfelt,1994). A great brand is familiar, it speaks of integrity, character, quality, effectiveness, and reliability. Even during difficult times, people still want to do good, but they can become far more selective in their giving. That's when a strong brand story can elevate your organization above the many other choices donors have today. It creates a powerful sense of trust.

Regarding the brand, there are some elements that should be taken into consideration during a financial crisis (Kotler & Armstrong, 1996):

- **Brand Unity:** Make sure all your marketing and media tell the same story. Unify the story you tell to the public, and the result will be far more powerful.
- **Brand Quality:** This isn't the time to re-design your logo. Make sure the visual expression of your brand is contemporary, clean, and conveys the essence of your story.
- **Brand Connection:** Even when times are tough, this isn't necessarily the time to cut back on your media, advertising, or promotions.
- **Brand Conversation:** This is the digital age of the two-way conversation, when audiences, donors, and supporters want to have a voice. Give them that opportunity and do it on their terms. Know your donor file. Learn how they prefer to communicate
- **Brand Innovation:** What you really need is a fundamental re-think of what story your church or ministry is trying to tell, what that means to your target audience, how to connect with that audience, and why it's absolutely urgent they respond right now.

3. The implications of the marketing strategy.

When searching in the databases, many studies about management in recession can be found, but there is a lack of information when it comes to marketing and marketing strategies used during economic downturns.

Every company that has competitors must have a strategy. The purpose of the strategy is to create competitive advantage, if there is no good strategy, the company will not work well either (Kotler & Armstrong, 1996). A marketing strategy describes how the firm will fulfill the needs and wants of the customers. It could also include activities to maintain relationships with other stake holders. In other words, marketing strategy is a plan for how the organization will use its strengths and capabilities to match the needs and wants of the market (Ferrell & Hartline, 2002).

According to Porter (1985), to reach a successful strategy all focus should lie on the industry dynamics and characteristics. He meant that some industries were more attractive than others and that the factors driving the industry competition were crucial for profitability. Wernerfelt (1994) and Prahalad and Hamel (1990) on the other hand put the focus on the core competencies of the organization. According to them performance was mainly driven by the resource profile of the firm. Today's researchers like Hooley, (2008), instead discuss the Resource-based marketing, being a good middle course between the two previously mentioned strategies. In this approach both requirements of the market and the company's ability to serve it are taken into consideration, and the primer goal is a long-term fit between these two. By long-term it is not meant that the resources of the company should be fixed. On

the contrary, the market requirements are constantly changing and the profiles and resources of the organizations have to be developed in order to stay competitive (ibid).

But to be able to know what the market wants and what the company on the whole can offer them, they first of all have to analyze the current situation that they are in (Ferrell & Hartline, 2002). The issues to look at a: the Internal environment- including the organizational structure, resources and the company´s performance, further the customer environment- including current- and potential customers, purchase of products etc., and finally the external environment- the competition, economic growth and stability, political trends etc. When the situation is known and the strategy set, the company uses the marketing mix to operate their strategies in order to meet the customers' needs.

Especially important to look at when it comes to economic downturns is the previously mentioned external environment (Srinivasan, Rangaswamy and Lilien, 2005). According to Ferrell & Hartline (2002), the external environment is constantly changing and it is important that the marketing function understands the changes and knows how to act in them. Also Hooley et al. (2008) say that the marketing strategy is supposed to develop effective responses to changing market environments by defining market segments and developing and positioning product offerings for those target markets. Further, to be successful on a market, especially a changing one, companies have to use proactive strategies (Barwyse & Styler, 1999). They should not react on others events, but be the ones creating them.

Firms that view a recession as an opportunity perceive that they have control both over the situation and later outcome, and thereby continue investing. Organizations that instead see the recession as a threat have a lack of control over the situation and later outcome, and end up with conserving their resources (Kotler & Keller,2006)

4. Consumer buying behavior in economic downturns.

In 1963, Lazer introduced the consumer life-style analysis, which since then has been a very popular tool when it comes to marketing management decisions (Barwyse & Styler, 1999). Consumer buying behavior can be defined as *Process by which individuals search for, select, purchase, use, and dispose of goods and services, in satisfaction of their needs and wants* (Business Dictionary, 2009).

The psychological processing is about how consumers process new information, how they learn and what attitude they have towards changes. Important for this study will be the environmental influences where the financial crisis comes in as a "situation".

Financial crisis do not only hit the customers economically but also, and in the beginning mainly, psychologically (Hooley et al., 2008). People start to worry about their future, and do not enjoy shopping anymore (Ang et al., 2000). It might be that they for example do not want to spend money on premium products anymore, even if they still could afford to do so (Ferrell & Hartline, 2002). Moreover, in their study, Ang et al. (2000) and Hooley et al. (2008), found out that customers during the financial crisis in general become more moneyminded. They only buy necessities, switch to cheaper brands and have a more rational view on promotion.

As Kotler & Keller (2006) stated that successful marketing requires that companies understand customer value, create customer value, deliver customer value, capture customer value and sustain customer value. Thereby, as a consequence of the changes mentioned above, the companies have to reconsider their strategies that worked during good times and adapt them to the new situation.

The article called *The Ugly, Lasting Scars of Dying Recession* (2009) presents some changes in consumer behaviour during the financial crisis**:**

- **Cash is replacing credit**. Banks have reported increase in repayment of debt by customers and lowering the credit limits. So people have started shopping in cash and reducing usage of credit cards.
- **No more monthly repayments**. It has been noticed since early 2008 that consumers are now more focused on repaying the total amount of debt instead of striving to pay monthly amount.
- **Increased distrust among people**. The real estate marked ditched all time low rates. The baking system slashed lending enormously and increased interest rates. A

doubt arised and spread among the population.

- **People aren't brand loyal now**. With slashed income and increasing prices, people are attracted toward economical schemes and offers instead of sticking to a brand..
- **Big is modified to be small**. People are turning towards smaller things instead of bigger ones. Big is expensive, small is cheap and easy to maintain.
- **Decreasing sense of home-ownership**. The real estate rates were high in 2004-05. Since then, it's plummeting continuously. With the increasing fear faced by a home-owner, people have started opting to live in a rented house. The feeling of ownership no more entices today's consumer.
- **Regret and reuse**. Before recession, people splurged and purchased more than required. They regretted but this squander seems to be helping them now. They usually get things that are quite new but aren't used.
- **Less people eat out**. The idea of eating out is now obsolete. People do eat out now, but either at cheaper place, or ordering less food, or eating out only on few occasions. During recession, number of people carrying food to their workplace was highest ever.
- **More Greenery**. People all around the world are shouting "Go Green."
- **Less Wastage**. Undoubtedly, if you don't have funds, you won't buy useless stuffs, and obviously you wouldn't have anything to waste. This is, perhaps, the only consumer habit that's working in sync with the government and the environment.
- **Poor Health**. Unemployment brings tension, stress, and pressure. People turn toward drugs, tobacco, or alcohol to fight stress. Many save money by spending less in insurance.Frugality is good. But if it's evidently affecting your health, it's useless.
- **People have started bargaining**. People have started bargaining on everything, in retail stores, malls, online, etc. Hence, dotcoms like state-your-price websites are thriving these days.
- **People are now socially active**. Helping and supporting people is another fad these days. It's quite helpful to help some one because it improves social relations, which eventually is networking. Networking, being an integral part of business and corporate, is highly preferred.
- **Changing definition and gauging tools of success**. The focus has been shifted from money to satisfaction. People have started gauging success by the amount of satisfaction they derive from life instead of number of stocks and gold.

5. The importance of Marketing Mix in economic crisis.

It is quite common that managers and company leaders think that if they cut the costs they can also cut the prices and thereby save the situation (Barwise and Styler, 2002). When thinking in this way they are completely forgetting about the long term relationship that is supposed to continue when the economy recovers again. According to Roberts (2003) and Hooley et al. (2008), marketing is one of the things that companies should invest aggressively in during recession. Companies that increased their marketing spending gained market share three times as quickly after the downturn.

Srinivasan et al. (2005), explain in their work "*Turning adversity into advantage*", how an economic downturn through proactive marketing can become an advantage for some firms. According to their article, firms that continue investing in marketing even during economic downturns are not only better off after the downturn, but there are immediate returns as well.

In order to explain the way in which the financial crisis can affect the marketing strategy, it is important to analyze the its influence on the elements of the marketing mix (the 4Ps).

5.1. Product

The product (or service) is the base in all business activities. Products can be divided into two categories: consumer products, these are for personal use or enjoyment, and business products, these have been bought for resale or use in a business (Ferrell & Hartline, 2002).

While companies are selling a product, consumers are buying a solution or value (Barwyse & Styler, 1996). It is up to the company not only to offer this solution or value to the customer, but also to do it in a better way than the competitors.

Decisions about branding are some the most important that marketing managers can take. Brands have a great power; they convey

a message of confidence, quality and reliability to the market(Kotler & Armstrong, 1996). Good brands are the ones that come to the costumers' minds as a solution to their need or problem (Ferrell & Hartline, 2002).

During a financial crisis, customers reduce their consumption of wastefulness and switch to cheaper and rather local brands (Ang et al., 2000). It was shown that recession is not a good time for introducing new brands; on the other hand, strong businesses have the chance to fill the holes in their product lines, in order to block future competitors.

5.2. Price

Price differs from the other three principles in the matter that it is the only P that generates direct turnover. The price must reflect the supply and demand relationship (Kotler & Armstrong, 1996). Managers have to find a point where they pay the costs and make the highest revenue, but still do not influence the volume. Further, pricing is the marketing variable that is the easiest to change (Ferrell & Hartline, 2002). While the product or promotion can take months to change, the price can be changed directly.

When setting the prices, an organization can adopt a number of pricing strategies. The pricing strategies that are based on what objectives the company wants to achieve. The price is an important factor that consumers look at, especially during economical downturns; in such times, companies are forced to do radical changes in their price decisions (Shama, 1978). The most common decision is to increase sales volume in a short time, through price cuts. This could on the other hand lead to problems in the long run, by lowered profitability.

Ang et al. (2000) suggests two different pricing strategies during recession: Charge the same price for a higher quality, or charge a lower price for the same quality.

To gain market share after a recession can be quite difficult. What has to be kept in mind is that it is always easier to decrease the prices than increasing them again. Therefore businesses should concentrate on different offerings and discounts instead of permanent price cuts (Ang et al, 2000). The businesses should further use discounts and premiums as allures, instead of for example free gifts, since the price is more important during these times than getting something extra.

5.3. Place

Place, also called location, is the least changing marketing principle and also the key to retailers ability to attract customers (Kotler & Armstrong, 1996).

This "P" includes all kinds of ways and activities such as distribution, transport and store-keeping that companies use to make their products available to the customers (Barwyse & Styler, 1999).

During the depression of the 1930´s in the United States, self-service retailers increased a lot.People were willing to do their "locate-compare selection" on their own, in order to save money (Barwyse & Styler, 1999). Moreover, nowadays more and more non-store retailing (mail, telephone, door-to-door) is operated (Kotler & Armstrong, 1996).

5.4. Promotion

A successful product or service does not mean anything unless the benefits can be clearly communicated to the target market (Barwyse & Styler, 1999), therefore, when companies are choosing their media strategy they have to consider who their target customers are and what their general behavior is (Kotler & Armstrong, 1996).

When it comes to promotion in an economic downturn, one important fact has to be remembered: do not cut the costs. Keeping or even increasing the marketing spending is an investment for a future higher turnover. By maintaining or increasing the level and amount of advertising, the market share, sales and income during and especially after a recession will increase (Werner, 1991).

Hooley et al. (2008) study of the relationship of marketing strategies and performance in an economic crisis also shows that constant communication with customers is of great importance. Since customers, during crisis, tend to change their preferences when it comes to products and brands, it is important for the companies to be flexible, in order to be able not only to keep the old customers, but also use the possibility to attract some new.

Customers in an economic downturn prefer information instead of commercials; therefore companies should provide them with clear information including motives as safety, durability and overall quality insurance, in order to gain their trust (Roberts, 2003). Trust is a very important factor in marketing and then especially in

times of an economic downturn (Marconi, 1997). If the firms can convince the customers that they are trustworthy and understanding, people will decide to go to them even if they will not be the cheapest.

The "Four P's" of Marketing - product, price, place, and promotion are always important. Having the right product or organization in place, creating the right donation levels for your potential supporters, positioning your organization in the right media and the right places, and promoting your cause to convey a sense of urgency are all necessary in your strategy.

6. Conclusions

There will be a new emphasis on simple, clear marketing messages. In a crisis people return to brands they know and trust – and trust will be a key theme as well as value for money. Budgets for marketing will be reduced and companies will look for more cost-effective ways to reach their target audiences. We may see less indirect marketing, for example sponsorship of expensive sporting events and other things where the direct sales benefit is less easy to see**.** We'll expect to see further migration of advertising from traditional print and broadcast media to online marketing, where advertisers are able to measure instant returns from small investments, which they can then scale up if they work well. An exception is likely to be radio advertising which is relatively low cost and can be very effective in targeting specific groups.

The paper stresses the fact that companies should organize marketing campaigns in order to increase the number of clients, to improve customer retantion and loyalty and maximize the existing customers through additional sales. Also companies should take in consideration the development of databases used later in their communication campaign, in order to create a better awarness and repositioning for brand/ products.

7. Acknowledgements

This work was supported by the the European Social Fund in Romania, under the responsibility of the Managing Authority for the Sectoral Operational Programme for Human Resources Development 2007-2013 [grant POSDRU/88/1.5/S/47646"

8. References

[1] A. Shama, " Management and consumers in an era of stagflation ", *Journal of Marketing*, , July,1978, pp. 43-52.

[2] B. Wernerfelt, " A resource-based view of the firm", *Strategic Management Journal, Vol. 5, No. 2, 1994,pp. 171-180*

[4] C.K. Prahalad, G. Hamel,"The core competence of the corporation",*Harvard Business Review*, Vol. 68, No. 3, 1990, pp. 79-91,.

[5] G. Hooley, N.F. Piercy, B. Nicoulaud, *Marketing Strategy and Competitive Positioning. 4th Edition*, Pearson Prentice Hall, United Kingdom, 2008.

[6] K. Roberts, "What strategic investments should you do during a recession to gain competitive advantage in the recovery? ", *Strategy & Leadership*, Vol. 31, No. 4, 2003, pp. 31-39.

[7] J. Marconi, *Crisis Marketing.* 2nd Edition. NTC Business books, United States of America,1997.

[8] M.E. Porter, *Competitive Advantage,* The Free Press, New York,1985.

[9] O.C Ferrell, M.D. Hartline, *Marketing Strategy 4th Edition*,Thomson South Western, United States of America,2002.

[10] P. Barwyse, A. Styler, "Marketing expenditure trends". *London Business School Marketing Report*, London UK,2002, pp. 47–59.

[11] P. Kotler, G. Armstrong, *Principles of marketing, 7th Edition*. Prentice Hall Inc.,United States of America,1996.

[12] P. Kotler, K.L. Keller, *Marketing Management* 12th Edition. Pearson Prentice Hall,United States of America, 2006.

The Capitalisation of the Banking System

Busuioc (Witowschi) Irina Raluca
„Alexandru Ioan Cuza" University of Iasi,
Faculty Economics and Business Administration
iwitowschi@yahoo.com

Abstract

The capital adequacy as a restrictive measure imposed on banks is the basic concern of bank regulators, as a banking system consisting of highly capitalized banks will overcome much easier the various risks to which it is exposed. This article refers to regulations made by the Basel II Accord as well as the implementation of a new Basel III capital accord, which aims at developing a global framework to promote a much stronger liquidity in financial credit institutions.

Key words: bank capital, Regulations regarding the bank capital, new regulations of the Basel II Acord
J.E.L. classification: G21

1. The notion of bank capital

According to experts in banking, the economic strength of a credit institution is given by the size of its capital. This particular importance given to banking capital is due to the fact that banks are actually financial market intermediaries, thus they only use a very small amount of their own resources. Due to their capacity as intermediaries, banks attract large sums of capital in the form of deposits from economic agents, individuals and institutions, ensuring an effective management of these resources by providing an interest on capital paid to depositors.

Thus, the liabilities of banks reflect the establishment of resources and banking debts towards the exterior and the asset reflects the means of their usage, of their destination. Therefore, the main liability operations of the banks are reflected in:

- equity, assimilated and provisions;
- bank deposits and credit accounts of clients;
- rediscounting and similar operations;
- loans from other financial institutions.

Of these, a particularly important role is played by the bank capital through the functions it performs:

- of protection by: protecting depositors in the event of bank insolvency and liquidation and absorbing unexpected losses - it maintains confidence so that, under stressful situations, the bank can continue its work.
- operative - consists of allocating resources with the purpose of purchasing the assets necessary for the formation of the bank, also being used to ensure the continuity of the bank.
- regulatory - refers to the ability of authorities to set requirements to the amount of the bank's capital, serving as a limit for the unjustified expansion of assets.

The functions, the role and the size of banks' equities are peculiar features compared with other areas of the economy. Thus, the bank capital is important from the very establishment of the bank, then, during its activity and even at the liquidation of the bank.

The size of the bank's own resources depends on whether it made asset operations. The orientation of the bank activities for transactions with a high degree of risk will require an increase of its own resources. The bank's own necessary resources and their amount also depend on the level of development of the credit resources market as well as on the credit policy pursued by the central bank. The amount of the bank's own resources determines the type of its clients.

The capital accounts, assimilated and provisions include all funds which are at the disposal of the bank, either permanent or stable, as well as the provisions for risks and expenses and the covered provisions. The banks constitute their own equity capital on social capital, on the reserve fund and on the

provisions. In recent years, the share of equity in the total of bank liabilities is increasing, representing a measure of protection in the management of any risks taken by a bank. Thus, one can say that risk management activities in the broad sense, is the main activity of banks [5].

The international experience and the global banking community have promoted the necessity of the bank capital structure into two parts, namely:

1. the own capital or main capital comprising of:
- paid share capital;
- bonuses related to capital;
- legal reserves;
- general reserves for credit risk;
- regulated provisions;
- fond of physical immobilizations;
- statutory rests;
- reported result representing the undistributed profits,
- the net result of the current financial exercise representing profit, etc.
2. the additional capital which is to be taken into the calculation of the banks' own funds in the proportion of 100% from the own capital or rank I capital, is composed of:
- other rests than the ones included in the own capital;
- the subordinated debt taken into the account of a bank's own funds at a rate exceeding 50% of its capital;
- investment subsidies;
- favorable differences from the reevaluation of inheritance.

2. Regulations regarding the bank capital

When it comes to bank capital, we cannot overlook the banking and prudential regulations so as to ensure a legal framework for conducting banking activities and for carrying statutory relationships between banks and their clients. Regarding the supervision of banking vigilance at international level, we single out the deliberations of Basel I Accord, the European Directive regarding the degree of Capital Adequacy and Basel II Accord. The Romanian banking law also sets its own set of prudential requirements, as norms meant to reduce risk exposure, setting up resources to cover risks or losses which result from the realization of the risks or from measures of limitation of the negative effects of risk taking.

Therefore, the banking sector is one of the most regulated sectors, and the regulations regarding the bank capital has the most significant share of these regulations.

These regulations came due to the desire of international banks to get bigger profits, which led to their tendency to make increasingly risky investments without correlating them with the equity they had. In this regard, there have been established a set of rules on capital adequacy. The regulations of the Basel Accord concerns mainly the following constraints on capital:

- defining the bank's own funds into two broad categories: equity or main funds and additional capital. The main capital includes social capital and legal reserves and the additional capital includes the reevaluation reserves, other reserves, general provisions, the subordinated debt on medium- and long-term. In other words, the first part of bank capital includes resources from shareholders and from its own activity, while the second part contains borrowed resources or resources from exceptional sources;
- a minimum of 8% of risk adjusted assets must be held in the form of basic capital, divided into Tier I and Tier II capital;
- a minimum of 50% of the bank's capital must be Tier I, representing the social capital plus the declared reserves obtained from retained earnings;
- the rest of the main capital may consist of Tier II capital or supplementary capital consisting of undeclared reserves and reevaluation reserves;
- the elements outside the audit, such as guarantees, are taken into account too;
- every country may establish and apply their own criteria for determining capital adequacy, but the minimum level is set by the Basel Convention.

In analyzing the degree of capitalization of a bank, the solvency ratio is used internationally. The solvency risk is that of not having sufficient equity so as to absorption potential losses [4]. This risk results, on the one hand, from the total amount of equity available and of the other hand, from occurring risks (credit risk, market risk, rate risk, exchange risk, etc.).

To fathom the analysis, two other indicators are used as well - the leverage and equity rate. The three indicators refer to the ratio of own funds (Tier 1 level own funds, which comprise mainly equity and Tier 2 own funds, which mainly include subordinated loans) and assets of the bank (weighted or average risk value). The indicators are calculated as follows:

- the solvency ratio represents the share of total own funds (Tier 1 and Tier 2) in risk weighted assets;
- the leverage is the share of Tier 1 assets in average actives;
- the equity ratio is the share of Tier 1 risk-weighted assets.

To have an adequate capitalization of the banking system, there is a common position at internationally level only with what regards the solvency ratio, which should not fall below 8 percent. The approaches are different for the leverage indicator. For example, a level over 5.5% is considered adequate in the United States, while in Austria this level must be above 6%. In Romania, the National Bank of Romania supports a minimum set at 4%.

Given the changes that have taken place in economic and financial field and the high degree of risk and uncertainty that currently dominate the financial and banking relations as a result of the current economic crisis, it was necessary to adjust the degree of adequacy of the capital of banks with the risks that they are exposed to. This has forced the emergence of new international regulations related to financial stability, regulations which anticipate a new agreement in banking, namely the Basel III Accord.

In this context, a public consultation was launched in February 2010 regarding a package of options for amending the CRD (Capital Requirements Directive) in the management of liquidity and counterparty credit risk, of defining of capital, the debt ratio and the counter-measures.

Thus, all the comments on these issues have been studied to assess a possible impact that this package of reforms will have, both on individual bank level and on the entire banking system.

In terms of capital reserves, two elements are identified:

- the first element refers to a fixed target reserve (reserve for the preservation of capital) of the required minimum capital available to absorb losses in times of crisis, the banks with reserves below the target will face limitations on the distribution of capital (for example, pay dividends, repurchase of shares) to achieve the target fixed reserve;
- the second element refers to a countercyclical capital reserve so as to achieve the broader macroprudential objective of protecting the banking sector during periods of excessive growth in lending and to encourage lending in times of economic crisis.

Another aspect which is pursued is that of indicating innovative methods of setting down long-term provisions, based on their creation through the deduction from profits from periods of economic development and allocated for anticipated loan portfolio losses.

The main changes that this new agreement will bring will have a major impact on the banking sector, on the supply of credit and economic growth issues. It will cause banks to have more liquidities of high quality as short-term cover.

All these economic reforms are future-oriented so as to make the banking financial system more flexible for possible future economic crises.

3. The Principles of the New Basel III Accord

The accord called Basel III was approved on 12 September 2010. These regulations will be introduced on the agenda of global financial reforms which will be discussed at the G20 summit in Seoul in November 2010. The new rules will be put into practice between 2015 and 2018.

In accordance with this agreement, the banks will have to increase the minimum capital ratio in the coming years to at least 7%. Thus, the banks will have to increase the minimum share capital level from 2%, as before regulatory adjustments, to 4.5% after the application of more stringent adjustments. Moreover, Tier 1 capital requirement will increase from 4% to 6%. This will be introduced gradually by 1 January 2015. The requirements of total capital remain at the current level of 8.0% and the difference between the total capital and Tier 1 capital level may be covered with Tier 2 capital and superior forms of capital.

These capital requirements are supplemented by a non-risk-based leverage ratio. Thus, in July, regulators agreed to test a minimum Tier 1 leverage ratio of 3% during the parallel run period. Based on the results of the parallel run period, final adjustments will be made in the first half of 2017 in order to migrate to the Pillar 1 treatment from 2018 based on an appropriate revision.

Moreover, the banks will have to create another fund of protection to deal with possible periods of stress, with up to 2.5% of the total capital.

The implementation at national level by the member countries will begin on 1 January 2013. These will have to translate the principles of the agreement into national laws and regulations before this date. Thus, the banks will be required to meet the following requirements:

- 3.5% common equity/ risk weighted assets;
- 4.5% Tier 1 capital/ risk weighted assets;
- 8.0% total capital/ risk weighted assets.

At national level, the implementation of a higher level and of a better quality of the regulatory capital, as well as of the requirements to improve the liquidity risk, but also of the long-term provisioning activity will cause the banks to stop taking excessive risks.

4. References

[1] C. Basno, N. Dardac, *Management bancar*, Editura Economică, Bucureşti, 2002

[2] J. Bessis, *Risk Management in Banking*, John Wiley & Sons, 2005

[3] N. Dardac, T. Barbu, *Monedă, bănci şi politici monetare,* Editura Didactică şi Pedagogică, Bucureşti, 2005

[4] V. Dedu, *Gestiune şi audit bancar,* Editura Economică, Bucureşti, 2003

[5] X. Freixas, J.C. Rochet, *Microeconomics of banking*, 2nd ed. The MIT Press, 2008

[6] *** Basle Committee on Banking Supervision, *International Convergence of Capital Measurement and Capital Standards, A Revised Framework - Comprehensive Version*, June 2006, http://www.bis.org/publ/bcbs128.htm

[7] *** Basle Committee on Banking Supervision, *Group of Governors and Heads of Supervision announces higher global minimum capital standards*, http://www.bis.org/list/basel3/index.htm

General Aspects Regarding The Economic And Financial Crisis In Romania

Căruntu Constantin
Lăpăduşi Mihaela Loredana
„Constantin Brâncuşi" University of Târgu-Jiu,
Faculty of Economic Sciences and Business Affaires
caruntu_ctin@yahoo.com, loredana@utgjiu.ro

Abstract

The global crisis can be seen as a manifestation of the consequence of errors committed in the past by world states. Through its evolution, it can be defined as an instability and uncertainty particularly pronounced. In crisis situations the world states are in a constant state of turbulence and economic and financial uncertainty. National Bureau of Economic Research (NBER) defines the crisis as a „ significant decline of the economic activity for several months reflected in lower GDP, lower individual income, reduced employment level, reduced industrial production and consumption".

In every industry there are concerns regarding disruptions that may occur within it and due to that, there is an important interest in analyzing their emergence and manifestation, respectively their consequences; crisis are included in this type of disruptions. They have major implications in the states development, with undesirable consequences and changes. Maybe, because of this, the majority of sciences have elaborated their own crisis concepts.

Key words: global crisis, economic crisis, financial crisis, business environment.
J.E.L. classification: O16, G01, E22

1. Introduction

We may consider that the first signs of the current global crisis were recorded at the end of year 2007, the phenomenon increasing during year 2008 in USA from where it spread throughout the entire world, but the year 2009 can be considered in our opinion the year of the economic and financial crisis maximum intensity and extension.

The trend adopted by the Romanian companies during this unstable period both from financial and economic point of view, is the survival geared up to revise the number of employees, freeze the budget, along with numerous cost cutting measures. The Romanian companies have been and still are disproportionately affected by the effects of the economic and financial crisis and by the labor force, both of them having a negative impact over the economic and financial situation of the entire country.

2. Aspects regarding the economic crisis in Romania

The official statement of admitting that the country's economy has entered into crisis took place in May 2009 after it has been observed that the national economy has decreased with 6.4% in comparison to the first trimester from the year 2008. Such a statement is based on the numerous changes from the economic and financial activity, reflected through the following indicators:

- the decrease of GDP for two consecutive semester comparatively to the previous semester, and also the decrease of industrial production
- the increase in the number of bankrupt companies;
- the increase of unemployment rate;
- the decrease of the weight of construction works and the jam in the real estate market;
- the decrease in investments and house princes;
- the decrease in income population and in consumption expenses;

- the increase in the number of bank debtors and their compulsory execution;
- the valuation of social life and of people wealth in negative terms by the majority of the population

The economic balance sheet of the year 2010 is a tragic one. The global economic recession has affected all the Romanian companies, starting with the most important ones to the smallest. More than that, the access to the finances, that the banks say they provide to the business environment, is blocked. In practice, trough the help of the Finance Ministry that borrows almost the entirely money supply on the market from the private banks in order to pay the wages and pensions of public employees, the Government blocks indirectly, the national economy.

The economic crisis trough which Romania is passing is mainly an internal one, determined by an unhealthy economic increase. This thing is due to the fact that in these years we have had an increase based on consumption, financed on debt. The main cause is the excessive consumption on debt. The international financial crisis has been only what triggered the internal economic crisis, because it had affected all sources of finance. Romania consumes on credit and now it borrows more expensive or not at all. This state is the same for the government, for the companies and for the population. The weaknesses of an unbalanced economy, with numerous structural reforms being postponed, have now become more obvious. As a consequence of decreasing the volume of offering credits and of ending the foreign investments, the construction market had decreased dramatically in 2009.

A solution could come from the infrastructure projects sustained by the government, with the view of accessing European funds.

Recently, Emil Boc stated: "in 2010 we will end the year with a deficit of 6.8%, in 2011 it will be a deficit of 4.4%, this meaning in figures 7 billion euros. We could have borrowed the country, at any cost, because the level of indebtedness is not high, but it would go only in consumption if we do not reorganize the state, the public system, the pension system, the education. We choose this solution: we take an external loan that allows us to do these reforms in 2009-2010, so that afterwards we could manage on our own for the following years. To consume only from what we produce and the future loans to take us only towards development."

The economic crisis has affected seriously Romania and many of the foreign investors that have maintained the boom before 2008 left, but the country finds itself in a reasonable position to recover, states an analysis published by a British magazine from the construction field, Building.co.uk. The Romanian market has had similar evolution as most economies during the recession. The country seems in a better position to exit the crisis than some of our neighbors and it can be argued that its economy has followed a path typical to do west economies than to the central and east European economies. This may be due to the powerful business connection with France, Great Britain and other countries from West Europe.

In a study realized by EU and published at 18 January 2010 it is shown that:

- 19% Romanian did not afford to have meat at a meal (once at two days) ;
- 49% did not afford , in 2008, to own a personal car (the average in EU had been of 9% for this situation)
- 76% from our locals did not afford to spend their vacation in other place than their homes.

It can be mentioned that the given study, that had taken into consideration the poverty risk, puts our country together with those with highest level of material deprivation, being in the same category with Bulgaria, Hungary and Latvia.

3. Aspects regarding the financial crisis in Romania

Due to the fact that when we are speaking about a crisis we generally refer either to an economic and financial crisis, either to a social one, it is difficult to recognize when a financial crisis becomes an economic one or when an economic crisis becomes a financial one. Mainly, it is referred to an economic crisis generated by financial, political and social causes. The financial crisis is a way of manifestation of the economic crisis and shows lack of trust in the financial system, respectively a disorder of the market mechanisms.

Companies from the entire world have faced the economic crisis so that they had to ask for monetary assistance from the government in order to survive. Many industries from the entire world had been in danger, others have faced bankruptcy.

In Romania it has been seen that all sources of finance for development had been affected by the crisis and in the absence of a substantial external help, Romania would not be able to obtain the necessary economic gains.

The effects of the global financial crisis had a series of negative influences on Romania:

- the limited access to external financing, decreasing the credit volume with negative effects over the service of private external debt;
- the decrease of exports ;
- the withdrawal of east European countries;
- Deterioration of the population and companies net asset as a consequence of the high weight of currency credits (correlated with the RON depreciation)
- The decrease of the movable and immovable assets.

Taking into consideration the diversity of opinions concerning the impact that the actual world crisis had had over the Romanian economy, the lack of some financial instruments locally, like the derivates related to credits has made many hope that Romania would not be affected by the crisis. Still, two years almost passed and Romania is still in crisis.

While the credit crisis has extended in all the powerful financial centers of the world, the trust in financial institutions has been lost, the banks not knowing the financial situation of the competitors and being afraid that if they lend money they could not recover them. In this way it has been created a financial blockage towards the Romanian financial institutions. Many of them were obliged to stop the credit lines that they had offered to companies and in this way production and investment expenses were immediately affected.

The Romanian economy can not be protected by the effects of the decline that had affected the major international markets. The most affected economic sectors are those that until recently have tripled investors money.

In this crisis of the economy the exporters receive the biggest coup because the demand and the financing from the European Union and the United States, main business partners of Romania, have begun to decrease with the crisis extension.

The first sign was recorded on the capital market, which confronted with the withdrawal of the major foreign investors from the emergent markets.

The real estate jams, the blockage of the auto industry, the decline of the textile industry have become more obvious. The entire private sector had and will have problems, of course while the crisis will affect it. Mainly construction, the real estate sector and retail have been affected by the crisis due to the fact that, even though they are very dynamic, they are also the most indebted ones. The credit conditions for the population and for the companies have been tightened and the moderation of the consumption has influenced negatively sectors like agriculture and transportation. Also, the decrease of the demand on the international markets affected exports, especially in the manufacturing industry.

The Romanian companies have had to use and will use massive redundancies, reductions in productions and stopping investments due to the decrease in demand because of the continued effects of the economic and financial world crisis.

4. Conclusions and considerations

We emphasize the importance, in terms of development, in the adoption of some coherent policies by Romania in fields as economy, commerce, environment and agriculture so that it could end the production of serious effects over the Romanian companies.

What Romania could learn from this crisis is that on the future it should adopt a behavior based on savings and efficient usage of material, financial and human resources.

We can stat that the financial crisis and the economic crisis, in a broad sense, generated directly, in connection with the population a series of consequences such as:

- The massive loss of jobs ;
- The decrease of salaries, which has happened;
- The uncertainty of the daily living and its reduction;

▪The continuous material problems at family and individual level.

In conclusion, the degradation of the economic environment leads to the degradation of life conditions of people and the appearance of depressive states at some of the people.

The population's reaction towards the economic and financial realities produced by the crisis is different from country to country. Some people have changed their life style and consumption behavior by giving up habits, while other has continued to behave as before. A study realized on 11.500 people in 18 countries, states that Romanians, in comparison to other citizens from the entire world , have adapted to the challenges from the initial phase of the crisis from our country and in general had had a positive attitude towards this social phenomenon, seeing it as something that will pass. So, only 20% of Romanian has declared their intention to give up their last generation devices, 83% of them have confessed that will continue to buy the same brand as until now, in detrimental of cheap ones. If 33% of the Americans and 37% of the Mexicans have started to make reserved, being afraid of higher prices in the near future, only 10% of the Romanian have shown interest in such a practice.

In Romania, the Government plan of getting off the crisis has not become functional entirely and did not include all the crisis measures that were imposed. Because of the inefficient measures and the lack of political will, the parties governing have lead to a state of political crisis, state that has been in the same time with the economic crisis. The run for the presidential election from 22 November and 6 December 2009 had affected largely the cooperation relation between the main institutions of the state- the Parliament, Presidency and the Government, institutions that with a vital role in managing the economic crisis. This explains the fact that Romania was, in January 2009, the only state from Europe that had not a coherent program of anti crisis measures, to be applied immediately (with the exception of the solutions of capitalizing CEC and Eximbank) and it did not have any competitive development strategy of the country.

5. References

[1] Anghelache Constantin, România 2009 - starea economică în criză profundă, Ed. Economică, Bucureşti, 2010;

[2] Fota Dyonisius, Băcescu Marius, Criza economică din România anului 2009, Ed. Universitară , Bucureşti, 2009;

[3] Glăvan Bogdan, Împotriva curentului - însemnări despre criza financiară actuală, Ed. Universul Juridic, Bucureşti, 2009;

[4] Krugman Paul, Întoarcerea economiei declinului şi criza din 2008, Ed. Publica, Bucureşti, 2009;

[5] Roubini Nouriel, Mihm Stephen, Economia crizelor, Ed. Publica, Bucureşti, 2010;

[6]Soroş George, Warren Buffett, Paul Volcker, Criza economică şi profeţii ei, Ed. Litera, Bucureşti, 2010;

[7] www.building.co.uk ;

[8] www.money.ro ;

[9] www.capital.ro ;

[10] www.oef.com ;

[11] www.wall-street.ro .

The Usefulness of Learning English within the Context of the Global Economic Crisis

Chirilă Camelia-Andreea
Dumitrescu Adela
"Constantin Brâncoveanu" University of Piteşti
cameliachirila2004@yahoo.com
adela_dum@yahoo.com

Abstract

English is increasingly the lingua franca and the constant preoccupation to learn it has become an important issue in today's economic environment.

Our paper intends to throw some light on the necessity of learning English in order to participate actively in the global economic development, especially during the present economic crisis.

It has been said in the past few years that the global economy needs new rules. People all over the world deserve a responsible economic growth. But specialists observed that people all over the world also need to speak a common language, as picking up a new language is directly linked to a lot of economic benefits.

On the other hand, within the context of the present economic crisis, having English in one's arsenal is as important as never before, as it may help people to move rapidly towards an economic integration or economic progress, and any person or company trying to fully participate in this evolution will, sooner or later, meet the challenge of having to communicate in English, most of the times.

In other words, the communication in English should become an integrating part of the life style of those people involved in various economic issues. If you are bilingual, you will be more marketable and have more career choices. Learning English is thus critical to the international economic success for countless individuals and companies in non-English speaking countries.

Key words: the English language, foreign language learning, communication.
J.E.L. classification: A12

1. Introduction

As economies have recently undergone deep economic crises, learning a foreign language is as important as never before.

The world is a rolodex of cultures. Speaking only your native language is like eating only one dish at the buffet. It is a terrible waste. Speaking English, as a second language, can open many doors to one's future and it is something that can be used in different corners of the globe.

Any person who takes a look at the curriculum of the department of business communication will discover that a business graduate from many European countries is trained and expected to be multilingual. This means that he is reasonably fluent in at least one foreign language, not that he speaks only his or her native language.

2. Content

In most cases, the accurate communication skills for European business graduates are bound to obtain foreign language training. Learning English is witnessed frequently in some of the larger European states, and most business graduates do not have reading and listening problems in English, they are reasonably at ease when participating in a conversation, they are able to write a memo, a letter, or a report and even give an oral presentation and negotiate.

It is very clear for everyone that in the field of teaching English, the priority should be the same in all departments of business communication at European universities.

In 2000, in Italy, a newspaper published the results of a study about the English language training that had been carried out for the Ministry of Education. The study showed a clear emphasis on communication

skills rather than on grammar and translation in the curriculum of language training in business schools. It is absolutely obvious that on the job market, everywhere in the world, there is a high demand for job applicants to have foreign language skills. The globalization of the world economy will force European companies to remain competitive on a world scale, and this also entails that they cannot allow themselves to lag behind their non-European competitors in the field of business communication.

Several changes have increased the importance of the development of good language skills. New media have increased the need to respond quickly and more flexibly to customer demands, and these technologies, including the Internet and electronic commerce, cross linguistic boundaries. The increasing use of horizontal links in organizational communication and work is placing greater demands on managers for specialized vocabularies in different linguistic settings. During this period which is considered to be the age of international trade and opening boundaries, the benefits of trade between different countries and continents may elude those without the ability to communicate with their business peers internationally. Many researchers have identified the important challenges associated with expatriate assignments and noted that language skills are very important for success. Moreover, a survey conducted in December 2000, by 337 human resources professional, found that costs associated with expatriate failure regularly reach 1 million $ or more and that 28% of the respondents indicate failure rates of between 10%and 19%. In a longitudinal study of 36% firms in Great Britain, 8% of expatriates returned to the United Kingdom before their contact in the foreign country was completed. While language problems are not the only cause for concern in expatriate failure, communicative competence and ability to adapt to the foreign environment and to the foreign company's business culture clearly are major causes.

Recent statistic researches provided a picture of the market within which some changes need to take place, for example, first of all the identifying the need for cultural awareness of the business culture of a given country, and secondly, the responding to that need. According to a European study of foreign language needs for small and medium enterprises found that a great number of companies admitted losing business because of lack of language skills. Most of the companies expected to develop trade with foreign countries, but they had no strategy for dealing with languages. The problem created by this situation is rampant, from switchboard problems, to misunderstandings that lead to incorrect business decisions, to an inability to follow up mail inquiries by phone, to problems created at international exhibitions when interpreters are busy and potential customers walk away. Thus, the development of communicative competency in the business culture is critical for managers to be successful.

In response to these needs, managers all over Europe increased their enrollments at language learning institutes, schools, and courses. Some managers have enrolled to protect their own competitive ability in their local marketplace, with increasing numbers of non-English speaking employees and immigrant customers making managers' abilities to communicate in second languages a necessity.

The methods used by managers to improve the level of speaking in foreign languages, are very different. Many methods have proven useful to the managers undertaking foreign language instruction, including language tapes, CD-Rom language packages, small group immersion programs, and other media including Internet-based instructions. Work abroad and country visits have been a favored method among a lot of companies for developing the functional competency of their employees in other countries' business cultures. Some companies have also utilized the broad variety of translation and communication facilitation services, browsers that provide instantaneous translations into English. Many software programs, such as Microsoft Office, also provide language related assistance, including proofreading and spelling tools and multiple versions compatible in English.

Of course linguistic researchers suggest various modern methods that could be used to foster a positive attitude in learning English as a foreign language.

Whatever the method used, for organizational planning purposes, the most effective approach appears to begin with language usage audit. In this process, companies identify the types of specific

settings and situations in which the target language will be used. Then, language teachers work within that setting to identify the appropriate vocabulary and grammatical forms that will be useful and necessary in that setting. These needs are then developed into programs of study and lesson plans created accordingly.

Recognizing that communicative competences in English are critical to the organizational success in foreign markets, some companies have established in-house language training facilities. One example is the creation of the Language Society in the United Kingdom, which has provided assistance to worldwide marketing divisions, overseas relocation assistance, and lunchtime classes for over 1,000 employees, with usage growing 15% to 20% annually. Clearly, the types of programs that these companies and individual managers have undertaken are important for developing the proficiencies of the managers to function in their positions. Organizational decision makers will need to understand that a promotion that emphasizes cross-cultural awareness has to be done. Language training initiatives will be helpful, not only because of their most obvious goal of communicative competence, but because, by supporting and rewarding participation in these programs, the organization signals that taking time to understand other people on their own terms is critical to the company's success.

Hiring, reward, and promotional practices will need to be brought into alignment with the flexibility demanded by globally competitive companies. It is important to hire employees having already developed language skills, and a spirit of learning that will prompt them to have an awareness of different business cultures. Emphasis will also need to be given to the sharing of these skills across individuals from different functional areas so that minimal misunderstandings result when a marketing manager from Germany visits a software designer from India to discuss the layout and copy of the Portuguese version of the directions accompanying software. By this example, we suggest an understanding of that cross-cultural team need to be more than just a combination of individuals who are functionally capable of understanding each other's roles and working together to accomplish a given task.

From a purely economic perspective, language can be seen as an exchange-facilitating institution. English, of course, is not the world's only language, but it is spoken by more than 300 million of people. It is the official language of 44 countries (compared to 27 for French, and 20 for Spanish). So, it is absolutely obvious why organizations which are interested in doing business with foreign countries need to promote and invest in language learning courses and intercultural communications.

Thus, the preoccupation of learning English, as a foundation of the economic communication, will lead undoubtedly to the improvement of the economic relations and to the preservation of the present ones.

In Romania, this issue is still at an early stage, its development being stopped by a series of factors such as: the lack of communication-oriented education, the relatively reduced number of language schools, the reduced level of foreign investors, the lack of interest, or the incapacity to understand the usefulness and the impact of English on the economic environment.

The decrease of the interest shown in learning English and the perspectives of its accelerated degradation, on one hand, and the considerable diminution of the number of investors, on the other hand, will permanently lead to a negative impact on all economic activities.

Resolving these issues cannot be made on a short term and fundamentally involves the increase of interest towards communication and the interaction with foreign partners.

Another relevant aspect regards the usefulness of learning English is the speakers' capacity to generate better communication strategies. More than that, learning English will certainly lead to longer and more solid economic activities and relations.

3. Conclusions

An effective economic society, like the newly European integrated Romanian one, needs to be globally oriented and based on solid and open business relationships, assuring valid channels of communication, one of which being represented by the knowledge of the English language.

According to Austrian philosopher Ludwig Wittgenstein, "the limits of my language are the limits of my universe". There is no doubt that learning English will expand one's own personal universe.

In all fields of economy there may develop situations of such nature as to require, at a certain point, the communication in a foreign language. Knowing the ins and outs of English is really useful for all economists.

Presently, the communication in English should become an integrating part of the life style of those people involved in various economic issues.

In our country, these tendencies are still at an early stage, but it is to expect that they will become more and more pregnant while the Romanian economy will develop business relations with various foreign partners and will imply more involvement in international business.

Consequently, some motives that we consider important for learning English, especially within the present economic context, and that could contribute to a better communication worldwide, and, implicitly, to the improvement of the economic affairs are:

- ✓ it is believed that the good knowledge of English improves the economic activity in many fields such as finance, transportation, insurance, banking etc.;
- ✓ when applying for jobs or evaluating your career prospects, there are numerous interviews that are taken in English;
- ✓ the contracts developed with foreign companies are most of the times edited and presented in English;
- ✓ English is becoming more and more important with regards to business. Learning English will enable you to better communicate with English speaking employees, co-workers or business partners;

In conclusion, one thing is certain: if you are bilingual, you will be more marketable and have more career choices than your monolingual counterpart. Globalization, with its accompanying free trade agreements is shrinking the business world, and those who know English will definitely have the edge.

4. References

[1] J. Penrose, R. Rasberry, R. Myers, *Business Communication for Managers: An Advanced Approach*, South-Western College, San Diego State University, 2002.

[2] R. Nurden, *Teaching tailored* for *business people's everyday demand*, The European, October, 30, 1997.

[3] D. Crăciun, *Business and Morality*; ASE, Bucureşti, 2003.

[4] B. Courtland, J. Thill, B. Schatzman, *Business Communication Today*, Prentice Hall, New Jersey, 2007.

[5] *** *Ready for business*, Universitară, Bucureşti, 2003.

Defining Dry Ports by the Logistic Performance Index

Ciortescu Cezar-Gabriel
"Alexandru Ioan Cuza" University of Iaşi, Doctoral School of Economics
gciortescu@gmail.com

Abstract

Although the dry port concept is not new, the research regarding the issue in question and the activities related to it have only recently stirred a high interest, especially due to their advantages. The dry port concept is based on a seaport directly connected by rail to inland intermodal terminals, where shippers can leave and/or collect their goods in intermodal loading units as if directly at the seaport [1]. This paper will present and define a dry port Logistic Performance Index (LPI) from the integrated solutions for freight containerised intermodal transportation point of view, as part of the world trade. Just as dry ports are called the backbone of the system, the performance of logistic centres or intermodal hubs has a significant impact on the overall performance of the whole transportation network. With the dry ports implementation, CO2 emissions can be decreased and other positive environmental impacts can be achieved, queues and long waiting times at congested seaport terminals avoided, and the risk of road accidents can be reduced. As an overall result, regional sustainability and competitiveness will increase. Cheap, scheduled and reliable high-capacity rail transportation to and from the seaport is a necessity for improved seaport inland access. The success of the dry port model implies a consistent evolution both of the demand and of the offer of transportation service in the considered segments within the intermodal flow.

Key words: dry port, freight container, logistics.
J.E.L. classification: L92, R48.

1. Introduction

In recent years seaports have experienced tremendous growth rates of container handling (many EU ports have seen an annual growth between 5 to 10% in the last decade). The global crisis of 2008 reduced the global exchanges, but in a medium-long term perspective the traffic growth remains unavoidable. The seaports need to adopt new solutions to increase the efficiency of spaces because of constraints of expansion and because incremental capacity requires huge investments (as for instance hyper-intensive handling automation that maximises space utilisation) unattractive for the industry.

This paper focuses on a conceptual approach for measuring process quality of dry ports because performance measurement is not only a powerful method for dry ports operators, but also constitutes a very important input for all actors involved in transportation economics, especially in containerized freight. In our opinion, dry ports are important nodes in transportation networks that offer the smoother turnover of goods between different modes of transportation.

Ultimately, the dry port concept is based on a seaport directly connected by rail with inland intermodal terminals where containers can be dealt with in the same way as if they were in a seaport. The main purpose of the article is to extend the theory beyond the dry port concept and to define three dry port categories: distant, midrange and close [1].

The result of this paper is intended to be an integrative perspective for decision makers of different areas. The complexity of operations and the significant number of participants in the process of planning and operating intermodal infrastructure emphasize the need for a standardized way of measuring the quality of processes to achieve benefits from a coordinated strategy of dry port development.

2. The dry port concept

Ever since it appeared, the term dry port has been supported by a couple of definitions and has been given different names such as:

inland clearance depot, inland container terminal, dry port, freight logistic hub, etc., also there are different names all over the world: Gueterverkehrszentren in Germany, Plateformes Multimodales Logistiques in France, Freight villages in UK or Interporti in Italy, Inland Port in US, Inland Container Depots in India and Asia, Estacao Aduaneira do Interior in South America, particularly in Brazil, meaning Interior Customs Station.

The UN Economic Commission for Europe defines an Inland Clearance Depot as: a common-user inland facility, other than a port or an airport, with public authority status, equipped with fixed installation and offering services for handling and temporary storage of any kind of goods (including container) carried under Custom transit by any applicable mode of inland surface transport, placed under Customs control and with Customs and other agencies competent to clear goods for home use, warehousing, temporary admission, re-export, temporary storage for onward transit and outright export.[2]

India introduced Inland Container Depots (ICDs) in 1983 and the Indian Customs [3] bases its definition of an ICD on the UN ECE definition above, but restricts it to containers. India also uses the term Container Freight Station (CFS), which differs from an ICD since containers are stuffed and stripped there. Hence, an ICD is a consolidation node for containers whereas a CFS aggregates individual consignments into containers. A CFS function might be added to an ICD. ICDs are normally located outside the port towns but there are no site restrictions regarding CFSs. [3]

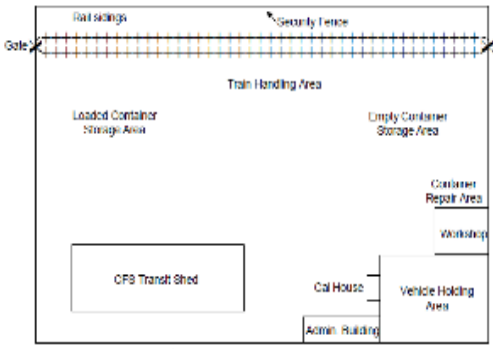
In Europe there has been a focus on business areas offering a wide range of logistics services. According to a survey [4], an Intermodal Freight Centre is defined as: a concentration of economically independent companies working in freight transport and supplementing services on a designated area where a change of transport of intermodal loading units between traffic modes can take place.

Freight transport systems are characterised by sequential transfers of goods between points of origin and destination, generally defined as nodes. A node can be defined as a source, a sink or a transhipment node, depending on the transport assignment. Links represent transport and transfer activities connecting nodes, and together with the nodes the links compose the transportation network. Links and nodes are abstract terms used for modelling. In the real system, links are served by vehicles and vessels using infrastructure. For the physical unit corresponding to transhipment nodes, the word terminal is used although the traffic mode specific terms airport, seaport and station are more common in colloquial speech. In the transport industry, transhipment nodes with a central role in a network are, varyingly and often inconsistently, called hub, dock, gateway and turntable. [1]

In simple words, dry ports are specific sites to which imports and exports can be consigned for inspection by customs and which can be specified as the origin or destination of goods in transit accompanied by documentation such as the combined transport bill of lading or multi-modal transport document. From the above definitions it results that dry ports are located inland from seaports or, in the case of international land movements, they are in contact with the source of imports as well as with the destinations of exports. Dry ports may be used whether a country has sea ports or is land-locked, since only surface modes of transport are involved in giving access to them. [5]

The figure below illustrates the layout of a dry port concept:

Fig.1 Layout of a dry port



Source: Beresford & Dubey, UNCTAD, 1990

So as to ensure the success of a dry port, the management departments have to establish vital commercial links with international multimodal transport operators, shipping companies, local freight forwarders, the railways, the appropriate port authority,

and local importers and exporters. Experience with container and cargo handling is essential, together with the necessary personnel management skill for dealing with manual labour force. It is also necessary to establish a system of regular communication between interested parties regarding cargo status, container status (packed, unpacked, customs cleared, etc.) and transportation information.

The capital structure of a dry port will obviously influence the composition of the controlling body, whether it is a board of directors or some other organisational entity. The controlling body will have to create a framework harnessing many different skills for the successful establishment of the dry port; layout planners and engineers to design the physical attributes of the facility; custom and shipping experts to establish clearance procedures; railway experts for track layout; accountants for managing development resources, etc. The controlling body must therefore create a management structure suited to the size of the facility and one which does not burden it with unnecessary costs; set clear objectives for management and to monitor the management success.

From the point of view of possible implementation of dry port concept in Romania, shown in the next figure:

Fig.2 Intermodal freight terminals (dry port) in Romania

Source: Spatial planning of the national territory, Law No. 363/2006 [6]

We can conclude that there is potential for dry port implementation in Romania, as economic forecasts suggest foreign trade will substantially increase by 2020, and together with the national GDP, the LPI will increase in the case of the European Union as well.

3. Logistic performance index (LPI) and its indicators

The better the operating efficiency of the dry port equipment and staff, the more customers the terminal can attract and the more customers will place handling orders. More handling orders result in an increase of the storage usage rate which also induces a greater order fulfill-rate. The higher the order fulfill rate, the higher the available capital of the terminal and the greater the resources budget. A greater resources budget allows the management for more staff training to increase equipment exploitation which again results in an increase of operating efficiency. An increase in the operating efficiency induces extra handling orders which generates more gains and further allow for more staff training and better equipment exploitation. As a result, an increase in the operating efficiency has a reinforcing impact on the customer's handling orders.

The Logistics Performance Index (LPI) calculated by World Bank is an instrument built on a survey of operators in charge of moving and trading goods. The operators provided feedback on the logistics disparities among the countries and the constraints they met throughout the time. The index covers a broad range of indicators such as the quality of infrastructure, the competence of private and public logistics service providers, the degree of corruption and transparency, the reliability of the trading system and supply chains, the efficiency of customs and border agencies. The information was gathered from more than 800 operators or agents of the world's main logistics service providers. [7]

Fig.3 World ranking for LPI

	2010 LPI		
Economy	Rank	Score	% of highest performer
Germany	1	4.11	100.0
Singapore	2	4.09	99.2
Sweden	3	4.08	98.8
Netherlands	4	4.07	98.5
Luxembourg	5	3.98	95.7
Switzerland	6	3.97	95.5
Romania	59	2.84	59.1

Source: World Bank, LPI, 2010

The 2010 LPI also provides a snapshot of selected performance indicators in nearly 130 countries, including expanded information on the time, cost, and reliability of import and export supply chains, infrastructure quality, performance of core services, and the friendliness of trade clearance procedures. The 2010 LPI and its indicators encapsulate the firsthand knowledge of movers of international trade, collected amid the economic turmoil of 2009. As observed, Romania is in the middle of ranking, between the highest score and the lowest, surprisingly as it has already been part of the European Union since 2007.

Adapting from the LPI implementation by World Bank, we'll try to extrapolate it for the dry port performance, as LPI should summarize the performance of dry ports in six areas that capture the most important aspects of the current logistics environment:

• Efficiency of the customs clearance process.

• Quality of trade and transport-related infrastructure.

• Ease of arranging competitively priced shipments.

• Competence and quality of logistics services.

• Ability to track and trace consignments.

• Frequency with which shipments reach the consignee within the scheduled or expected time.

These areas range from traditional issues (customs procedures and infrastructure quality) to new concerns (tracking and tracing shipments, timeliness in reaching a destination, and the competence of the domestic logistics industry). None of these areas alone can ensure good logistics performance.

We propose below a table of indicators which can support the LPI calculation for any dry port or intermodal terminal:

Table 1. Proposed Components of constructing LPI

Dimension	Weight
Customs	0.30
Infrastructure	0.55
International shipment	0.33
Logistic quality and competence	0.50
Tracking and tracing	0.41
Timeliness	0.40
Distance factor	0.30
Value-added services	0.35

Source: Author's analysis, adapted form World Bank LPI, 2010

Although representing the most comprehensive data source currently available on country logistics and trade facilitation environments, the LPI for dry ports will also be subject to important limitations.

One sector that might be particularly sensitive to the quality of logistics is trade in parts and components. These products are traded within international production networks in which speed and reliability of delivery are vital. Networked production relies heavily on efficient and cost effective logistics services to spread production across multiple countries and reduce inventory carrying costs to a minimum.

4. Conclusion and matters for discussion

The underlying concept for assessing performance indicators to measure the process quality of dry ports is a first approach towards a standardized process for collecting and evaluating data on the performance of dry port. Our approach demonstrates that dry ports have to be considered complex systems that will require much more attention in the future. This will allow bearing in mind the big picture while not losing sight of the operating details.

The purpose of our study is to establish a framework that allows impartial performance monitoring. Our comprehensive and comprehensible set of performance indicators will provide timely feedback.

The LPI captures some crucial aspects which would have been very difficult to measure otherwise: perception of logistics environment, efficiency of customs, quality of transport and infrastructure, timelines of shipments in reaching destination, domestic logistics costs.

On the one hand, a vicious circle is making poor infrastructure and ill functioning institutions obstruct the development of services, which in turn, bring no incentive for improvement in the logistic support. Developing countries caught in this vicious circle can escape only by implementing trade and transport facilitation measures.

One area that can be explored further is the potential for logistics upgrading to affect different economic sectors in different ways.

Since Romania's economic growth has been mainly fuelled by real estate and industrial developments, two extremely cyclical businesses, there is a major risk of an economic downturn if there is no major improvement in the logistics performance, able to boost the services sector. Romania should rapidly improve the road infrastructure, fight the crime on the roads, reduce chronic bureaucracy and introduce more efficient custom procedures.

5. References

[1] V. Roso, J. Woxenius, K. Lumsden, 2008. "The dry port concept – connecting seaports with their hinterland", *Journal of Transport Geography*, Elsevier, 17(5), 2008, pp.338-345.

[2] UN/ECE, 1998. UN/LOCODE – Code for Ports and other Locations. Recommendation 16. Geneva: UN.

[3] Indian Customs, CBEC Manual, Setting up of ICDs/CFSs. <http://www.cbec.gov.in/customs/cs-manual/manual_23.htm>, 2004, Accesed 01/10/2009.

[4] P.W. Cardebring, C. Warnecke,. "Combi-terminal and Intermodal Freight Centre Development", KFB-Swedish Transport and Communication Research Board, 1995, Stockholm.

[5] A.K.C. Beresford and R.C. Dubey, Handbook on the Management and Operation of Dry Ports, UNCTAD, Geneva, 1990.

[6] Law No. 363/2006, Spatial planning of the national territory, Monitorul Oficial, Bucureşti, 2006.

[7] Arvis, J-F., et al., The Logistics Performance Index (LPI) and its indicators. Connecting to Compete: Trade Logistics in the Global Economy, The World Bank, Washington, DC., 2010.

Economic Dimension of the Romanian Companies in Financial Crisis

Codreanu Carmen Mariana
Costuleanu Carmen Luiza
"Petre Andrei"University of Iasi, Faculty of Economics
codrcarmen@yahoo.com
ccostuleanu@yahoo.com

Abstract

Once Romania joins the European Union, the corporate environment has undergone significant structural changes and remodelling, the impact of accession reflecting on all companies in Romania, regardless of the economic sectors operating, capital structure or size. In terms of integration, domestic market size is no longer a stimulator advantage, which transfers the competition for foreign direct investments in terms of cost and labour skills, level of corruption and taxation.

In recent years there have been many changes in the strategic behaviour of firms, from dependency and economic adaptation to the system states to give priority to competitive advantage, focusing on increasing quality, technology and production efficiency.

Any company has one goal, to maximize profit. The process of maximizing profit is simple. Analyze demand of consumers, and provide appropriate supply, in good quality and quantity. There are however many factors that affect this simple operation. These factors are often classified as macro and micro, internal and external, technical and non-technical. All the same, the sales, production and procurement of the business organizations, directly or indirectly depends on these factors.

Key words: integration, economic adaptation, profit, business.
J.E.L. classification : M2

In the EU, small and medium enterprises cover about 99.8% of all businesses and provide two-thirds of all jobs. It is a fact that these enterprises are the main marker of growth and development jobs. To achieve in our country such targets should be developed the entrepreneurial environment and the innovation sector and focused on small and medium enterprises particularly, the traditional business.

Both before joining the European Union and after, the Romanian companies past and will still have to go through several stages of transformation. The first phase was the beginning of the transition period until the end of the recession (around 1998), where not only companies 'grope' changes in their ownership and governance, but also tried to escape the transformation recession. At that time the organizational structure of firms seeking decomposition into smaller units, forming a new type of government corporations and reorganizing the company structure into one more flexible and adaptable to environmental changes.

The second phase was around the period 1998-2004, when the Romanian economy began to enter on the orbit of growth. Companies have begun to create a strategy based on innovation and diversification, the move towards international integration, seeking new forms of inter-firm cooperation.

The last part of the period (after 2003) coincided, under the influence of EU adhesion, to when the Romanian firms have begun to focus on the renewal of technologies and to organize to meet EU criteria.

After joining EU, Romania has made considerable progress in transition, with 70% of economic activity in „private hands", advanced price liberalization, an open foreign trade regime and significant progress in the gradual opening of the main markets, such as the energy sector and banking sector reforms and infrastructure. It is also continued and improved government legislation on corporations by introducing compulsory voting public companies. Many local small and medium enterprises are incorrectly prepared for open and competitive market and to meet the considerable needs for

investment which ensure profit. The access of Romanian companies to loans in foreign currency is constrained by the requirements imposed to commercial banks to make loans in strong foreign currency.

Any company has one goal, to maximize profit. The process of maximizing profit is simple. Analyze demand of consumers, and provide appropriate supply, in good quality and quantity. There are however many factors that affect this simple operation. These factors are often classified as macro and micro, internal and external, technical and non-technical. All the same, the sales, production and procurement of the business organizations, directly or indirectly depends on these factors[1].

Internal environment, operational environment and external environment are three major classes of such factors. The following list is however a comprehensive and integrated list of all possible economic factors that affect the working of business organizations.

The demand and supply are two principal factors that affect the working of any business model. The demand is the will and ability of consumers to purchase a particular commodity and the supply is the ability of the business to provide for the demand of consumers. It must be noted that all the factors that are included in this list are inter-connected.

Utility is the amount of satisfaction, which is derived by consumers from consumption of goods. It so happens that after continuous and successive consumption of units of the same goods, the satisfaction that is experienced by consumer starts decreasing. This often results into short term or long term fall of sales. Some organizations prepare for the launch of another brand before the fall in utility and sales are experienced. The launch of new brand ensures that the revenue trend of the business does not fall. Diminishing utility is among the external factors affecting business.

Banking facilitates monetary and fiscal policies that affect business and also the customers of the business.

Money in circulation dictates the paying power or rather the demand of the consumers and the banking facility dictates the borrowing capacity of individuals as well as the business.

Economic growth dictates the amount of finances that the society at large is earning and development indicates the volume of money that is being invested into channels of long term up-gradation. Among all the economic factors affecting business environment, development is the most important one, as the business has to cater to the demand of an economically dynamic society.

Another very important aspect of the economic dimension of companies that affects the working of the business is the level of employment and rate of income. The per capita income and density of employment dictates the rate of demand, density of demand and also the purchasing power of the people.

The general price levels of the commodities also affect the sales of the business. Costs of raw materials, paying power of people, cost of production and finally, cost of transport are some of the important components that determine the general price level and also, the sales of the companies.

Trade cycles are the fluctuating costs of goods and commodities in an economy. Rise, stability, continuity and fall are some of the important cycles that affect the prices off all goods such as raw material, credit, final goods, etc. Trade cycles also many a times affect the general price level.

Each company must develop strategies with particular attention to developing computer technology as a generalized tool to give a special role of research and development, innovation and to reduce the lohn system, to promote the organic products. This addition will help increase profits and geographical areas of export diversification both inside and outside the EU[2].

Among the measures to be taken to strengthen the Romanian companies, especially small and medium enterprises, include:

- health assessment practices for small and medium enterprises and the creation of a guide of "best practices" proposals and opinions. The means used are based primarily on instruments used in these practices, experience in benchmarketing - success or failure, identified as showing the path of development, in countries with economic difficulties.

- in terms of corporate finance, a large number of bodies must intervene to solve this problem.

– an important role of diasporas: a very expensive problem for migrant transfers and mobilization skills insufficiently structured.

Costs of integration is circulated as are, in fact, costs of modernization of Romania, which will have done anyway, even without community support, where we have not integrated. We can say that because we invest in highways integrate or would be, in fact, correct to say that we want better roads, contributing to the economy and thus create new jobs? We can say that investments to reduce pollution or improve drinking water quality are made just because we joined the European Union? Right as we would be interested to have a better water and a cleaner environment, hygienic conditions to be met by slaughterhouses and dairies, in order to ensure food safety. So, most of the costs of membership are considered related to improving our lives. They would have done anyway. Now, are supported with EU funds.

During 2005-2025, Romania will allocate about 1% of GDP annually for environment and transport and the European Union, 1.7% of GDP in Romania. It is true that the amount offered by the European Union must add a co-financing. This does not mean contribution to the Community budget; it is an investment in development projects in Romania. Certainly would not have been more bearable for the population if we had to make these investments with funds 100% Romanian. Therefore, the contribution of Romania to the EU budget is approximately EUR 2.5 billion in 2007-2009 (800 million in 2007 and by approximately 900 million in 2008 and 2009).

The economy goes through different cycles. One of them is recession (economic and financial crisis). It is observed when the prices start to increase, the living standard starts to fall, unemployment rises, and businesses stop expanding.

An indicator of recession is a decreasing gross national product (GDP) of a nation. In fact, many experts consider that there is an economic recession only when a negative GDP growth has been observed over two consecutive quarters.

However, it is generally considered that a recession starts when there have been several quarters of slowing even if they have been positive.

Economic crisis is defined as a significant decline in the economic activity across a country, lasting longer than a few months. Normally, the recession is visible in real GDP growth, industrial production, wholesale-retail trade, real personal income and employment[3].

The economic crisis has cut an uneven swath through the global economy. Export-oriented economies, for example have been more severely impacted than countries more self-reliant on domestic consumption.

The same can be said for companies in the automotive and banking industries, which have been much harder hit than noncyclical industries such as consumer products and healthcare. But one particular cross-section of the economy that has received relatively little attention despite bearing the brunt of the credit crisis has been small and medium companies. Whereas national governments were quick to throw lifelines to certain companies considered "too big to fail", their too-small-to-save small and medium companies counterparts were left to fend for themselves when banks cutoff their access to credit at the height of the crisis.

For 2010 the economy of Romania is widely believed to start recovering, yet slowly and not all of the massive drawbacks can be overcome in 2010. Especially the Romanian labor market will remain in a bad shape.

The former level of unemployment in Romania of just some 4.4% is not expected to be reached again before 2014, though a first decrease of 1.4% to 6.2% is expected for 2010. Real wages in Romania experienced a negative growth -2.3% though average gross salaries grew by some 5%. However, the times of double digit growth rates seem to be gone for the next few years when it comes to salaries in Romania.

The GDP of Romania is estimated to grow by 0.5% during 2010 (CNP, some banks even estimate a growth up to 1.9%), but the former level of 2009 will not be reached before the end of 2011 according to the latest CNP estimations. The very same is true for exports from Romania, which have been a main driver of growth during the past years.

Inflation is believed to remain on the low side for Romanian standards, yet still on the high side for overall trends in the EU. The Exchange rate for Romania's currency is estimated to stabilize at 4.25 RON/EUR, yet this estimate has not remained unchallenged. Several analysts expected the LEU to drop until 4.5 RON/EUR. On the other hand, during the first half of January 2010 the RON appreciated considerable for some days, but without convincing that the effect will stand the test of time [4].

Table 1 Current estimates of the economy of Romania

Economic Indicator (%)	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
GDP	7.1	-7.7	0.5	2.4	3.7	4.4	5.2
Exports	13.8	-22.3	1.34	4.57	6.65	7.29	9.16
Import	9.80	-36.5	3.09	5.79	8.33	9.07	10.2
Current Account	-12.3	-4.59	-5.1	-5.2	-4.9	-5.02	-4.90
Average Gross Salary	1,68	1,76	1,83	1,92	2,02	2,13	2,28
Growth Rate Vs Year Before	26.4	5.05	3.90	4.58	5.21	5.45	7.14
Average Real Wage Growth	16.5	-2.3	0.20	1.10	2.30	2.70	4.60
Exchange Rate							
-Ron/Eur	-9.3	-15.4	0.00	1.18	1.19	1.20	1.22
-Ron/Usd		-21.4	0.00	1.31	0.66	1.67	1.36
Inflation	6.3	4.5	3.5	3.2	2.6	2.3	2
Unempl.	4.4	7.6	6.2	5.7	5.3	4.9	4.6

Source: CNP (Comisia Naţională de Prognoză)

The government should take a series of steps to overcome the economic crisis, such as[5]:

- a lower inflation;
- implementation of the innovation process in all sectors of the economy;
- implementation of reform with focus on two aspects: macro and micro-prudential supervision;
- develop a connection between the wage incentives and risk management;
- the expansionist measures must be associated with exist strategy from the beginning.

References

[1] D. Arnould, *Analyse des crises economiques d'hier et d'aujourd'hui*, Paris: Dunod, 1989, p. 34
[2] G. Cooper, *The origin of financial crises*, Editura Vintage, SUA, 2008, p.154-160
[3]C.M. Reinhart, K.S. Rogoff, "The Aftermath of Financial Crises", *American Economic Review*, May 2009, v.99, iss.2, pp. 466-472.
[4] ***CNP-Comisia Naţională de Prognoză, Bucureşti, 2010
[5] ***Plan măsuri anticriză adoptat de Guvernul Republicii Italiene, 2009, p. 15

The Evaluation of Customer Satisfaction in Terms of Characteristics of Services Offered by Trodat Company

Constandache Mihaela
Ionescu Adriana
„Dimitrie Cantemir" Christian University, Faculty of Touristic and Commercial Management Constanta
micky_eve68@yahoo.com
ioneascaadriana@yahoo.com
Radu Steluța
Agricultural Science and Veterinary Medicine University of Iaşi, Agriculture Faculty
r_stela_222@yahoo.com

Abstract

Organization and specially shaping the services content should provide greater flexibility and a variation of them depending on the specific needs of each client, time of application, place of achieve and the consumer's mood.

The impact of products/services of a firm on its market show the performances of the entreprise by adapting products or services to customer needs. Studying consumer needs is a prerequisite for achieving quality products and services to obtain business competitiveness through a strategy focused on quality.

In order to assess the quality of products and services provided by Trodat LLC, Servqual instrument has been applied primary using data on the dimensions of the applied processes.

The performed analysis shows the biggest difference between the customers perceptions and expectations regarding the speed and timeliness of service provided and respectively, the rightness of order execution.The consumers perceptions were relatively apropiate of their expectatons in terms of staff attitude to customers, the performance of unit equipment and respectively, the detailed and accurate customer information.

Key words: customer satisfaction, evaluation, quality of services, Servqual instrument.
J.E.L. classification: L8; L81

1. Introduction

Outlining the role and place of services in the economy of a country should consider both the objective conditions of international economic development and the ever increasing of the society and population demands of each country.

Economically, the comercial services are a major opportunity for both trade companies as well as manufacturing and supply companies. The quality of services image acting in an intensive manner on the behavior of potential customers purchase physical product, the sale being in a range depending on quality of implementation services that support them.

Services are the best vector through which can be founded and developed a dense system of relationships between businesses and their customers. It may also discuss the contribution of services to increase the loyalty of the market, namely consumers in a market with product groups supported by such services [3].

2. Evaluation of Trodat company customer satisfaction

To control means first of all to measure. Measurement is a key process in any organization. No measure can not know any results or if they meet the objectives set out above. Do not know if what has been achieved adapt quality standards and also will not know until the planned quality level was achieved.

The service characteristics determine certain feature of the quality control process performed on them. First, the service production is simultaneous with its delivery. This prevents the achievement of service control quality before it reachers the customer to have the opportunity to reject those feature that do not meet the standard stipulated. Secondly, in services case the quality control subject it is not the physical size but a different tipe of feature such as: service completeness, time, term execution [2].

Criteria that must be considered in evaluating a service are the criteria set by customers. An organization concerned with quality should be interested in:

- identifying customers needs and expectations;
- assessment of perception that they have about the service and its various components;
- detecting errors and their causes;
- drive for quality improvement [4].

Knowing the customer expected is essential both for quality planning and quality evaluation.

In fact, there is satisfaction when the service perception will be at least equal to expectation that there will be about it.

Succes in this correlation even if the perception would exceed expectation influence the acquisition of service quality.

3. Research methodology

To assess Trodat LLC customer satisfaction on provided services Servqual instrument, a specific quality management tool was used.

SERVQUAL is built on a response scale designed to include both customer expectations and perceptions regarding a service. This instrument allows assessment but is also an improvement and comparison tool with other organizations of the sector.

The Servqual instrument application was completed the following stages:

a) determining the intensity of customer expectations regarding several service components. For this on a sample of 100 persons was applied a questionnaire to determine Trodat LLC customer expectation regarding the quality services consisted on execution and delivery of stamps.

b) determining the customers perception of a various elements of the service provided by Trodat company. On the same sample of people was applied a second questionnaire to identify their perceptions of the service components.

c) assessment the quality of service execution and delivery of stamps provided by Trodat company [1].

For each criterion examined was calculated the rank of customer expectation and respectively of customer perceptions regarding the stamps execution and delivery services provided by Trodat company. The results are summarized in Table 1.

Table 1. Results obtain from analysis of customer expectations and perception of Trodat company regarding the services provided

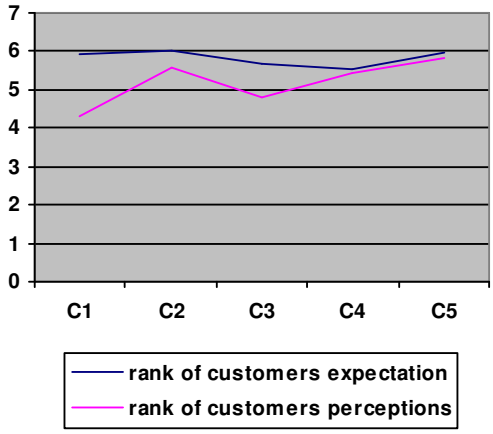
No	Criteria analyzed	Rank of expectactions	Rank of perceptions
C1	Speed and timeliness of service provided	5.92	4.32
C2	Detailed and accurate customer information	6.02	5.58
C3	Fairness command execution	5.67	4.81
C4	Positive attitude of staff towards customers	5.54	5.42
C5	Providing society with modern devices	5.98	5.81
Arithmetic media		5.83	5.19

Then, based on the obtained data is calculate the Quality of Service Perception Index (QSPI) following the formula:

$$QSPI = \frac{\text{The arithmetic media of the perception items}}{\text{The arithmetic media of expectation items}} = \frac{5.19}{5.83} = 0,8$$

The final results of the level of customer satisfaction analysis regarding the quality of execution and delivery services performed by Trodat company are presented in figure 1.

Figure 1. Trodat company customer satisfaction regarding services of execution and delivery stamps



4. Conclusion

Successful organizations use customer needs and expectations as a starting point in designing the company's development strategy. Therefore, satisfaction administration is linked to the management of services or products but are also important managing expectations and perceptions in final satisfaction of customers.

The performed analysis shows the biggest differences between the customers perceptions and expectations regarding the speed and timeliness of service provided and respectively, the rightness of order execution.The consumers perceptions were relatively apropiate of their expectatons in terms of staff attitude to customers, the performance of unit equipment and respectively, the detailed and accurate customer information.

After analysing differences between customer expectations and perceptions regarding the elements of execution and delivery service provided by Trodat company can make following recommendations:

- as detailed and accurate customer information to ease initiation comand;
- improve the takeover speed comand to avoid congestion control;
- ensuring the timeliness of service provision by the deadlines set;
- quality assurance of products by following the methodology of implementation of stamps;
- developing additional services for customers near the company.

To streamline the service must take into account that these surveys provide the focus manager strengths and weaknesses of service from the customer's point of view and therefore they must be applied regularly and taking action to improve service through weakness of its intervention.

5. References

[1] C. Dobrin., *Quality processes management*, Bucharest, 2006;
[2] J.M. Juran, A.B. Godfrey, *Juran quality management,* Romanian Society for Quality Assurance, 2004;
[3] D. Patriche, *Trade economy*, Uranus Publisher, Bucharest, 2002;
[4] I. Stanciu, *Total quality management*, Academic Paper Publisher, Bucharest, 2003

Public Private Partnership in Europe - Challenges During The Crisis

Coreţchi Doru-Cristian
The Academy of Economic Studies, Bucharest
doru.coretchi@doc-cdi2008.ase.ro, dccoretchi@yahoo.com

Abstract

In many countries, anti-crisis public measures focus on higher public investment or investment in public objectives, like investment in infrastructure projects as an important mean to maintain economic activity during the crisis and support a rapid return to sustained economic growth. An instrument to realize these investments is the Public-Private Partnership (hereafter PPP).

Nevertheless, PPP's are vulnerable to the economic impact of the crisis. Although the final consequences and duration of the crisis are not yet known, the effects on PPP's can already be identified and estimated. The crisis has made the conditions for this instrument more difficult. Despite some signs of recovery, the volumes and values of the PPP projects currently closing is still significantly below the level reached before the crisis.

Key words: Public-Private Partnership, EU-funding, economic crisis, investment, infrastructure
J.E.L. classification: D53, H54, H57, L32

1. Introduction

This article aims at presenting the impact of the economical and financial crisis on Public Private Partnership (hereinafter, PPP) in European Union (hereinafter, EU) generally and particularly in Romania as well as the challenges to be overcome in order to activate the potential of PPP as an instrument for economic recovery.

In this context, the EU is forced to bring a series of responses to the crisis effects on PPP as well as several institutional contributions to the benefit of all Member States, like the definition of a special regulatory framework, support initiatives, mobilization and activation of financial resources, (EU-funds, European Investment Bank, TEN-T instruments), both within and outside the EU, creating the prerequisites for the European organizations' access to markets beyond the EU- borders. In the near future, as well as on the mid-term 2010-2011, several measures and actions shall be taken in order to stimulate the PPP.

The PPP stage in Romania is an incipient one, even under-developed, and its evolution in the coming period shall depend on the evolution of this instrument at the general EU -level and on the institutional capacity to align to Community actions.

2. Definition of Public-Private Partnership

A PPP is an arrangement between the public and the private sector, where the private supplies assets and services traditionally provided by the public sector. Without having a general consensus on a precise definition of PPP in the literature by now, we shall define the PPP as being characterized by following features (Burger et al., 2009, p. 4):

1) An agreement between a government and one or more private partners whereby the private partner undertakes to deliver an agreed upon quantity and quality of service;

2) In return for the delivery of the agreed upon quantity and quality the private partner receives either a unitary charge paid by government or a user charge (e.g., a toll) levied by the private partner on the direct recipients of the service;

3) An emphasis on a whole-of-life approach. The private partner is usually responsible for both the construction and operational phases of the project;

4) Some degree of risk sharing between the public and private sector that in theory should be determined on the basis of which party is best able to manage each risk, thus ensuring that the PPP optimizes the Value for Money (VfM).

3. The impact of the economic and financial crisis on PPP at EU-level

At EU level, PPP's can offer more leverage to important projects and boost the innovation capacity together with driving the competitiveness of European industry in sectors with significant growth and employment prospects. However, just at the time when the more systematic use of PPP's would bring considerable benefits, the crisis has made the conditions for these instruments more difficult. It is therefore urgent and important to look at new ways to support the development of PPP's.

By the end of 2007, the PPP market had changed dramatically, coming close to stopping in its tracks. The spread of the banking crisis has brought about a re-evaluation of whether funders can provide long term, highly leveraged project finance, given the lack of confidence in refinancing options and in capital markets. Deals have closed, but on significantly higher margins and more aggressive terms, with general difficulty in reaching financial close in a timely manner on even the best of projects. Equally, the public sector has been suffering with a reduction in tax revenues and big holes in government budgets, together with rising unemployment and social expenditure. Thus, governments have had to look hard at their economic policies and decide whether they should use spending on infrastructure as an anti-cyclical measure. (EPEC, 2009, p.5)

Many governments have used spending on infrastructure, including on PPP, as an anti-cyclical method of stimulating the economy. In addition, the EU Commission's recent Communication on PPP (published in November 2009) has promoted the use of PPP as an economic tool. In this environment, the majority of European countries are likely to significantly step up their PPP programs or commence major PPP programs for the first time.

Nevertheless, PPP's are vulnerable to the economic impact of the crisis. Although the final consequences and duration of the crisis are not yet known, the effects on PPP's can already be identified and estimated. The crisis has made the conditions for this instrument more difficult. Despite some signs of recovery, the volumes and values of the PPP projects currently closing is still significantly below the level reached before the crisis (The EC Communication 2009).

EPEC (2009a, p.6) summarizes the impact of the current credit situation on the PPP market, seeing the key points in:

- the drastically reduced liquidity resources, due to the collapse of the inter-bank lending market
- the competition between project finance and PPP lending for scarce capital allocations
- the low speed of transactions closing
- the high bank margins
- the significantly reduced credit periods
- the withdrawal of the banks from the Project Finance market and also reorientation domestic markets.
- the lack of viable capital market solution

4. The evidence of the crisis impact on PPP

As described in the previous section, a significant effect of the crisis is the increased difficulty in accessing finance. The evidence for that is found in the shifting preferences of financial institutions. A survey of PricewaterhouseCoopers (PwC) involving more than 20 important banks on the PPP market in UK, shows that the financial crisis caused a shift in the preference of banks, moving away from long-term loans and towards shorter term loans. (Davies, 2009).

The same study (PwC) concludes that the willingness of the banks for the long-term lending depends either on strong client relationships and/or strong refinancing incentives. Nevertheless, there are at the same time also banks that cannot offer long-term financing due to limited capital.

The immediate negative effect is on longer term PPP's (e.g. over 20 years), that cannot secure their long-term financing and will be forced to live from shorter-term loans, which subsequently leads to higher exposure of the private operators. These will be facing more refinancing risk in terms of credit availability and future interest rate volatility.

Another PPP survey completed in 2008-2009 by the World Bank under its Public-Private Infrastructure Advisory Facility (PPIAF), 316 projects were surveyed, out of which 95 were in delay, especially due to the crisis. Finally, the survey concluded that the financial crisis affected mostly new projects in emerging market countries (World Bank PPIAF, 2009)

EIB (2010, p.6) takes a closer look at the evolution of PPP's in the EU during the financial crisis that began in 2007, providing a descriptive assessment of the evolution of PPP in Europe.

Table 1- Evolution of Public Private Partnership in the European Union

Year	Number of projects	Value of projects (in € millions)
1990	**2**	**1386.6**
1991	1	73.0
1992	3	610.0
1993	1	454.0
1994	3	1148.4
1995	12	3264.9
1996	26	8488.2
1997	33	5278.0
1998	66	**19972.4**
1999	77	9602.6
2000	97	15018.5
2001	79	13315.3
2002	82	17436.2
2003	90	17357.1
2004	125	16879.9
2005	130	26794.3
2006	144	27129.2
2007	136	29597.9
2008	115	24198.0
2009	118	15740.4
Total	**1340**	**253744.9**

Source: European Investments Bank, 2010, PPP in Europe - Before and during the recent financial crisis

The table shows that PPP's in Europe increased substantially before 2008, but considerably declined afterwards. The decrease in the number and value of PPP contracts in 2008 and 2009 lead back to the levels before the PPP peak in 2006/07.

The number of PPP's in 2008 and 2009 was similar to the one in 2004. Even stronger was the decline in the value of PPP contracts during the financial crisis: the value of PPP projects closed in 2009 was close to 2000 levels.

The total value of PPP transactions amounted for EUR 15.8 billion in 2009, with a decrease of almost 50% compared to 2007. The total value of closed deals has declined more than the number of deals. At the same time, the PPP market in Europe continues to diversify across countries and sectors. In 2008, the UK share in the total number of EU-PPP's fell below 50%. In many respects, however, the reduction in the European PPP market observed during the financial crisis can be seen as a reversal of an extraordinary spike in the years preceding the crisis. (EIB, 2010, p.1)

5. The responses of the EU to the crisis effects

The crisis is placing renewed pressure on public finances in many Member States, and at the same time makes it more difficult to secure long term private investment in capital intensive projects. EU financing through the Structural Funds, the European Investment Bank or TEN- T instruments can help to mobilize PPP solutions for essential investment in projects even at a time of reduced availability of national public or private resources. The EU also influences the environment in which PPP operate through its regulatory framework. (EC, 2009, p.6-11)

5.1. The regulatory framework

Several sets of Community rules have a direct or indirect impact on PPP. Going forward, it will be important to ensure that the applicable rules are appropriate and supportive while fully respecting the principles of the Internal Market.

In the past, there was a concern that Member State governments could use PPP as a way to conceal their expenditure and new liabilities on public balance sheets, loading up costs for the future, in contradiction with the Stability and Growth Pact rules. Similar concerns might be raised in the current context of public debts incurred due to the crisis. Eurostat developed rules on the statistical accounting of PPP, which clearly determine in which cases a PPP's asset(s) should be recorded on the government's balance sheet.

PPP are structured around a public contract or as work or service concessions. When public contracts or works concessions are involved, they are subject to the provisions of the public procurement directives if their value exceeds the Community thresholds. Following extensive modifications in 2004, EU public procurement legislation now provides for a range of procedures that contracting authorities can employ when awarding contracts. Notably, to enter into dialogue with tenderers in particularly complex cases, the EU rules now allow

opting for competitive dialogue. Its use may be appropriate in case of PPP where the contracting authority may not always be able to determine the technical specifications and the appropriate price level in advance.

5.2. The European Union-level Public Private Partnership- the Joint Technology Initiatives (JTI)

The Seventh Framework Program for Research introduced a new type of European public- private partnership at program level: the JTI based on Article 171 of the EC Treaty. This new instrument was created to promote European research in fields where the objectives pursued are of such a scale and nature that traditional instruments are not sufficient. The first JTI have been set up in five fields: innovative medicines, aeronautics, fuel cells and hydrogen, nanoelectronics and embedded computing systems.

5.3. The Structural Funds

PPP projects can be partly funded by resources from the Structural Funds. Nevertheless, few Member States so far seem systematically to design programs that bring Community funding into PPP structures21. There is a perception that combining different sets of EU and national rules and practices and timetables in one project may be complex and act as a disincentive. However, in many cases a PPP may offer the optimal approach for implementing projects. Strengthening Member States' institutional capacity and providing more practical guidance on combining Community funding with PPP should help national administrations to have more recourse to PPP when taking decisions about financing future major projects. The Structural Funds for the period 2007-2013 offer important opportunities to Member States to implement operational programs through PPP organised with the EIB, banks, investment funds and the private sector in general.

5.4. The European Investment Bank (EIB)

The EIB, the EU's long term lending institution, has actively sought to support efficient PPP schemes across Europe, and in particular in transport infrastructure. EIB has financed PPP projects of up to 30 bn euro until the end of 1980's (EIB, 2004, p.11-13). Furthermore, the EIB has established together with the Commission and Member States the European PPP Expertise Centre (EPEC), which aims to strengthen the organisational capacity of the public sector to engage in PPP through network activities and policy support to its members.

The Commission will work closely with the EIB and the private sector in order to increase the overall leverage effect of EIB funding, for instance through the blending of grants from the EU budget and EIB loans.

5.5. TEN-T instruments

Three financial instruments designed for TEN-T projects were introduced under the current TEN Financial Regulation, all of which aim to increase private participation. The value of such EU level financial support to PPP projects often goes beyond simple capital provision. They are also an expression of a political commitment by the EU that often makes financing institutions look more favourably at the risk profile of a project and therefore make it easier to secure its financing at more favourable conditions.

5.6. Public Private Partnership outside the European Union

The EU has made also contributions to PPP outside the EU. For example, the Global Energy Efficiency and Renewable Energy Fund is a PPP offering risk sharing and co-funding opportunities for commercial and public investors in developing countries.

In negotiations with our trade partners, the European Commission seeks to enlarge transparency and obtain market access commitments for PPP as it does with traditional public procurement contracts when dealing with government procurement in free trade and other bilateral agreements.

5.7. Future contribution of the European Union to the development of Public Private Partnership

In order to ensure that PPP continue to play a role in the longer term, in particular five key actions are indispensible in 2010-2011 at EU level (EC, 2009, p.16):

• the set up of a PPP group inviting relevant stakeholders to discuss their concerns and further ideas with regard to PPP. Where appropriate, it will issue guidance assisting Member States in reducing the administrative burden and delays in the implementation of PPP: in this context, it will explore ways to facilitate and to speed up the attribution of planning permits for PPP projects.

• cooperation between EC and the EIB with a view to increasing the funding available for PPP, by re-focusing existing Community instruments and by developing financial instruments for PPP in the key policy areas.

• the review of the relevant rules and practices in order to ensure that there is no discrimination in the allocation of public funds, where Community funding is involved, depending on the management of the project, be it private or public. It will make proposals for amendments, where appropriate.

• The Commission will propose a more effective framework for innovation, including the possibility for the EU to participate in private law bodies and directly invest in specific projects.

• The Commission will consider a proposal for a legislative instrument on concessions, based on the ongoing Impact Assessment.

To release fully the potential of PPP as a tool for facilitating economic recovery and building sustainability, competitiveness and high quality public services for the future as well as maintaining high level of environmental standards, the Commission intends to build an effective and enabling co-operation framework between public and private sector.

The Commission shall improve access to finance for PPP, facilitate the setting up of PPP through public procurement of PPP, ensure proper debt and deficit treatment of PPP, improve information and disseminate relevant expertise and know-how, and address the specific challenges of JTI and financing for innovation. (EC, 2009, p.11-15)

6. The crisis impact on PPP in Romania and its future prospects

In Romania, even if the PPP is not so well established, the crisis has an negative impact by the fact that is has come in a moment of intensive debates at high political and economic levels, of increasing popularity of the concept and of first signs of PPP activity in Romania. The financing reluctance of the banks affects the few PPP prospect projects stopping its long expected launch on the Romanian market. And when the banks show willingness to finance, the budgets of the local authorities cannot afford engaging long term commitments.

The financial crisis has affected also the first motorway PPP contract in Romania – the Comarnic-Brasov section of the Bucharest-Brasov motorway, as the winning bidder – the French-greek consortium Vinci-Aktor – had difficulties in finding the finance under the same conditions agreed at the beginning of the tender process in 2008. Another important motorway in Romania, namely Sibiu-Pitesti, has an estimated investment cost of more than 4,5 billion Euro, according to its feasibility study, and the only possible way to build it under such a large investment volume would be under PPP. On the other hand, the only possibility for a private investor to get a return from such an investment would be the involvement of the public sector, which under current crisis conditions seems very difficult.

Under the current situation, the development of PPP in Romania seem to be close related to its development at EU- level.

In the present context of restricted access to capital, of the institutional framework and political will and lacking a positive experience of PPP projects in Romania, an essential driver for the development of PPP are the initiatives of EU. It is to be expected that latest positive signals from EC will have a significant impact in Romania as well.

In this situation, the coordination of EU-funding and PPP projects, an action to come from EU, would be of high importance for the boost of the PPP market in Romania. There are already financing lines within the Regional Operational Program that allow the possibility of PPP financing, but there is neither a specific project example in this regard, nor coherent explanations regarding implementation possibilities.

The matching of EU funds with funds from other sources will continue to dominate Romanian projects. PPP models for procurement may become more widespread if they can be successfully integrated with EU funding.

The Romanian authorities will most likely focus on the main highway projects envisaged to be developed in the next few years, namely the IV Pan-European corridor which includes Bucharest-Brasov and Transylvania highways. PPP's have also been recognized as a potential means of rapid upgrading of hospitals by the Ministry of Public Health. The Ministry of Justice also expressed interest in developing prisons by the means of works concession contracts.

A PPP initiative has recently crystallized and a new law dedicated to PPP has been approved by the Romanian Parliament.

7. Conclusions

Developing PPP as a financial and economic instrument becomes critical as the financial and economic crisis is taking its toll on the ability of the public purse to raise adequate financial means and allocate resources to important policies and specific projects. The interest of the public sector in innovative financing instruments has increased and so has the political readiness to create conditions for more efficient ways of delivering infrastructure projects, whether in the transport, social, energy or environmental sectors. On the other hand, the private sector's interest in pursuing PPP could be limited by the prevailing regulatory framework and new economic constraints, as well as other longer established underlying factors such as limitations in the public sector's capacity to deliver PPP programs in many parts of Europe, including Romania.

Especially under the current economic conditions, the combination of public and private capacities and money within PPP's can help the process of recovery and the development of markets. However, just at the time when the more systematic use of PPP's would bring considerable benefits, the crisis has made the conditions for these instruments more difficult. Although there is now some evidence of recovery, the volume and value of projects currently closing is still significantly below pre-crisis level. It is therefore all the more urgent and important to look at new ways to support the development of PPP's.

EU can bring a significant contribution for overcoming the present context, ss the crisis is placing renewed pressure on public finances throughout the member states and, at the same time, makes it more difficult to secure long term private investment in large scale projects. EU financing through the Structural Funds, the European Investment Bank or TEN- T instruments can help to mobilize PPP solutions for the investment in projects even at a time of reduced availability of national public or private resources. Another EU contribution can be the influence on the environment in which PPP's operate through its regulatory framework.

The Commissions intentions to build an effective and enabling co-operation framework between public and private sector should be translated into actions as soon as possible, in order to release the full potential of PPP's, as a tool for facilitating economic recovery and building sustainability, competitiveness and high quality public services for the future.

Developing PPP remains the challenge for the time to come. PPP can become a critical instrument as the financial and economic crisis is limiting the ability of the public sector to raise sufficient financial resources and allocate them to important policies and specific projects. The interest of the public sector in innovative financing instruments has increased and so has the political openness to create conditions for more efficient ways of delivering infrastructure projects, regardless of their sector. At the same time, the private sector's interest in pursuing PPP's could be limited by the prevailing regulatory framework and new economic constraints, as well as other longer established underlying factors such as limitations in the public sector's capacity to deliver PPP programs in many parts of Europe.

8. Acknowledgements

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

9. References

[1] Burger, P., et al., 2009, *The Effects of the Financial Crisis on Public-Private-Partnerships*, IMF Working Paper, WP/09/144, p.4-9

[2] Davies, P., 2009, *A Review of Lending Appetite for Public Private Partnership Financings*, Talking Points, January (London: Public Sector Research Centre PricewaterhouseCoopers).

[3] DLA Piper (2007). *European PPP Report, 2007,* p.5-6

[4] EPEC, 2009a, *The European PPP Report 2009*, European PPP Expertise Center, DLA Piper, p.5-9

[5] EPEC, 2009b, *The financial crisis and the PPP market- potential remedial actions,* European PPP Expertise Center, p.6-7

[6] Euromed Transport Project, 2008, *Micro Study on Public Private Partnerships in the Transport sector- Promotion of Private Sector Involvement in the provision of transport infrastructure in the Mediterranean countries*, p.20-23

[7] European Commission, 2004, *Green Paper on Public-Private Partnerships and Community Law on Public Contracts and Concessions*, COM (2004) 327 final (Brussels: European Commission).

[8] European Commission, 2009, *Mobilising private and public investment for Recovery and long term structural change:developing Public Private Partnerships,*p.3-15, 19.11.2009, COM (2009) 615 final, (Brussels: European Commission).

[9] European Commision, 2004, *Green Paper On Public-Private Partnerships and Community Law on Public Contracts and Concessions*, COM (2004) 327 final (Brussels: European Commission).

[10] European Commission, 2009, *Mobilising Private and public investment for recovery and long term structural change: developing Public Private Partnerships,* EC Communication, Brussels

[11] European Investment Bank, 2004, *The EIB's Role in Public-Private Partnerships (PPPs)*, p.11-13,

[12] European Investments Bank, 2010, *PPP in Europe - Before and during the recent financial crisis,* July 2010, European PPP Expertise Center, p.6-7

[13] European Investment Bank, 2004, *The EIB's Role in Public-Private Partnerships (PPPs)*, July 15 2004

[14] OECD, 2008, *Public-Privaten Partnerships: In Pursuit of Risk Sharing and Value for Money*, (Paris: Organisation for Economic Co-operation and Development Publishing).

Knowledge and Sustainable Development

Cosma Sorinel
„Ovidius" University of Constana, Faculty of Economic Sciences
sorinelcosma@yahoo.fr

Abstract

Sustainability is like a visionary road map to guide our actions, as individuals, and in relation to the institutional structures with which we have contact. Over the past few decades, it has been widely recognized that sustainability cannot be reached without a strong science base, which is synonymous with knowledge. This paper will look into different aspects of the relationship between knowledge and sustainability such as how to organize the available knowledge on sustainable development, who has access to the available scientific knowledge for sustainable development, how to manage indigenous knowledge, what to make of knowledge systems, or how to cope with knowledge divide.

Key words: traditional knowledge, sustainable development, knowledge divide, knowledge system
J.E.L. classification: Q 56

1. Introduction

Many of the problems that we face today are the result of technological and scientific successes. This is explained by the fact that science is in fact a means without consideration of ends.

Many have argued for new thinking about science at different times in this century. Albert Einstein observed that "we cannot solve the problems that we have created with the same thinking that created them." John Maynard Keynes remarked that "the difficulty lies not in new ideas, but in escaping from old ones." And Friedrich Hayek, in his Nobel address, noted the irony that economists of his time were being called upon to solve the very problems which they had helped to create. These observations alone are enough to set us thinking about the role of knowledge in sustainability.

Economics and the economy are human constructs. The assumptions and assertions that are part of conventional economics are key issues that we need to address if we are to achieve sustainability. The need for new economics, ecological economics, has been quite clear for some time now.

Knowledge is indispensable for understanding and promoting technical, economic and social change in societies. Scientific and technological knowledge are considered to be at the basis of development as a factor of production as important as labor and capital. Still, a perspective on knowledge as a sustainable resource for development has not been formulated as such yet.

Knowledge may be the most powerful weapon against unsustainable development in some parts of the world, which are characterized by pervasive and overlapping high levels of poverty, hunger, illiteracy, illness, joblessness, insecurity, eco-degradation and international dependence. Indeed, knowledge is becoming the chief currency of the modern age and a decisive resource for sustainable development.

2. Traditional Knowledge

Traditional knowledge, indigenous knowledge, traditional environmental knowledge and *local knowledge* generally refer to the long-standing traditions and practices of certain regional, indigenous, or local communities. Traditional knowledge also encompasses the wisdom, knowledge, and teachings of these communities. In many cases, traditional knowledge has been orally passed for generations from person to person. Some forms of traditional knowledge are expressed through stories, legends, folklore, rituals, songs, and even laws. Other forms of traditional knowledge are often expressed through different means. Traditional knowledge is not recognized as knowledge per se by all who study it since it includes beliefs, values and practices.

The irony is that both "traditional knowledge" and "sustainable development" are contested terms, with widely varying definitions and interpretations.

For example, one way of looking at the concept is to say that it represents a body of knowledge built up by a group of people through generations of living in close contact with nature. It includes a system of classification, a set of empirical observations about the local environment, and a system of self-management that governs resource use. The quantity and quality of traditional environmental knowledge varies among community members, depending upon gender, age, social status, intellectual capability, and profession (hunter, spiritual leader, healer, etc.). With its roots firmly in the past, traditional environmental knowledge is both cumulative and dynamic, building upon the experience of earlier generations and adapting to the new technological and socioeconomic changes of the present.

Indigenous knowledge is used at the local level by communities as the basis for decisions pertaining to food security, human and animal health, education, natural resources management, and other vital activities. IK is a key element of the social capital of the poor and constitutes their main asset in their efforts to gain control of their own lives. For these reasons, the potential contribution of IK to locally managed, sustainable and cost-effective survival strategies should be promoted in the development process. Indigenous knowledge is a critical factor for sustainable development. Empowerment of local communities is a prerequisite for the integration of IK in the development process. The integration of appropriate IK systems into development programs has already contributed to efficiency, effectiveness, and sustainable development impact.

The knowledge of how forests operate, how and where species travel, what plants produce what valuable medicines, what signs to look for in order to know when to plant, how to engage in managing the savannas and the plains, sustainable harvesting, etc. all contain lessons that scientists can learn from. Too often, it becomes a debate of scientific knowledge versus indigenous knowledge - a tension not helpful for sustainable development.

It is fortunate to observe that interest in the role of indigenous knowledge in sustinable development has increased. Nevertheless indigenous knowledge continues to be largely disregarded in development planning, it plays only a marginal role in biodiversity management and its contribution to society in general is neglected. Furthermore, indigenous knowledge is being lost under the impact of modernization and of ongoing globalization processes.

Indigenous knowledge may contribute to improved development strategies in several ways such as by helping identify cost-effective and sustainable mechanisms for poverty alleviation that are locally manageable and locally meaningful; by a better understanding of the complexities of sustainable development in its ecological and social diversity; and by helping to identify innovative pathways to sustainable human development that enhance local communities and their environments.

Numerous definitions of indigenous knowledge have been put forward lately.

From a geographical point of view, it is understood as the unique, traditional, local knowledge existing within and developed around the specific conditions of men and women indigenous to a particular geographic area.

In terms of uniqueness, indigenous knowledge has also been identified as unique to a given culture or society. From this perspective, it contrasts with the international knowledge system generated by universities, research institutions and private firms. It is in fact the basis for local-level decision making in agriculture, health care, food preparation, education, natural-resource management, and a host of other activities in rural communities.

Furthermore, it appears as a cumulative body of knowledge and beliefs, handed down through generations by cultural transmission, about the relationship of living beings with one another and with their environment. As a consequence, we may say that it is an attribute of **societies** with historical continuity in resource use practices, non-industrial or less technologically advanced societies, many of them indigenous or even tribal.

No matter how they worded their own definitions, there is consensus amongst scientists that such knowledge is linked to a specific place, culture or society, is dynamic

in nature, belongs to groups of people who live in close contact with natural systems, and contrasts with modern or Western formal scientific knowledge.

3. Knowledge-Related Problems for Sustainable Development

Organizing available knowledge on sustainable development is one important issue at world level. A rather significant body of knowledge on the concept and practice of sustainable development has emerged lately. Nevertheless, much of this information is fragmented and is often not available in a form that is convenient for policy makers and practitioners.

To overcome this barrier, the Sustainable Development Knowledge Partnership (SDKP) was established within the UN Department of Economic and Social Affairs. Its goal is to organize the available knowledge on sustainable development, and make it available to policy makers and practitioners in more accessible and user friendly formats. This initiative is meant to bring together individual researchers, institutions, networks, organizations that are engaged in the production and dissemination of knowledge on sustainable development.

Access to scientific knowledge for sustainable development is another essential issue. Because, once organized, this knowledge for sustainable development has to become in one way or another available for all countries, regions, communities. Unfortunately, the cost of access to published journals has become prohibitive for developing countries and has deteriorated in the past decade as journal subscription prices exceed general inflation figures three- or four-fold. A number of initiatives have been set up to try to overcome this problem such as donations and free open access - in terms of their sustainability and ability to build scientific research capacity.

4. The Knowledge Divide

The knowledge divide emerges as a challenge to sustainable development.

The concept is used to describe the gap in living conditions between those who can find, manage and process information or knowledge, and those who are impaired in this process. As specialized knowledge becomes an ever-increasing component in society, and the spreading of this knowledge becomes ever faster with modern technology, the people who cannot take part in this development will be increasingly isolated and marginalized.

Parts of the world possess an abundance of knowledge, while other parts possess less of it. And it is an undeniable fact that the gap between these two categories keeps increasing.

On the one hand, in areas of the world where knowledge is abundant, its products improve the quality of life but many of the processes used to obtain the products are not sustainable. On the other hand, in areas of the world where scientific knowledge is scarce, there is no development at all or development which is also not sustainable.

Since every community or society has indigenous knowledge, there should not be a knowledge divide. The knowledge divide stems precisely from the kind of knowledge required for sustainable development.

5. Knowledge Systems

Knowledge systems is another important concept. Knowledge systems are viewed as consisting of networks of linked actors, organizations, and objects that perform a number of knowledge-related functions (including research, innovation, development, demonstration, deployment, and adoption) involved in linking knowledge and know-how with action.

In addressing the goals of sustainable development, the role of science is undoubtedly crucial. Scientific knowledge and appropriate technologies are central to resolving the economic, social and environmental problems that make current development paths unsustainable. However, science does not constitute the only form of knowledge, and closer links need to be established between science and other forms and systems of knowledge in addressing sustainable development issues and problems at the local level.

Effective systems apply a variety of institutional mechanisms that facilitate communication, translation and mediation across boundaries.

The whole idea is to better integrate knowledge from policy makers, communities, and researchers with the goal of promoting

more effective action to balance poverty alleviation and wildlife conservation, for instance.

6. Conclusions

Narrowing knowledge gaps, in our knowledge about society as whole, about our environment, about knowledge transfer, about access to appropriate knowledge is of the uttermost importance in the attempt to reach the state of sustainable development. Also, we must keep in mind that indigenous people have a broad knowledge of how to live sustainably. However, formal education systems have disrupted the practical everyday life aspects of indigenous knowledge and ways of learning, replacing them with abstract knowledge and academic ways of learning. Today, there is a grave risk that much indigenous knowledge is being lost and, along with it, valuable knowledge about ways of living sustainably. We must not let this happen, but find the proper way to mange it and put it to great use.

7. Bibliography

[1] Pohoata, I., *Filosofia economica si politica dezvoltarii durabile,* Editura Economica, Bucuresti, 2003.

[2] Treillet, S., *L'economie du developpement. De Bandoeng a la mondialisation*, Arman Colin, Paris, 2005.

[3] Cash, D.W., Clark, W. C., Alcock, F., Dickson, N. M., Eckley, N., Guston, D. H., Jager, J., Mitchell, R. B., „Knowledge systems for sustainable development", *PNAS*, July 8, 2003, vol. 100, no. 14.

[4] „Science, Traditional Knowledge and Sustainable Development", Prepared by The International Council for Science and the United Nations Educational, Scientific and Cultural Organization, ICSU 2002.

The Five E's of Sustainability

Cosma Sorinel
„Ovidius" University of Constanta, Faculty of Economic Sciences
sorinelcosma@yahoo.fr

Abstract

Many are the concepts that are one way or another associated with sustainability. Among these, economy, ecology, equity, education and evaluation have been brought together as the five E's of sustainability. The purpose of this paper is to look into these five concepts and enlarge upon their impact on sustainability. We shall take them one by one and point out their importance to reaching the state of sustainable development so needed by any economy nowadays.

Key words: economy, ecology, equity, education, evaluation.
J.E.L. classification: Q 56

1. Introduction

Many definitions of sustainability have been put forward, but they all revolve around the interconnectedness of society, economy and environment.

Sustainable development involves devising a social and economic system which ensures that real incomes rise, that educational standards increase, that the health of the nation improves, that the general quality of life is advanced.

2. Economy

When we tackle the first of the five concepts, economy, we must think of compatibility with nature and consider economic development plans that protect and/or enhance natural resources through improvements in management practices, technology, efficiency, and changes in life-style. And that is because economics is about the efficient use of resources, usually expressed in monetary terms.

A sustainable system or process must be based on resources that will not be exhausted over a reasonable period (sometimes expressed as the 'long term') and must not generate unacceptable pollution externally or internally. A society needs reliable information on the resources available to it and on the consequences of their use. Material resources are whatever the society at a given moment either uses or recognizes as potentially usable. Because that list changes with society's needs and technology, what is useless one day may become vital the next. As recently as a century ago, aluminum, petroleum, and uranium were not significant resources. Geologists tend to think of "resources" as the stuff we take from the ground: metal ores, coal, petroleum, groundwater, limestone, phosphate, quartz sand and rock. The earth's resources, however, also include living things that are subject to human exploitation.

Traditionally, resources are grouped as "nonrenewable" and "renewable". Nonrenewable resources (examples: ores, petroleum, coal) replenish at geological rates that are much too slow to benefit human society. Once consumed, such finite resources are effectively removed from our inventory. New discoveries or more efficient extraction methods merely postpone their inevitable exhaustion.

"Renewable" resources (examples: timber, fishstock, groundwater) have rates of natural replenishment commensurate with the time-scales of human society. However, to consume such resources faster than they can replenish themselves is like withdrawing funds from a bank account faster than we make deposits; sooner or later that account will run out. More effective use of substitutes, recycling, and conservation can slow down depletion of a renewable resource (i.e., the amount of consumption that exceeds its renewal by all processes, natural or engineered), but they cannot halt the process.

To make a "renewable" resource truly renewable, the rate of consumption must not exceed the gross rate of renewal. Reaching a "sustainable world" will demand many changes to our priorities regarding resource utilization.

3. Ecology

When we think of ecology we think of the capacity of the natural ecosystem to cope with human economic activity. There is an urgent need to fully understand natural system processes of landscapes and watersheds to guide the design of sound economic development strategies. Ecologically sustainable development (ESD) should be understood as economic development that does not sacrifice the future quality of life for short-term gains, and helps maintain the ecological processes on which all life depends. Ecologically sustainable development is the environmental component of sustainable development. It can be achieved partially through the use of the precautionary principle, namely that if there are threats of serious or irreversible environmental damage, lack of full scientific certainty should not be used as a reason for postponing measures to prevent environmental degradation.

It implies using, conserving and enhancing the community's resources so that ecological processes, on which life depends, are maintained, and the total quality of life, now and in the future, can be increased. It seeks to achieve the human needs outcomes secured by physical development including buildings, while at the same time respecting the planet's needs to minimize demand on non-renewable resources, waste outputs and damage.

4. Equity

From the point of view of sustainability, equity can be explained as societal well-being for all people, which translates into guaranteeing equal access to jobs, education, natural resources, and services for all people balancing the playing field.

Equity means that there should be a minimum level of income and environmental quality below which nobody falls. Within a community, it usually also means that everyone should have equal access to community resources and opportunities, and that no individuals or groups of people should be asked to carry a greater environmental burden than the rest of the community as a result of government actions. It is generally agreed that equity implies a need for fairness (not necessarily equality) in the distribution of gains and losses, and the entitlement of everyone to an acceptable quality and standard of living.

Environmental inequities already exist in all societies. Poorer people tend to suffer the burden of environmental problems more than others do.

Intergenerational equity and intragenerational equity are two matters that deserve being taken into close examination.

Intergenerational equity is a the idea behind not reducing the ability of future generations to meet their needs is that, although future generations might gain from economic progress, those gains might be more than offset by environmental deterioration.

There are two different ways of looking at the need to ensure that future generations can supply their needs. One is to view the environment in terms of the natural resources or natural capital that is available for wealth creation, and to say that future generations should have the same ability to create wealth as we have. Therefore, future generations will be adequately compensated for any loss of environmental amenity by having alternative sources of wealth creation. This is referred to as 'weak sustainability'. The other way is to view the environment as offering more than just economic potential that cannot be replaced by human-made wealth and to argue that future generations should not inherit a degraded environment, no matter how many extra sources of wealth are available to them. This is referred to as 'strong sustainability'.

Equity can also be applied across communities and nations within one generation. The reason that intragenerational equity is a key principle of sustainable development is that inequities are a cause of environmental degradation. Poverty deprives people of the choice about whether or not to be environmentally sound in their activities. The Brundtland Commission stated that those who are poor and hungry will often destroy their immediate environment in order to survive: they will cut down forests; their livestock will overgraze grasslands; they will overuse marginal land; and in growing

numbers they will crowd into congested cities. The cumulative effect of these changes is so far-reaching as to make poverty itself a major global scourge.

High levels of affluence are perhaps even more damaging to the environment as they are accompanied by high levels of consumption, which lead to resource depletion and waste accumulation. Many environmental problems–such as global warming and chemical contamination–are the result of affluence rather than poverty. Inequities can also affect the environment in other ways. For example, the inadequate access to public transport and local services can result in greater use of cars, with their attendant environmental drawbacks including noise and air pollution, congestion and accidents.

5. Education

Education involves life-long learning, awareness, and training, which means citizens and organizations obtaining adequate and comprehensive information in creating authentic choices for action intended to affect sustainability. This can only be achieved by developing interdisciplinary curriculum to train students for careers in sustainable development.

The relationship between education and sustainable development is complex. Generally, research shows that basic education is a key to a nation's ability to develop and achieve sustainability targets. Research has shown that education can improve agricultural productivity, enhance the status of women, reduce population growth rates, enhance environmental protection, and generally raise the standard of living. But the relationship is not linear.

Education for Sustainable Development (ESD) is a vision of education that seeks to empower people to assume responsibility for creating a sustainable future. Central to ESD is the concept of culture as an essential underlying theme.

If ESD is to be an effective tool for engaging people in negotiating a sustainable future, making decisions and acting on them, it must first address the way we think about sustainable development and about education in general.

At the Rio Summit, the role of education in promoting sustainable development was made explicit by Agenda 21, the global action plan for the 21st century: "Education ... should be recognized as a process by which human beings and societies can reach their fullest potential. Education is critical for promoting sustainable development and improving the capacity of the people to address the environment and development issues". (Agenda 21, 1992)

There are certain skills essential to ESD that should be learnt and applied: envisioning, critical thinking and reflection, systemic thinking, building partnerships, participation in decision-making.

Envisioning means being able to imagine a better future. The premise is that if we know where we want to go, we will be better able to work out how to get there.

Critical thinking and reflection requires learning to question our current belief systems and to recognize the assumptions underlying our knowledge, perspective and opinions. Critical thinking skills help people learn to examine economic, environmental, social and cultural structures in the context of sustainable development.

Systemic thinking is nothing but acknowledging complexities and looking for links and synergies when trying to find solutions to problems.

Building partnerships reads promoting dialogue and negotiation and learning to work together.

Participation in decision-making is a means of empowering people.

Governments and intergovernmental bodies, mass media, civil society and non-governmental organizations, the private sector, together with formal education institutions must get involved in ESD.

Education directly affects sustainability plans in the following three areas: implementation, decision-making, and quality of life.

An educated citizenry is vital to implementing informed and sustainable development. An educated workforce is a key to moving beyond an extractive and agricultural economy.

Good community-based decisions depend on educated citizens. Development options, especially "greener" development options, expand as education increases.

Education raises the economic status of families; it improves life conditions, lowers infant mortality, and improves the educational attainment of the next generation, thereby raising the next generation's chances for economic and social well-being.

In conclusion, we may say that improved education holds both individual and national implications.

6. Evaluation

Evaluation aims at measuring the making of a difference. This is possible by identifying key sustainability indicators that measure the direction and extent of impact from economic and social activities on natural and human systems; providing feedback to allow for corrections in ongoing work toward sustainability.

Sustainable development is determined by a combination of top-down policy objectives, bottom-up interests as well as theoretical and scientific input. To date there has not yet emerged a system of reference to integrate these aspects. This lack of a framework poses severe problems for the implementation and the evaluation of sustainable development.

Gross domestic product as an indicator of wealth and therefore quality of life has long been criticized. GDP places too much emphasis on consumption and ignores wealth distribution. Importantly it also takes no account of environmental issues.

There exist numerous approaches to measuring sustainable development in countries and international institutions. There is much diversity among these approaches and, yet, a considerable degree of commonality with respect to sustainable development themes and individual indicators.

"Commonly used indicators such as the gross national product (GNP) and measurements of individual resource or pollution flows do not provide adequate indications of sustainability.

Methods for assessing interactions between different sectoral environmental, demographic, social and developmental parameters are not sufficiently developed or applied. Indicators of sustainable development need to be developed to provide solid bases for decision-making at all levels and to contribute to a self-regulating sustainability of integrated environment and development systems."

Various sets of indicators have been established to be used to assess progress towards goals in national plans or strategies for sustainable development.

Some countries developed their own sustainable development indicator sets. Switzerland, the United Kingdom, Germany, Sweden, and Belgium, to name a few in Europe, were among those to establish indicator sets in the late 1990s. Increasingly, sets of indicators have been established to be used to assess progress towards goals in national plans or strategies for sustainable development. The focus of countries in establishing indicators sets has been generally to meet the information needs of a national sustainable development strategy. It is relatively rare that such strategies have been based on an explicitly defined conceptual framework.

In many cases the relationship between indicators and policy is very strong – with the policy framework in effect determining the indicators. While there may be concerns about having indicators closely aligned with policy and hence potentially biased towards particular policy priorities at the expense of other aspects of sustainable development, this is also one of their strengths. Policy makers see them as being directly relevant to the policies they have established and effective for communication.

An obvious drawback to indicators that are strongly aligned with a policy framework is that changes in the policy framework can mean the indicators have to follow suit.

Only minor consideration has been given to international comparability in the development of national indicator sets. This is perhaps inevitable in terms of both differing priorities and data availability among countries. However, for issues that are of global or regional importance, there is broad consistency among countries; for example, most sustainable development indicators sets include an indicator on greenhouse gas emissions.

An indicator of total national wealth is, in theory, an ideal indicator of sustainable development. It fails to live entirely up to its theoretical ideal for a number of reasons. These include imperfect markets, limitations on substitutability, critical capital, complexity and ethical concerns. Confronted with a

situation where the ideal is for practical reasons unreachable, the challenge is to find a set of indicators that draws upon the strengths of the capital approach while overcoming its practical difficulties.

With respect to capital-based indicators, their main strength is their clear and well-established conceptual basis. However, there are problems, in some cases serious, in translating the conceptual ideal of the capital approach into practical indicators that would meet the quality standards of official statistics. The other main weakness, at least for some, is that capital-based indicators offer little help in measuring short-term well-being. For those who hold that the goal of sustainable development is to ensure both the well-being of those currently living and the potential for the well-being of future generations (what was referred to earlier at the integrated view), capital-based indicators will fall short of what is needed to measure sustainable development.

7. Conclusions

Sustainable development recognizes the interconnections and relationships between economy, society and the environment. These are often seen as three forms of capital – economic, social and natural. In applying a systems approach to developing sustainability strategies, the emphasis should be on the ecological limits imposed on economy and society. That is why the five E's – economy, ecology, equity, education and evaluation – form a set of concepts worthy of being closely examined as they offer both insights into sustainability and solutions for reaching the state of sustainable development.

8. Bibliography

[1] Sen, A., *On Economic Inequality*, Norton, New York, 1973.
[2] Sen, A., *Inequality Reexamined*, Oxford University Press, Oxford, 1992.
[3] Pohoata, I., *Filosofia economica si politica dezvoltarii durabile*, Ed. Economica, Bucuresti, 2003.
[4] Treillet, S., *L'economie du developpement. De Bandoeng a la mondialisation,* Arman Colin, Paris, 2005.

International Financial Crisis and Creative Accounting

Costuleanu Carmen Luiza
Codreanu Carmen Mariana
„Petre Andrei" University of Iaşi Faculty of Economics
ccostuleanu@yahoo.com
codrcarmen@yahoo.com

Abstract

The expression „business ethics" refers to what is right, fair and true in an ensemble of enterprises, transactions or efforts, named in a generic way businesses.

During the last two decades, within accounting two major events took place, having a tight connection one with the other. The first one is using a series of evaluating criteria, change which had as a consequence the output of information for a restricted, privileged group of users. The second one, determined by the occurrence of the first one, is the extension of preoccupations for introducing new ethic rules in accounting. Relevant in this sense is the Anglo-Saxon flow "business ethics", which refers to an all research of the endogenous criteria to define the concept of ethics.

Key words: international financial crisis, creative accounting, business, ethics, normalization.
J.E.L. classification: M49.

Through its nature, accounting finds itself in tight connection with ethics, morality and religion. The concepts of morality, ethics and religion are close to one another and complementary. Ethics is a rational theory about what is wrong and what is right, an „upstream" reflection about values. Already built up as pre-existing principles, the ethic values shed on morality a religious connotation with a specific restrictive nuance [1].

The expression „business ethics" refers to what is right, fair and true in an ensemble of enterprises, transactions or efforts, named in a generic way businesses.

Many accounting principles and norms applied in nowadays accounting practice in Romania are more criticized according to accounting fundamental goal: faithful reflection of financial position units and situation. Derogation from accounting prescriptions constitute the compromise accepted by normalizing factors that creative accounting may use, in order to give financial situations information the required fidelity. Accounting normalization is outrun by the evolutions registered in economy and society. Since most economic situations have accounting consequences, finding solutions to new problems, even temporary ones, constitutes an unquestionable progress factor. Creative accounting solutions may constitute the support of a subsequent normalization

During the last two decades, within accounting two major events took place, having a tight connection one with the other. The first one is using a series of evaluating criteria, change which had as a consequence the output of information for a restricted, privileged group of users. The second one, determined by the occurrence of the first one, is the extension of preoccupations for introducing new ethic rules in accounting. Relevant in this sense is the Anglo-Saxon flow "business ethics", which refers to an all research of the endogenous criteria to define the concept of ethics. This criteria mean that in fact a research of what is pertinent and useful to the user of the accounting piece of information has to be developed without privileging a certain group of users (e.g.: what is useful for taking a decision). The ethic perspective towards accounting, was, lately the object of complex discussions amongst specialists [2].

The values of ethics constitute the basis of any civilized society. Each individual has his/her own ethical values and religious, historical, literary or personal experience, principles. Michael Josephson considers that the „ten universal values" are: honesty, integrity, honoring the promises you have

made, fidelity, fairness, care, respect towards others, citizenship responsibility, a continuous need to perfection yourself and taking responsibility for your own deeds.

The ethical basis of accounting was discussed from an economical and even philosophical angle, raising many controversies. The building of this „faithful image" must be, and is realized by man, which is such a subjective observer, and thus the question whether this vital goal of accounting can be realized arises [3]. Does, really, accounting create its own reality? And if so, which are the limits where creation should start from and to which it should be restrained?

Daniel Boussard considers that the faithful image covers a cognitive dimension of searching for the truth, but also a moral dimension, an ethical one which have to be associated with the process of searching for the truth. The notion of creative accounting appeared in the economical, social, British environment. Although, for almost thirty years, the specialized literature brought up frequently this subject, it still does not exist an unique point of view regarding a possible definition of creative accounting.

According to Francois Pasqualini, creativeness is a virtue. Applied to accounting, the idea of creativity is based upon imagination, so it can indeed offer the means to handle the continuous growth and diversification of the financial markets and instruments.

Bernard Colasse talks about some „imaginary exercises to give the accounts of an enterprise the best image possible". These exercises are „true frauds, legal embelishments, crisis-drawn techniques, qualified reluctantly by professionals as being creative accounting".

On the other hand, some authors consider that, essentially, accounting is creative. The justification consists in the fact that, on one hand, the value that accounting gives to the primary data, presenting the accounts as aggregated indicators, and on the other hand, in the role of accounting to build up messages which are to be transmitted to users by the leadership of the enterprise [4].

The Anglo-Saxon authors also have analyzed the concept of creative accounting. We will present the points of view of four British authors, from different perspectives.

From the perspective of the economical journalist Jan Griffiths things can be seen like as follows: „any firm is the image of its good-points. Published documents are built up on the basis of registers which have been 'arranged' in a delicate manner, sometimes even chopped up. The figures presented to the investors have been entirely manipulated with the purpose of protecting the guilty ones (administrators)".

According to Naser**,** „Creative accounting may be defined as (a) the process which is used to manipulate accounting figures; because of weak points within the laws and taking advantage of flexibility, ways of measuring and releasing are chosen which permit the transformation of the documents of synthesis, transformation which takes them further from the way in which they were supposed to be and closer to what the managers want them to be, and (b) the process through which the transactions are structured in such a manner that they allow the occurrence of the desired accounting result".

If we analyze this definition we will discover some interesting affirmatives. Saying that through creative accounting the synthesis documents are transformed from what they were supposed to be we deduce that some standards of the truth exist in accounting, standards that can be achieved only if the rules are respected entirely [5]. Naser described the accounting system from the Anglo-Saxon countries as being predisposed, particularly to this sort of manipulation, considering the liberty of choice which allows it to happen. Two common points are found within the definitions given by the British authors: (a) the increasing general character of creative accounting is observed; and (b) creative accounting is a treacherous and undesired practice.

Other specialists reject the idea according to which creative accounting is a means of manipulating accounting information. Yves Bernheim sees in creative accounting the kind of accounting that knows how to adapt to the economic and financial evolution and how to translate in the most faithful way the economic reality. Creative accounting is not, according to the author, the thing that translates qualified operations as financial movements and which, in reality are operations of accounting manipulation.

The lack of an accounting related conceptual framework in Romania and the contradiction between the accounting principles (for example, the historical cost and the faithful image) explains, also, the development of the so-called creative accounting.

The motivational complex of the techniques of creative accounting development reminded by K. Naser looks like this: costs emerged from a conflict of interests; the manager's incompetence; liability and risk; the variety of economical activities; neuralgic points within the accounting concepts; the attitude of accounting information users; the dematerialization of the enterprise; the globalization of the enterprise; the absence or insufficiency of norms [6].

Ethics is a domain of philosophical reflection. We cannot talk about ethics within accounting without making a reference to the notions of „truth", „good" and „justice" as economic values, accounting representing the economic environment.

The construction of a conceptual accounting framework is in close connection with the ethical fundaments of accounting. Ethics, within accounting represents the search for the faithful image, even if it does not exist in the absolute sense. Accounting represents reality, according to suppositions or already set goals. Reality is not faithfully represented by accounting statuses because each user represents his/her own interests which depend on his/her perception regarding the reality of the enterprise. Ethics is situated at the border between reality and truth.

When there are talks about ethics in the economic domain there is the tendency to confuse ethics with the moral aspect of the business.

Although in dictionaries the terms are synonymous, there are still differences. In a simplistic vision, ethics represents that certain section allowed by law. Moral implies the notions of „good" and „bad", it makes an appeal to the conscience, it is in many cases a more demanding argument in the support of applying ethics and moral in the domain of accounting is the quality of the language in what accounting is concerned. Accounting is a language that allows the passing of information. Like any other language, it can be used to circulate true or false data.

The accounting principles generally accepted have a moral connotation. So:

- the principle of permanence completed with the principle of publishing the methodical changes and their effects, it insures a good knowledge of the giver and receiver of the accounting information and of the language rules, of the codes used in the communication of the accounting pieces of information. Using poorly this principle, out of negligence, or deliberately, has as an effect an unsatisfactory communication of the accounting information.

- the principle of continuing the exploitation refers to the fact that the enterprise has neither the intention or the obligation of beginning a liquidation to reduce dramatically its activity. Declaring the uncertainty of the continuation of the exploitation can have a significant role in the acceleration of the enterprise's deterioration process. For the leaders of the enterprises a clash may be seen between the obligation to inform correctly and the interests of the firm regarding the conservation of the human capital. The necessity of respecting the law in order not to be punished by it generates a conflict between two obligations, in the moral sense.

- the principle of carefulness means that all the loses are the object of a provision, and the plus-values have to be counted only where they are effectively earned. Carefulness in a virtue before being a technical quality of an accountable, and virtues are moral qualities.

- the priority of reality and not the one of the form („substance over form") refers to an important moral problem, and that is not to make use to much of appearance and so damage the reality. The respect for truth does not have to be sacrificed in order to create a treacherous image. The essence of this principle relies in the fact that every economical operation can be analyzed from an economical viewpoint, and at the same time, from a legal viewpoint. According to one of the two, it depends which one is given priority, the accounting incidences can be different. A revealing example is the one of the leasing. In Romania and in the countries which have been influenced by the Roman right (France, Germany), the legal aspect is taken into account. In the Anglo-Saxon countries, the legal aspect is nothing but an appearance, meanwhile reality is looked upon

from the economical viewpoint. There is, in consequence, the risk that the countries which have a legal tradition present the facts deliberately different from their economical reality. The economic creativity goes sometimes beyond the limits of the acceptable.

The normalizing accounting wants to limit the opportunities of using creative accounting. Following this goal, within the standards of professional ethics they adopt some objectives are presented:

- the continuous development of the conceptual framework; in this way, the objectives of the financial communication will be clearer, and the priorities set.
- diminishing the options in utilizing the accounting methods, through the reduction of the allowed accounting criteria, or a clear specification of the circumstances when one or another method is ok to use. Some voices plead for the uniformity of the utilization of the accounting methods. This objective, like we have already said, cannot be realized because of the particularities involving each activity, the faithful image having to suffer in this case.
- the potential abuse of the managers through following their own interests can be reduced using two methods: (a) creating some norms which have the purpose to minimize the usage of subjective opinions (for example, in Great Britain, accountants are tempted to include the extraordinary result of certain elements which would have to be found in the ordinary result); and (b) the auditors should have to intensify their work of finding insincere estimations.
- the artificial transactions should be looked upon from the viewpoint of the "substance over form" phrase (e.g.: the lease-back operations, the artificial deposit assignments titles).
- re-evaluating regularly the actives in such a way that the profit or loss occurred during the value changes will be identified in synthetic documents each year.

The external users of the accounting information may avoid manipulation by the manufacturers of the information. Some way to avoid the „creative accounting driven traps" may be:

- consulting the pieces of information found in the annual report;
- consulting and comparing the existing accountable practice;
- visualizing the annual report through some filters;
- following the transfers between the balance, the profit account and the loses;
- using cash-flow information;
- taking a personal responsibility.

The increase of the flexibility in what the application of the norms is concerned in the Anglo-Saxon world has determined the appearance of „business ethics" in this environment. The Anglo-Saxons have launched the concept of the „faithful image" as a resolution to the conflict between the preparers of the accounts and the external users. The controversies did not teary to show up, considering the fact that the accounting reality is a „constructed reality", the account preparer has his/her subjectiviness imprinted on this construction. On the other hand, the external user has his/her own subjectivity, interpreting the built „reality" according to his/her own perception and knowledge.

In this extremely subjective context, ethics is necessary to limit the profound human tendency to permanently create a more and more attractive image. Still, absolutely speaking, truth cannot be known, because of the actor's subjectivity within the accounting space, and also because in the accounting construction we cannot take into consideration all the factors from the economic environment where the enterprise evolves. The accounting reality limits itself to a „accountalized reality" [6].

Creativity in accounting is natural in the evolutionary process of every socio-economic domain. What is the limit to which it can go is difficult to say. This depends on the effects that it produces on the ones interested on the accounting information. Ethics has an important role to play for keeping some reasonable limits regarding creative accounting. Creativeness is a virtue as long as it is used for finding better ways of solving the conflicts, of course with the condition of respecting the truth, even if this truth is only relative [7].

In the Romanian context, ethics in accounting has found an interest in the specialized literature, and now with the occasion of adopting the norms set by the harmonization with the 4th directive and with the international norms, the concept of „faithful image" has occurred. The accounting profession still, does not have the force to give, like in the Anglo-Saxon

countries, norms of professional ethic, giving the creative accounting as such the possibility to manifest excessively.

The weak points existing in the accounting Romanian norms create the premises of realizing some „legal frauds" which are not linked necessarily to creativity, but, more likely to the weakness of the actual accounting Romanian system.

At the beginning of synchronization the accounting Romanian system with the IASB concepts, regarding the accounting reform in Romania, the direction which this reform was going to take was uncertain, or even unknown. It was presumed that the British, being real specialists asked to contribute to the reform would bring with them the spirit of Anglo-Saxon accounting. This aspect was particularly favorable, being set in the realities of the actual period of time [3].

The accounting development program was published. The existence of more than one influence was observed. Amongst these influences, the Anglo-Saxon one imposes a few reflections.

The matrices of the Anglo-Saxon accounting are the accounting conceptual framework. As a normative accounting theory, the conceptual accounting framework has a double function: to insure the coherency of the accounting norms and to contribute to the insurance of the independence of the normalizing organisms. To become performer, the Romanian accounting has to create itself a conceptual accounting framework.

The accounting profession is called upon to bring its contribution. In the Anglo-Saxon countries, the liberal accounting profession involves itself in the normalizing act. In the UK it had and still has a very important role, winning the battle fought with the public power. In our country, the liberal accounting profession is far from achieving these performances.

We think that it could have never been reached considering the short period of time passed from the setting up of CECCAR, but time passes and without a deeper involvement in the battle we were speaking about, the presence of the „expertise force" of the profession in the normalizing act will have little significance.

The Consultative College of Accounting may become an independent organism of normalization, and its finance would be assured by the Romanian economic-financial Community. If we were to bring into discussion the necessity of an urgent committee, which would have similar as attributions to the British and American ones, we could have a more modern image of the normalizing accounting process.

References

[1] E. Horomnea, *The accounting basis*, Sedcom Libris Publishing House, Iaşi, 2004.

[2] N. Feleagă, *Accounting controversies*, Economica Publishing House, Bucureşti, 1996.

[3] C.L. Pahone Costuleanu „*Creative accounting/ethics ratio*", In: *Normalization and harmonization in Romanian accounting*, Sedcom Libris Publishing House, Iaşi, 2004.

[4] M. Ristea, *Enterprise accounting methods and politics*, Tribuna Economică Publishing House, Bucureşti, 2002.

[5] E. Horomnea, *Accounting Treaty*, Sedcom Libris Publishing House, Iaşi, 2003.

[6] L. Malciu, *Creative accounting*, Economica Publishing House, Bucureşti, 1999.

[7] J. Simon, *Creative accounting in the balance*, ACCA Publications, 1998.

The Impact of Progress in Information and Communication Technology on Distribution and Logistic Activities

Dan Gheorghe
Zamfir Cristina-Mihaela
"Ovidius" University of Constanta, Faculty of Economic Sciences
secretariat@traian-sa.com
cristina_m_zamfir@yahoo.com

Abstract

This paper aims at exploring the impact of internet on goods distribution systems and at the same time tries to present the significance of on-line business. Starting from other specialty papers, the objective is to present the significance of processes and concepts used by the science of marketing and especially in one of the components of marketing mix, respectively the distribution and logistics of goods.

The application of economic restructuring generated by the information and communication technology is not only a mandatory necessity, but it should be understood that the ignorance of its importance can lead to the disappearance of any company.

Information and communication technologies created on-line businesses (dot.com) which restructure the global economy, global markets, entire branches of economic activities, test the conventional economic thinking, redefine the types of businesses and generate changes in labor processes and its relocation.

Successful companies shall be those which will fully apply this new technology, in an economy with borderless markets, opened non-stop, where the size of the company matters no more.

Key words: virtual businesses (on-line or internet); cybermarketing; business networks (b-webs); e-store (virtual store); e-commerce (sales site).
J.E.L. classification: M 31

1. Introduction

Goods distribution and logistics are economic processes and activities with important contributions in the economies of countries and even on a global scale in creating value in the economy, with major importance in active employment, in some countries over 50%, which bear significant changes under the impact of information and communication technologies (ICT).

However, this information technology will produce a restructuring of all economic branches, functioning mechanisms of economies, which will also have consequences on the channels of marketing, logistics and distribution of goods.

Information and communication technology, together with the impact of economic activities globalization will require the improvement of the economic performances of each economic organization, which will have to restructure its activities in order to obtain competitive advantage.

This paper has been approached from such a perspective, trying to assess the Internet impact on the restructuring of marketing channels, distribution of goods from the place of production to the place of consumption, as well as the impact on logistic activities, which ensure the place and time availability of the goods at the consumer.

This paper starts from the application of the Internet in the activities of distribution and logistics of goods, and tries to capture the restructuring process of economic mechanisms, processes and activities related to the creation of marketing channels and an efficient management of goods distribution.

2. The need for technological restructuring

When a new technology is introduced, organizations often need time to rearrange their structure, in order to benefit as they should from the innovation.

Although the personal computer was introduced ever since 1980, for a long time, companies have still used paper and indigo paper at their offices; it was only after 1990 that they adopted the new technology in order to create and connect their work points to a network, update and manage their stocks and so forth. All these have led to an increase in labor activity, economic efficiency and an appropriate management of resources.

In order to increase their performances, companies' management must be aware of the role and impact of information and information technology (IT) on the change and improvement of the fundamental rules of competition and identification of new "weapons" in the competitive battle. The concept of information technology is defined as a complex assembly of elements in a permanent improvement, which gains an ever wider and undeniable applicability.

Information technology implies the following items as structural elements in processing and large scale-use: hardware (operational techniques); software (languages) for data processing and storage; communication networks; workstations which allow for the use, processing and display of information; peripheral equipment which allow for automated operations on the spot; intelligent integrated circuits used for the improvement of the functionality of some products, for example: credit cards with integrated chips.

The virtual business is cybernetics, generated by the network of connection modems, compared to the traditional one, in which the connection is made depending on affectiveness or long-term relationships.

The IT industry market experienced an evolution, which, following the study made by Pierre Andoin Consultants, can be described as follows [1]:

Table no. 1. Global market
UM= billions of euros

Year	Soft	IT Services
2007	170	170
2008	180	180
2009	172	172
2010 estimate	<175	>175
2011 estimate	>184	<184

3. The economic potential of the internet

Once again, the superiority of marketing science is proved by the fact that the technologies of information processing and transfer, represented by the Internet (the International Network) and the World Wide Web (w.w.w.), the so-called digital revolution found its applicability in the activities and techniques of this field.

Marketing allows for the application of the new solutions given by the internet technology, which would lead to some top-notch, client-oriented technical activities.

The implementation of this technology in the marketing activities specific to the distribution branch has brought the following advantages:

- O large-scale use in marketing communication activities, through which the informational flows reach users, be they suppliers, traders or consumers freely, globally and with no surveillance at all.

The means of communication are different for a company, compared to the consumer, if the individual consumer gets the information by simply accessing the Internet network, whereas the communication in a company is more elaborated.

For a company, creating a website implies a marketing activity, for which it assigns resources, both for building it, as well as for its maintenance, which becomes a strategy within it. The website page must display information on the company, its products and services, but its main role is to promote the company's image. Companies will do this by improving the content of the already existing websites on the Internet.

Lately, other means of communication and promotion of a company's website have been the social platforms Facebook and Twitter, which, by their 700,000 users, and globally around 400 million users [2], have become a real gold mine for advertisers. They can make marketing strategies and policies (promoting products – bands, messages, pictures, offline events, concerts, meetings, with potential clients by widgets, etc).

From the point of view of marketing companies, social networks are a tool for testing the reactions of customers, buyers who follow new products, promotions, and even of those who are undecided.

- Besides the fact that marketing communication is made through the Internet, this communication gets the characteristics of an interactive and time and space unlimited communication.

The advantages yielded by communication through an Internet website can be summarized in:

→ the messages regarding the offer and products must be clear, realistic, using direct presentation marketing techniques, such as the famous AIDA theory: attention, interest, decision, action. The language must be clear and simple and it must repeat many times the strong points of the products and services offered. The goods of the industrial (traditional) era will continue to be goods; only the manufacturing location will be changed.

→ they allow for the development of their own market places, since the internet eliminates the obstacles preventing companies from entering the market, regardless of their global location. The internet situates newcomers on the same position with big companies and enables them to compete. For example, Microsoft has taken over I.B.M.'s market.

→ the presence of the site 24 hours a day allows for free access, which eases access by customers, ensuring market development by turning potential customers into real customers.

→ another advantage brought by the internet communication platform or other networks is: the buyer, not the seller, sets the price, depending on his expectations concerning the product and the way it will satisfy his consumption requirements.

→ the complete website of a company, which includes graphics, document and e-mail hosted on the Internet communication system provides low costs, respectively USD 500-800 for creation and USD 200/year costs for hosting for 5 MB in the case of a 10-page prospect, A4 polychrome. A website with "virtual store" costs USD 1,000-1,500, to which USD 500/year expenses for a dedicated phone line are added. On the contrary, the expenses for creating and printing an A4 format prospect on both sides, in color, in 1,000 copies, on paper, are of USD 10,000-12,000, plus distribution costs. [3]

→ quick update of the website, when it needs improvement with new images and data, requests to modify the offer.

→ the use of information technology in the marketing activity created the premises of a global, electronic economy, which derived from people's intelligence and imagination, which made possible the manifestation of inventiveness and competition, namely to become more competitive. The Internet intensifies competition by the transparency it imposes, eliminating the obstacles for the companies' entrance on the market, all with benefits for the consumers.

- The changes generated by information technology have led to variations in the system of relationships between business partners, from static relationships to dynamic relationships or even re-associations, in order to satisfy the ever more mobile demands of the customers.

The Internet represents a better technological platform than any technology. The intrinsic economic potential of the internet consists in increasing the value of the sources of strategic competitive advantages: differentiation of prices, transparent competition, elimination of barriers, entries into and exits from the market of economic units, products, etc.

The internet created the possibility of changing the competition rules, making possible partnerships, or associations facilitated by the internet: business networks (b-webs), which is, in fact, a distinct system of suppliers, distributors, commercial services and infrastructure providers, customers who use the internet for communication needs and transactions (sources show that only 30% of the producers use the internet for business purposes), B 2 B (business-to-business) [4].

These networks (alliances) can ensure together abilities in creating essential competences (knowledge available for the entire network) and strategic advantages.

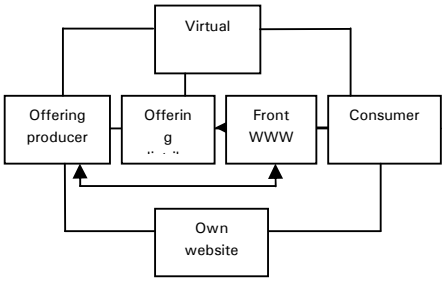
On-line businesses supplement traditional economy without replacing it, "the old organizations will continue to run profitably, in the context of on-line businesses". [5]

International commerce opens beneficial perspectives for the participants in this activity: importers, exporters, logistics specialists.

The marketing channel is restructured by eliminating middlemen and establishing direct seller – buyer connections. Besides the classical system in which the buyer goes to the conventional (simple) store, the goods having made the circuit of the specific marketing channel, through e-business, the customer can buy on-line, visiting the seller's website which competes with other websites (virtual store).

As you can see in diagram no. 1, the buyer can directly access the producer's website, eliminating the intermediate link, or a distributor's website, which, concurrently with the distribution activity itself (storage, logistics) to customers, also owns an Internet website which contains the resources available for making on-line sales [6].

Diagram no. 1



Another option is to create a virtual store which is the result of the combination of resources by various members of the distribution channel, including supporters of the creation of the software, through which both the on-line sale and the commercial transactions with producers as business-to-business is made.

- Simplification of the marketing processes and activities related to negotiation and conclusion of transactions.

Firstly, simplification is given by shortening collection, processing and presentation times of data related to the research on the sellers' market, elimination of research and audit reports on paper, etc, also by eliminating the activities related to trips to suppliers, manifestations, contracting for fairs and exhibitions.

Secondly, the activities for the negotiation and conclusion of transactions are simplified, again thanks to the presence on the on-line distribution companies' websites of all the information related to the product, its characteristics, use instructions, quality conditions, presented by images and diagrams, sale prices, delivery points or home delivery services, delivery methods, warranty and post-warranty conditions, all this data allowing for the website visitors to make quick and well-grounded decisions.

Through their Internet websites, companies enter a one-on-one dialogue with customers, who, by the information they have available, have the possibility to discern and decide on the goods or services they are looking for, but, at the same time, the company, based on the repeated visits of the customers, can make data banks, which would help it elaborate new marketing strategies.

Thirdly, they allow for savings on the value chain up to the consumer, respectively a JIT (just-in-time) optimization of costs regarding the stocks of goods offered, where the flow of costs related to stocks will start from downstream to upstream, observing the new "client orientation" concept, as they will start from the customers' orders to the upstream links, importers or producers.

The Internet allows for the marketing channel's restructuring, so that any company, no matter how small, could stand out, thus emerging new leaders, everything depending on the creativity in elaborating the website and the presentation method and less on the company's financial resources, the prerequisite being the low cost for creating such sites.

Successful companies will be the ones launching websites for quick and easily accessible e-commerce sales focused on strong brands both for products and commerce; yet, latecomers on the on-line markets will have to employ logistic surveys, to have comparable prices, as well as strong product brands in order to become successful.

The Internet will change, in the upcoming period, the technologies to do business, benefiting from the opportunities and the wide range offered by the information and communication technologies, and the distribution companies will have to adapt their strategic objectives and the tactics imposed by the electronic commerce era.

4. The perspective of distribution by using virtual commerce

The release of search engines and the implementation of the 3D Secure Standard in Romania have encouraged the emergence of virtual stores with complex websites, as well as an increase in the number of on-line transactions, as high as 4 to 5 times, compared to the evolution of traditional commerce.

According to the estimates of GECAD ePayment in Romania, 20 virtual stores are launched every month, estimating that, until the end of 2007, their number will reach approximately 750.

The same trend is followed by the evolution of the number and values of on-line transactions, as well, having reached a volume of more than 38,000 monthly transactions, with an average value of more than RON 250 for a transaction.

If we take into account the changes in consumption and the population's buying behavior, where the youth and occupied population segment, which extensively use the internet, will modify the structure of the goods distributions channels.

If, in the beginning, on-line transactions were focused on books and appliances sales, there will be mutations towards groups of consumption goods, both with material existence (household appliances, construction materials, etc), as well as towards services: transport, tourism, culture, etc.

The mutations appeared in the buying behavior of the consumers, in the sense that they have the power of decision depending on the conditions they want and the efficient answer they await from the distributor and the product, have led to the decrease of loyalty towards the retailer or the brand and they have the freedom to choose the buying channel they want. This aspect, cumulated with the easy access to the internet, will ensure the development of virtual commerce. An important element which encourages virtual commerce is represented by the electronic payment methods (electronic transfer, credit cards). As it has been shown, psychological obstacles are likely to appear, being generated by the disturbing factors emerging from distrust or the level of fraud. However, it is estimated that, from the total transactions made in virtual commerce, about 15-20% have been made with electronic instruments.

On the on-line retail market in Romania, there are several competitors, but the leader position is held by e-Mag, which, in 2008, registered a turnover of EUR 73.1 million.

Despite these performances, the distribution of goods through the virtual environment remains deficitary due to the limited access of potential customers to this system, promotion and communication channels of existing information, websites of virtual traders, the slow circuit of the messages existing on electronic deduction cards, leading to their non-utility, the lack of money not being a cause of it.

All these elements allow us to say that the distribution of goods through the virtual environment is barely at the beginning, technically, in its growth period.

5. Conclusions

The information and communication technology requires major restructuring, which will complement the science of marketing by thinking or innovation carrying out processes, marketing research instruments, application of marketing mixture and marketing strategies and tactics.

The results obtained in businesses by the successful dot.coms, founded as a result of applying the information and communication technology, make of them a new field of creating and carrying out distribution processes and logistic activities, which will have an important weight in the conditions of the globalization of the economic activities.

Marketing channels will be redefined by the disappearance of intermediaries and the logistic management of goods, which will have as priority the competitive advantage over the competition, since the application range of relational marketing is expanding, imposed by the ICT system, both in the one-on-one virtual sales system and in the business-to-business system.

The information and communication technology will allow for the unlimited manifestation on the market of successful companies, regardless of their size, which will succeed in changing the existing hierarchies through creativity and imagination.

6. Bibliography

[1] Capital magazine – the article ˝Industria IT se restarteaza cu ajutor de stat˝, of 15.02.2010, p. 17
[2] Capital magazine, the article ˝Cum profita de pe urma exploziei retelelor sociale˝, of 15.02.2010, p. 18
[3] Danciu,V, Grigorescu, A.- the quoted magazine and article, p. 29
[4] John Middleton – Maiestrii Afacerilor On-line (Gurus on e-Business), Ed. Meteor PRESS, 2010, p. 17
[5] Kevin Kelly, Out of Control, Ed. Addison Wesley inc, 1994
[6] Th. Purcărea, V.Popa – "Impactul e-business asupra distribuției bunurilor de larg consum", The Marketing – Management Magazine, no.3/2002, p. 19
[7] Capital magazine – no. 39 of 27 September 2007, p. 14
[8] Capital magazine no. 10/2009, the article "Principalii rivali din comerțul on-line, gata de înfruntare", p. 20

New Configurations of Country Risk in the Context of the Economic and Financial Crisis

Deceanu Liviu
Pintea Mirela Pintea
„Babeş-Bolyai" University of Cluj-Napoca,
Faculty of Economics and Business Administration
liviu.deceanu@econ.ubbcluj.ro
mirela.pintea@econ.ubbcluj.ro

Abstract

The current crisis appeared in a moment when the favorable economic development led to an overall improvement in country risk.

Nowadays, the intensity of the risks composing what we generically call "country risk" is rising, as well as the vulnerability of different states, in a context of external shocks multiplication.

Among the main consequences, we underline the fact that it is now necessary – for the analists – to take into consideration the country risk in the case of countries whitch, not long ago, were out of question from the perspective of this topic. In this new economic landscape, every state becomes concerned by country risk.

Key words: country risk, sovereign debt, budget deficit, the new international environment, ratings, evaluation.
J.E.L. classification: F34

1. Considerations on the new dimensions of Country Risk

Issues such as "the debt economy" or the economic downturn are now – more than ever – main topics in economic analysis, in the context of the deep economic and financial crisis that affected the global economy in the last three years.

Not only the developed countries were affected by the growth slowdown, but also the developing states.

The current crisis appeared in a moment when the favorable economic development led to a overall improvement in country risk. The improvement of the macroeconomic indicators in the case of emerging countries, as well as the reduction of the imbalances and the strengthening of the banking sector *significantly decreased the vulnerability to external shocks [7]*, in a period of deepening economic globalization.

Economic globalization has its advantages and disadvantages. We believe that the first ones' dimension is significantly higher than the inconveniences' one, and, as Pascal Salin (Former President of the *Mont Pelerin Society*, currently Professor at Université Paris-Dauphine) stressed, globalization is an *objective necessity*.

However, the negative side of the internationalization of economic life is a reality, the country risk being an important vector of it. More than a mere academic specialty, the concept of country risk has now become an *operational necessity*, being the main target of analysis institutions (rating agencies, insurance companies, economic publications, consulting companies), but also of the different categories of agents interested in ratings (governmental creditors, various borrowers, banks, investors, multinational companies, exporters, etc.). For many years, country risk *was consideded an opaque, unpleasant fact of life better left in the hands of the IMF (International Monetary Fund) and the export credit agencies[1]*.

Nowadays, the situation changed dramatically; risk and especially country risk assessment in the world of international businesses differs significantly from the methodology used several decades ago; risks have multiplied and diversified, and are present in any international economic transaction. Phenomena occurred in recent years on the global economic scene have generated and continue to generate mutations in the semantics of different concepts. These

include country risk, an economic concept, and in the same time an important tool used in the decision making processes world wide.

Currently, economic globalization and financial liberalization, as well as the dilution of national state concept and the interdependence of economies are obvious realities, as well as the recurrence of crisis – of different types – which have affected the society. Result of the deregulation process, but also of dangerous and irresponsible behavior, as most authors tend to emphasize, or, contrary to that perspective, the disastrous consequence of regulation, of rules imposed on different markets, in the view of a liberal minority (Director of Financial Regulation Studies, Cato Institute, Washington D.C.) with some solid arguments, the global economic and financial crisis is a present reality.

Of course, the crisis itself is a form of risk manifestation, and, from this point of view, it is obvious that crossing a period of crisis leads to important changes in risk analysis. In fact, as shown in some studies[9], the concept of country risk (which generally means *losses of various types generated by economic relations with a foreign partner, private or public, caused by particular events influenced by governmental factors*) has undergone significant shifts in the five decades over which it has been studied. Thus, if during the decades 7 and 8 of the last century the analysis was done to a national scale, and national states presented an importance in country risk analysis, which is strongly associated with political and social climate of a country, and its solvency too, in the last two decades, economic globalization, the network-type activity of corporations and the interdependence of economies has so profoundly transformed the country risk, significantly widening its coverage.

A number of understandings of the term are highlighted in the literature; so, we can talk about the country risk as the *result of sovereign actions*, *political decisions*, but also as an *economic or financial risk*. In the first category we highlight the *political risk*, broadly covering those *actions of national governments which are harmful to foreign private companies, or the uncertainty often driven by the vacuum of power and law due to changes in the political* regime. In the second one, we are interested in the *sovereign debt problem, credit risc, systemic risk*.

2. New interpretations of Country Risk during Crisis

Undoubtedly, the interruption of economic growth and the effects of the economic crisis stopped the country risk improvement, and in some cases even caused its deterioration.

However, we can not speak, in 2010, of a severe deterioration of country risk. What is clear however is the necessity of a new approach to country risk and its components, such as sovereign risk, transfer risk, credit risk, political, systemic or market risk. In terms of transfer risk, the distinction is clear between the emerging states, *with economic policies characterized by the openness of the current account and capital account (*certainly, significant inflows of capital could lead some countries to take control measures, considered more efficient than an excessive currency appreciation.*)*, and *the states characterized by heterodox economic policies, the absence of a rigorous control of inflation, a discriminatory exchange regime, and a high level of* corruption *(Vergnaud, Eric, Conjoncture (BNP Paribas), april 2010, p. 20. In this context, there are mentioned states like Kazahstan, Nigeria, Ucraina, Venezuela, etc).*

If, in the case of the first category, the transfer risk had a diminishing trend in the last 5-7 years, for the second category of states the risk increased substantially.

The decrease of transfer risk is influenced by the reserves growth, the credibility of economic policies, the central banks activity, but also by the proactive support of the International Monetary Fund. In turn, sovereign risk has undergone important changes, mainly generated by mutations in its determining factors.

Although the international financial system seems to work better, the increase of public debt worries the investors and affects the system stability; we can talk now about significant sovereign risk in the case of developed countries. So, these recent developments may be the source of a outstanding financial instability.

A distinction can be made among countries with strong currencies (the Euro, the american dollar, the sterling, the japanese yen, etc), on one hand, and countries with weaker currencies, on the other hand:

Table 1 – Specificities of sovereign risk – influence of currency

	Developed stares (strong currencies)	**Developing states (less strong currencies)**
Public debt/GDP	- progressive increase of public debt to GDP, after 2008;	- maintenance at a constant level of the public debt to GDP indicator;
Dynamics of public debt / risk of a solvency crisis/ default risk	- low risk / easy refinancing (even in the case of a high debt); a strong currency represents a vaccine that immunizes the states with default risk (However, this view may be contradicted by recent events in Greece; of course, they do not completely cancel its validity, and rather represent a single episode) - positive ratings;	- high risk, especially when public debt to GDP evolves (1-3 percentage points annual), From average values (40-60% of GDP); - average or negative ratings from rating agencies;
	- the distinction between sovereign risk in foreign exchange and sovereign risk in local currency disappears; - Euro zone states, for example, are not obliged to issue securities in dollars, yens, etc.; - the sovereign risk in foreign exchanges is virtually nonexistent;	- the distinction between sovereign risk in foreign exchange and sovereign risk in local currency can be opperated; - debt sustainability analysis is done through budgetary balances and current balances, and also external liquidity and vulnerability analysis to exogenous shocks;
	- low refinancing risk; - in addition to the domestic financial market, central banks can provide the necessary funding; the Euro-zone government bonds are often purchased by commercial banks; in the U.S., Asian central banks are buying Treasury bills currently; - solvency depends directly on the central bank's monetary policy (interest rate guidelines, reserves, mechanisms of action); - refinancing is facilitated by: the size of financial markets, the large number of institutional clients in search of government securities, the reduced risk premia, the proactive management of public debt.	- the default risk is linked to solvency and liquidity risk; - the importance of the "willingness to pay"; -solvency deterioration generates refinancing difficulties and liquidity crises; - the evaluation of sovereign risk is influenced by the degree of idebtedness of the private sector; - the reduction of public debt to GDP is made possible by several channels: the partial substitution of a debt in local currency with a debt in foreign currency, the extension of the maturity for a foreign currency debt, etc..

Source: data from Guy Longueville and Eric Vergnaud, 2010.

In the case of OECD countries, the public debt problem turns out to be very serious; in the last three years, the specific indicator had an unfavorable evolution. For some states, this phenomenon will be extremely difficult to manage, politically and socially, because it requires decisions concerning the reallocation of national income, subject already sensitive due to the effects of the crisis.

Table 2 – Governmental debt (% of GDP)

	2008	2010	2012	Δ 2012-2008
Spain	40	66	81	41
Greece	93	124	132	39
Portugal	66	86	95	29
Italy	106	118	122	16
Ireland	44	78	91	47
Great Britain	56	79	90	34
France	68	85	90	22
Germany	66	77	83	17
Belgium	89	102	104	15
Japan	159	181	198	39
USA	40	63	73	33
Canada	29	32	33	4
Switzerland	41	41	40	-1

Source: BNP Paribas, Global Outlook, april 2010

It should be noted that only Canada and Switzerland tend to stabilize at a low level the growth of the governmental debt compared to GDP, while projections for Spain, Greece, Ireland, Great Britain, Japan and the U.S. indicate a poor outcome, exceeding 30 percentage points.

Greece is in a particular situation. Until about two years ago, the Greek State was part of a group of countries characterized by the degradation of public sector solvency, in the absence of liquidity constraints. One year later, the rise of the public debt to GDP has been a dramatic one, and negative perceptions of solvency in the various markets has generated significant difficulties in financing and refinancing, boosted by speculative attacks. Since then, the analysis of the Greek sovereign risk analysis acquired the specific of a analysis concerning the sovereign risk of a developing country.

Solvency degradation can be attributed to the economic crisis effects on the budget balance, the *lack of reliable measures concerning the recovery of public finances, the presence of irregularities discovered late,*

in the context of the public accounting opacity of the Greek State [7]. In the same time, evaluations provided by the rating agencies (it can be brought into question here the procyclical nature of the assessment made by the rating agencies.) have contributed to increased difficulties in refinancing; despite an increase in demand for securities, risk premiums have increased significantly since the autumn of 2009, with the volatility, investors reducing the space in their portfolios for Greek titles.

Measures taken by the Greek government, and also already famous "rescue package", come to meet this delicate situation. However, Greece's public debt sustainability can be affected by an excess of budgetary stringency. For example, specialists of BNP Paribas point out that in a context of weakened economic growth, a scheduled reduction of the annual budget deficit to GDP by 3-5 percentage points for two or three years may cause a decrease in GDP and tax revenues bigger than anticipated, and therefore a reduction in the deficit smaller than announced. It is invoked a dangerous vicious circle: *deficit – negative growth – debt*, which could manifest itself for many years.

Although political risk (the country risk survey in the 1960s began precisely with the study of political risk and its consequences; it represented the main risk faced by economic agents entering new markets (especially those of countries with unstable political climate - old colonies, for example, or socialist states).) became after 1990 a less significant component of country risk, in recent years it has started to return to the attention of specialists, and took the form of discriminatory measures taken by State authorities on foreign investors.

Currently, political risk is further amplified by new protectionist tendencies, but also exacerbated nationalism; in many cases, it is nothing but a tool of politicians seeking legitimacy for their actions.

Among manifestations of the modern political risk, we can include:

- adopting measures which affect free competition;
- application of fines / sanctions that are unjustified and excessive;
- explicit or implicit control of currency transactions;
- discriminatory legislation, etc.

At his turn, credit risk suffered a deterioration in the last two years, but not a spectacular one; it is relatively minor in comparison to the magnitude of the recession. Recent studies of BNP Paribas and COFACE (Compagnie Française d'Assurance pour le Commerce Extérieur – founded by the French government in 1946, was later privatized and is now owned by the banking group Natixis) highlight the fact that indicators of credit risk in the short term are degraded compared to 2008 only for a few states.

Also, the increase of credit risk took place particularly for credits provided to households, and acquired a systemic nature in economies characterized by a high degree of dollarization and the fragility of the banking sector (Russia, Ukraine, etc.).

With regard to European Union countries and the U.S., the concerns raised after 2009 are close to average for large emerging economies. Among the states with the highest credit risk, we include Spain, Greece, and even Great Britain.

It should be noted that banking risk is lower in developing states, due to limitations in the risk exposures of market activities and due to the systemic nature that this risk takes in situations where bad or poorly supervised banking sectors of certain states excessively finance speculative credits (a situation encountered in african states such as Nigeria, Middle East countries, etc).

2010 is considered the year of the resumption of economic growth. This is done but with some cyclical differences among various economic blocs: the European Union, the USA, Asia. This lack of synchronization affects and influences, on one hand, economic policies and in particular the monetary ones, and, on the other hand on the other hand, market volatility, increasing it.

At the same time, relative to market risk, we can raise some other issues, such as the abundance of liquidity in the global economy, in the context of an excess of demand in the labor market, as well as in those of goods and services. This explains the moderate inflation, despite some sporadic upward trend in prices, particularly for raw materials.

3. Conclusions

Country risk has undergone significant changes as a result of the manifestation of economic and financial crisis. Appeared in the developed states (especially the US) at the beginning, this crisis affected and still affects significantly the developing countries.

The tougher lending conditions, the falling commodity prices, are just some of the negative evolutions of the economic and financial environment in the developing states.

In this context, a competent study of the "new" country risk, as well as setting alert thresholds, where possible, represent important actions expected from the economic analyst.

A question that seems crucial in the current context is the issue of the over indebtedness.

But when can we speak of over indebtedness? What causes it? What are the main determinants of country risk?

Nicolas Meunier[8] stresses, in this context, three concepts, also used by most rating agencies, which set their own thresholds for alert:

- Solvency (debt versus the states' wealth);
- Sustainability (evolution of the states' wealth versus debt evolution – long term orientation);
- Liquidity (the ability of debt payment at maturity – short-term orientation).

Among the determinants of country risk, we can mention: external *debt relative to gross domestic product* (it should be noted that we are interested in the currency in which this debt is expressed, a major part of the debt being expressed in foreign currencies providing an additional risk if the national currency is experiencing a deppreciation), *external debt relative to export volume* (we can substitute, without any mistake, this term with "the external debt relative to *the ability to attract foreign currency*") – when the value of the indicator exceeds 150%, we can talk of an alert corresponding to an over indebtedness (from this perspective, it needs to be emphasized that a favorable development of exports improves prospects for external debt repayment), *total external debt* (dangerous if it exceeds 50% of GDP), *inflation rate* (dangerous if it exceeds the threshold of 10.5%), *real interest rate*, *the agreements with the International Monetary Fund* (essentially a positive aspect, generating trust, but witch can also hide a potential crisis), *the political risk and psychological factors*, *the economic structure of incomes*, etc.

Among methods of country risk assessment, an extremely popular one is to make ratings, these having multiple aspects, for both securities issuers and creditors. Rating represents a *description of the risk to which are exposed economic entities signing an international agreement[5]*. Analysis is carried out by specialized institutions, or, in some cases, specific departments of banks or firms. With regard to rating companies, it needs to be said that they should provide and disseminate information through press releases, publications or the Internet.

In the study *Evaluation du Risque pays par les agences de rating: transparence et convergence des méthodes*, Yasmine Guessoum distinguishes different types of institutions that carry out country risk assessment:

- *Rating agencies - most notable are Moody's, Standard & Poor's and Fitch; their activity will be explained briefly below;*
- *Insurance companies (e.g. COFACE - Compagnie Française d'Assurance pour le Commerce Extérieur);*
- *Consulting firms (North South Export in France, Business Environment Risk Intelligence);*
- *Financial publications (Institutional Investor, Euromoney Publications);*
- *Banks, etc.*

Despite readability, rapidity, a recognized degree of simplicity and other advantages, the rating is not free of subjective elements, and even some opacity. Models are not explained, and scoring systems do not necessarily converge.

Regarding the activity of Rating agencies, some critical remarks can be made:

- ✓ They do not take full account of the fundamentals of the economies (the Greek one, for example) and the taken measures (the consistent rescue package);
- ✓ They are too critical with countries, and this attitude can often negatively influence markets, and less critical with some dangerous financial products;
- ✓ There is minimal concurrence in their market (the three main agencies represent more than 90% of the business);

✓ The opacity of the rating process and the level of objectivity, sometimes questionable;

✓ The ratings can have a pro-cyclical effect (late and too strong reactions from the agencies) – this can encourage speculation. The pro-cyclical effect is due to chains of events of this type: *rating downgrade – speculative pressure – worsening of loan conditions – big interests (less investors).*

It is thus needed a critical look, without reducing the importance of country risk assessment. In the same time, comparing methodologies used and the normalization of processes can facilitate understanding of rating mechanisms, which can always be improved. Extremely important, for both countries, should be:

- stabilising the economy by running sustainable macro-economic policies;
- reforming the supply side of the economy.

Borrowing should also be seen in a different way; first of all, this is to allow a higher level of imports that would otherwise be possible. It is very important, from this point of view, that extra imports follow productive uses. Borrowing should simply generate eventually more money. Among the effects of capital inflows, we can mention:

- raising the level of investments;
- the possibility for the government to avoid important policy changes threatening domestic demand;
- support of consumption expenditures, etc.

Nowadays, the intensity of the risks composing what we generically call "country risk" is rising, as well as the vulnerability of different states, in a context of external shocks multiplication.

Among the main consequences, we underline the fact that it is now necessary – for the analists – to take into consideration the country risk in the case of countries whitch, not long ago, were out of question from the perspective of this topic. In this new economic landscape, every state becomes concerned by country risk.

4. Acknowledgments

The authors wish to thank for the financial support provided from the program co-financed by THE SECTORAL OPERATIONAL PROGRAM FOR HUMAN RESOURCES DEVELOPMENT, Contract **POSDRU 6/1.5/S/3 –** "DOCTORAL STUDIES, A MAJOR FACTOR IN THE DEVELOPMENT OF SOCIO-ECONOMIC AND HUMANISTIC STUDIES".

5. References

[1]. Bouchet, Michel-Henry, Clark, Ephraim, Groslambert, Bertrand, *Country risk assessment*, Ed. Wiley, 2003.

[2]. Calabria, Mark A., *Did Deregulation cause the Financial Crisis?*, Cato Policy Report, august 2009.

[3]. Calverley, J., *Country Risk Analysis*, Ed. Butterworths, 1990.

[4]. Gautrieaud, S., *Le risque pays: approche conceptuelle et approche pratique* – document de travail (working paper), Université Montesquieu Bordeaux IV, 2002.

[5]. Guessoum, Yasmine, *Evaluation du Risque pays par les agences de rating: transparence et convergence des méthodes*, Université de la Méditerranée Aix-Marseille II, 2004.[6]. Hurson, Christian, Doumpos, Michael, Ricci-Xella, Nadine, *Evaluation du risque pays*, Editions Economica, Paris, 2006.

[7]. Longueville, Guy, Vergnaud, Eric, *Vers un nouveau paysage du risque pays*, Conjoncture, Paribas, april 2010.

[8]. Meunier, Nicolas, Sollogoub, Tania, *Economie du risque pays*, Editions La Découverte, Paris, 2005.

9]. Yao Amewokunu, Zhan Su, Chiraz Saidini, *Proposition d'un cadre d'analyse du risque-pays dans le contexte de la mondialisation*, Conférence Internationale de Management Stratégique, Annecy/Geneva, june 2006.

[10]. www.coface.fr

[11].http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home

[12]. www.fitch.com

[13]. www.moodys.com

Global Crises and the Dynamics of IPO Activity

Dencic-Mihajlov Ksenija
University of Nis, Faculty of Economics, Serbia
ksenija@eknfak.ni.ac.rs

Abstract

A milestone for any private company is the issuance of publicly traded stocks. While the motivations and mechanism of the initial public offer are straightforward, the dynamics of the IPO activity is quite complex. Both the number of initial public offerings and the total capital raised in these offerings fluctuate substantially over time. Trends in global IPO activity are difficult to predict, especially in times of market volatility and global crisis. The global financial crisis beginning in 2008 reduced significantly the activity at the global IPO market and no national IPO market was insulated from the financial crisis.

Unlike the developed capital markets, funding development of the Serbian companies through the initial public offerings has not yet been common. The absence of the IPOs at the Serbian capital market could be explained by several of factors: legislative barriers, overall economic environment, availability of debt financing, the selected method and course of privatization process, level of investors' protection, and ownership structure of the Serbian enterprises.

Key words: Initial Public Offering, Global Crisis, IPO waves, Serbian capital market, IPO regulation.
J.E.L. classification: G15, G24, G32, G01

1. Introduction

Two main segments of the financial market, which, due to their characteristics could be analyzed as separated markets, are the primary and the secondary market. On the primary market, economic subjects mobilize capital by long-term securities emission. Initial Public Offering – IPO is the irst emission of shares of the company that has not been listed on the market. Via IPO, a company is going public and could be listed, its shares are offered to public and the company obtains additional capital by the primary capital market mechanism.

Many fast-growing, private companies see an IPO as an excellent route to accelerating growth and a step towards achieving market leadership. A successful listing on one of the capital markets, enables access to financing to complete a strategic acquisition, offers opportunities to expand business into new markets, gives an exit opportunity for private equity or other investors, improves perceptions with customers, suppliers and employees. The going public decision is motivated by three interrelated strategic considerations: growth, ownership control and liquidity (Brau et al., 2006).

Both the number of initial public offerings and the total capital raised in these offerings fluctuates substantially over time. There are many factors that lead so many companies to realize IPOs during some periods, versus so few during the others, such as companies' demand for capital and the level of investor sentiment. Trends in global IPO activity are difficult to predict, especially in times of market volatility and global crisis. The global financial crisis beginning in 2008 reduced significantly the activity at the global IPO market and no national IPO market was insulated from the financial crisis.

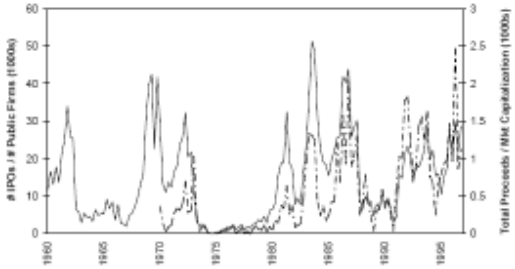
The aim of the paper is an analysis of the IPO phenomenon from the standpoint of the dynamic of the IPO activity. Global crisis has been seen as a factor of a reduced level of goings public at a global level in the period 2008-2009. Having reviewed the factors of the fluctuations in global IPO volume in Section 2, we pay special attention to the IPO activity in the global crisis in Section 3. Section 4 investigates the IPO market in the Republic of Serbia. Finally, Section 5 concludes.

2. Variations of IPO activity: evidence and explanations

The number of initial public offerings and the total capital raised in these offerings have fluctuated substantially over last fifty years (Figures 1 and 2). Even though the IPOs are a phenomenon known in the corporate practice since 1960s, during the last two decades they represent the dominant way of funding the development of private companies in the USA. The IPO phenomenon got an incredible increased during the late 1990s by the popularity of the Internet stocks. According to Ghosh (2006), the first-day returns of 25 IPO stocks issued in 1999 in the USA was above 200%. However, after march 2002, the IPO number and value started to decrease, and the first-day returns are far lower than those realized during the „bubble" period.

Apart from the financial factors, timing and valuation of the IPO transactions have also been influenced by the other determinants. Figure 1 illustrates the extreme fluctuations in IPO volume over 37 years. It is noticed that the variation in IPO activity (solid line) exceeds the variation in capital expenditures (dotted line). The phenomenon of *IPO waves* has been explored by several economists. The phenomenon has been observed in the economic literature for the first time by Ibbotson i Jaffe (1975), and Ibbotson et al. (1988, 1994). Lowry i Schwert (2002) state that the IPO activity tends to be higher following periods of especially high initial returns, and suggest that this relation is shaped by information obtained in the registration period.

Figure 1. Cycles of IPO activity at the global level in the period 1960–1996



Source: M. Lowry (2003), Why does IPO volume fluctuate so much? Journal of Financial Economics 67, pp. 3–40

According to Rayn and Searves (1997, 2003), Lerner-a et al. (2003) i Pagano-a et al. (1998), the level of IPO activity is in correlation with the level of market imperfections. Lerner et al. (2003) point out that periods of unfavorable terms of equity financing by private companies push them to seek for less favorable financing sources. On the other side, Pagano et al. (1998) find that companies go public in order to take advantage of overvaluations at industry level, and that financing future growth as a secondary reason for IPO realization.

Observed fluctuations in the number of firms going public over time, have been explained in different hypothesis: the capital demands hypothesis, the information asymmetry hypothesis, and the investor sentiment hypothesis (Lowry, 2003).

- According to the capital demands hypothesis fluctuations in IPO volume are affected by changes in private firms' aggregate demand for capital. These demands depend on general economic conditions (better conditions-higher economic growth – higher capital demands). In order to maximize company value, managers evaluate available financing sources and their price, but also possible future capital demands, funds and costs. A company goes public only when public equity provides the greatest net benefits.
- The information asymmetry hypothesis says that the cost of adverse selection connected with IPO realization varies over time. Since managers decide to issue equity when the company is overvalued, the market corrects its estimate of firm value when a firm announces an equity issue. Adverse-selection costs prevent many companies with positive net present value projects from finance their projects by equity issue. Upon the rule, companies use equity financing when the benefits of obtaining this financing exceed the direct issue costs plus any adverse-selection costs. The higher information asymmetry is, the more likely is to finance the growth using alternative funds. Therefore, periods characterized by high informational asymmetry (for example Asian financial crises), are featured by low IPO level.
- The investor sentiment hypothesis claims that fluctuatios in the level of investor optimism affect the costs of equity financing, and consequently the IPO volume over time. In the periods characterized by investors' over

optimism, investors are willing to pay more for shares than their true value. During these periods the costs of going public are low. And vice versa, investor pessimism affect high IPO costs and low level of IPO activity.

The above mentioned hypotheses differ on two aspects. The first is the assumption on the market efficiency and the second concerns companies' demand for equity versus the market supply of equity

The capital demands hypothesis and the information asymmetry hypothesis are based on the assumption of the semi-strong form of market efficiency, while the investor sentiment hypothesis claims that the market is inefficient. The capital demands hypothesis is focused on private companies demand for capital, while two other hypotheses concentrate on the market supply of equity. Finally, all there factors - capital demands, information asymmetry, and investor sentiment influence the variation in IPO volume. Lower level of IPO activity during the periods of financial crises suggests that IPO volume is positively related to companies' demands for capital and the level of investor sentiment.

3. IPOs trend in the global crises

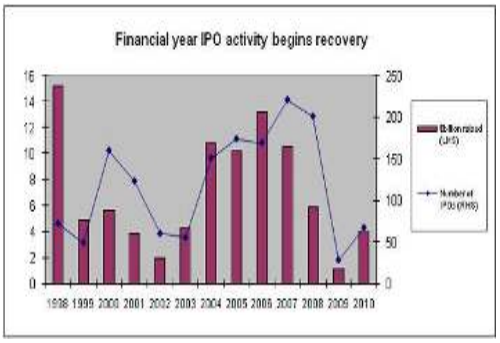
Trends in IPO activity can be difficult to predict, especially in times of market volatility. Global markets will require a period of macroeconomic stability and confidence rebuilding for the window of IPO opportunity to reopen. Judging by the data published by Ernst & Young, Deloitte and other leading world agenices, it appears that the financial crisis is having a lasting effect on the global IPO market.

The biggest challenge that brought the global crisis is greater market uncertainty and IPO execution risk. Companies willing to initiate going public during the period of a high volatility need to account for the possibility of an extended IPO process with an uncertain outcome. This could imply a lengthy period of management distraction and quiet period restrictions, which could effect in unavailablity of cash needed to fund operations in the meantime. Falling prices on the world's stock markets have made investors turn to more safe investments, which consequently makes it almost impossible to exit a venture capital investment through either an IPO or a M&A.

The severe economic recession in 2008 caused worldwide IPO markets falling by over 60% in both deal numbers and funds raised since 2007. No national IPO market was insulated from the global financial crisis. The IPO boom trend in period 2006-07, declines in 2008-2009 (Figure 2). Despite uncertain economies and sinking stock markets in 2008, the US and China led in IPO fundraising and deal numbers, respectively, while Saudi Arabia emerged as the third largest IPO market.

There are three posible causes of the decline in IPO activity in the crises. First, during the periods of uncertainly and low investor confidence, investor engage their money in low risk investments. As the investor sentiment hypothesis claims, the number of IPOs can largely affected by investor optimism and confidence in the market. The credit/mortgage crisesis second posible reason of IPO market decline. Finaly, new legislation in the filed of corporate governance (for example The Sarbanes Oxley Act in the USA), made the cost of being a public company higher, which was possible barrier for many companies to realize IPO.

Figure 2. Time series of IPO volume in the period 1998-2010



Source: Deloitte official web site on the 4th October, 2010: http://www.deloitte.com/view/en_AU/au/industries/energy-resources/71c511f070789210VgnVCM100000ba42f00aRCRD.htm

Table 1 illustrates the beginning of a recovery of the initial public offering activity from the global financial crisis in the first half of 2010.

Table 1. IPO statistics in the global crises

GLOBAL MARKET			
	2008	*2009*	*1H2010*
Number of deals	*769*	*577(-25%)*	*593*
Capital raised ($)	*95,8b*	*112,6b*	*99,6b*
Average deal size ($)	*124,6m*	*195,1m*	*168,8b*
Top five sectors (capital raised)	*Financials, Energy, Materials, Industrials, Telecommunications*	*Industrials Financials, Energy, Real Eastate, Materials*	*Financials, Materials, Industrials, HiTech, Energy,*
Top five exchanges (capital raised)	*New York, Saudi, Shangai, London . Mainmarket, Hong Kong*	*Hong Kong, Shangai, New York, NASDAQ, Shenzhen - SME*	*Shenzhen – SME, Tokio, Shangai, New York, Shenzhen - ChiNext*
EUROPE			
	2008	*2009*	*1H2010*
Number of deals	*201*	*62 (-69%)*	*108*
Capital raised ($)	*16,8b*	*7,4b(-56%)*	*19,3b*
Average deal size ($)	*83,4m*	*119,4m*	*183.3m*
Top five sectors (capital raised)	*Energy, Materials, Telecommunications Industrials, Financials*	*Energy, Financials Industrials, Real Estate, Materials*	*Materials Energy, Financials HiTech, Health care*

Data source: Ernst & Young (2010), Global IPO trends 2010, document available at www.ey.com

The emerging markets, particularly in Asia, lead the IPO recovery (According to E&Y data, Asia accounted for 60% of global IPO numbers). Among the top five global IPOs, dominate the financial sector, the materials and energy sectors. The global IPO markets are expected to grow faster in the coming period, with the improved macroeconomic stability, business visibility, corporate earning and market liquidity double the 28 IPOs in the previous year.

4. IPOs at the Serbian capital market

We have seen that the IPO level vary over time at the global level. What is a situation at the Serbian capital market?

Serbia has experienced significant economic change since the start of XXI century. The development of the Serbian capital market has been the foundation for corporate sector reform. The Serbian stock market has developed gradually. During the course of this development, there has been a series of regulatory changes in conditions and procedures for issuing securities.

Unlike the developed capital markets of West Europe, USA and Japan, where the IPO belongs to traditional methods of raising funds represented for several decades, and contrasting the economies of East European countries where the importance and frequency of IPO has raised with the EU accession, funding the development of Serbian companies rely exclusively on the traditional methods – primarily bank credits. The interest for going private is higher with the companies that have been originally private, in comparison with the privatized companies which are listed by the Law on privatization. Low interest in IPO at the Serbian capital market could be explained by the legislation barriers, but also by the other, very important economic factors.

The basic, material constraint of IPO realization refers to an inadequate and insufficient legislative regulation. Going public is a very accountable phases of the company life cycle and conversion to the most complex business form – open, public company. Therefore, there is a need of a precise regulative determination of IPO process. However, The Law on securities and other financial instruments' market does not regulate separately the filed of initial (primary) and seasonal (secondary) public offerings. The Law defines the conditions for the securities issuing in the public offer process (Article 25.), not analyzing precisely and separately the terms of initial public offerings. Securities shall be issued through public offer together with publishing the prospectus for issuing securities and launching the public invitation for subscription and payment of securities, unless otherwise determined by this Law. The public offer of securities may be performed only after obtaining the resolution on approval of the prospectus for issuing securities, rendered by the Serbian Security Commission.

The prospectus for issuing securities shall consist of the introductory part which contains the basic data on the issuer, the data on securities that are intended to be issued and the data on the purpose of the assets gained by issuance of such securities, as well as the basic prospectus, which contains detailed data on the issuer, business activities of the issuer and the data on the securities issued, but not withdrawn, and/or whose maturity period has not expired. When the Security Commission finds it necessary for protection of the investor, it may require from the applicant to especially emphasize certain data in the prospectus for issuing securities (Article 26).

There is an obvious need for a new law enacting (a law that would regulate exclusively the area of initial/seasonal public offerings) or for the changes and amendments of the existing Law on securities. There are many reasons for the above mentioned claim. First, speaking about the IPO price determination process, the Law doesn't allow the use of *book building method* which is market-based and more transparent than the *fixed price method*. Second, the Law encompasses some restrictions related to special wrights of the issuer's employees and management (concerning shares' purchase). Namely, there is no possibility of giving the options on shares to the management, neither the options of selling the IPO shares at the discount price to the employees.

Apart from barriers of legislative character, many economical reasons could explain the absence of IPOs at the Serbian capital market. They could be find externally, in the economic environment, but also internally - in the financial state of potential issuers. In the first group of reasons, as most important, we could emphasize the overall state of the Serbian economy at the beginning of XXI century, the selected method and course of privatization process, the level of investors' protection, and ownership structure of the Serbian enterprises.

On the other hand, it is evident that a low interest of the Serbian companies for the IPO realization derives from the preference of debt funding and satisfactory availability of bank credits. Bank credits could be obtained at a simpler procedure in comparison to the IPO procedure. The lower price of borrowed funds should not be neglected too. The second important internal reason could be the fear of possibly lost or restricted control over the company, especially in the case of entry of the foreign investors in the company.

5. Conclusion

This paper seeks to shed light on IPO dynamics over time, paying special attention to IPO activity in the crises time. The factors that direct so many companies to have IPOs during some periods, versus so few during other times are of a different nature. Companies' demand for capital, the level of investor optimism/confidence as well as adversion selection costs explain a significant amount of the variation in IPO volume, especially the fall of the IPO market in the financial crises.

The paper also highlights the problem of IPO absence from the Serbian capital market. The basic, material constraint of IPO realization refers to an inadequate and insufficient legislative regulation. Apart from barriers of legislative character, many economical reasons could explain the absence of IPOs at the Serbian capital market: the economic environment, financial state of potential issuers, overall state of the Serbian economy at the beginning of XXI century, selected method and course of privatization process, level of investors' protection, ownership structure of the Serbian enterprises, satisfactory availability of bank credits, etc.

6. References

[1] Brau J.C et al., "Initial Public Offerings: CFO Perceptions", *The Financial Review* 41, (2006), pp. 483–511.

[2] Deloitte Corporate Finance IPO Survey (2010), The document available at: www.deloitte.com

[3] Ghosh, A, "The IPO phenomenon in the 1990s", *The Social Science Journal* 43, (2006), pp. 487–495.

[4] Ernst & Young (2010), Global IPO trends 2010, at www.ey.com

[5] Ibbotson, R. and Jaffe, J., "'Hot issue' markets", *Journal of Finance* 30, (1975), pp. 1027–1042.

[6] Ibbotson, R., Sindelar, J., Ritter, J., "Initial public offerings", *Journal of Applied Corporate Finance* 1 (1988), pp. 37–45.

[7] Ibbotson, R., Sindelar, J., Ritter, J., "The market's problems with the pricing of initial public offerings", *Journal of Applied Corporate Finance* 7 (1994), pp. 66–74.

[8] Lerner, J., Shane, H., and Tsai, A. "Do equity financing cycles matter?: evidence from biotechnology alliances" *Journal of Financial*

Economics, Vol. 67, No. 3, (2003), pp. 411-446.
[9] Lowry, M and Murphy, K.J., "Executive stock options and IPO underpricing", Journal of Financial Economics, 85 (2007), pp. 39–65.
[10] Lowry, M., "Why does IPO volume fluctuate so much?", Journal of Financial Economics, 67 (2003), pp. 3–40.
[11] Lowry, M., and Schwert, G. "IPO market cycles: bubbles or sequential learning?", Journal of Finance, 57 (2002), pp. 1171–1200.
[12] Lowry, M., Schwert, W., "Is the IPO pricing process efficient?", Journal of Financial Economics 71 (2004), pp. 3–26.
[13] Official Gazette of the Republic of Serbia, No. 38/2001, 18/2003, 45/2005, 47/2006
[14] Pagano, M., et al. "Why do companies go public? An empirical analysis", Journal of Finance, 53 (1998), pp. 27–64.
[15] Rajan, R., and Servaes, H., "Analyst following of initial public offerings", Journal of Finance, 52 (1997), pp. 507–530.
[16] Rajan, R., and Servaes, H., "The effect of market conditions on initial public offerings" in: McCahery, J., Renneboog, L. (Eds.), Venture Capital Contracting and the Valuation of High-tech Firms. Oxford University Press, Oxford, 2003.
[17] Torstila, S. "The clustering of IPO gross spreads: International evidence," Journal of Financial and Quantitative Analysis 38(3), (2003), pp. 673-694.
[18] Torstila, S., "What determines IPO gross spreads in Europe?" European Financial Management 7, (2001), pp. 523-541.
[19] Yung C., et al., "Cycles in the IPO market", Journal of Financial Economics, 89, (2008) pp. 192– 208.
[20] Zheng, S.X., and Li, M., "Underpricing, ownership dispersion, and aftermarket liquidity of IPO stocks", Journal of Empirical *Finance*, 15 (2008), pp. 436–454

The Crisis Impact to the Tourist Consumption

Dionisie Cristina
"Petre Andrei" University of Iasi, Faculty of Economics
cris_dion@yahoo.com

Abstract

In tourism field, managers must assure the optimal efficiency within three interdependent systems: economical, social and ecological. The perpetuation and the accentuation of the financial crises could generate negative effects in tourist consumption that may generate the impossibility of assurance the correlation between the three interdependent systems.

Key words: tourism, anti-crisis measures, regional strategy for development**,** treble efficiency, sustainable development, sustainable solutions
J.E.L. classification: M2, M29

1. Introduction

Tourism is one of the services who have a great contribution to gross world product, the assimilation of labor employed and investments. Also, the tourism industry depends on the quality of environment, and the promotion of social and cultural values. The economic importance of tourism can be measured by looking at the ratio of international tourism receipts relative to gross domestic product (GDP). In 2007, according to EUROSTAT statistics, this was highest in Cyprus (11.55 %), but small in the E.U country with middle development. The highest international tourism receipts from personal travel were recorded in France (EUR 34 995 million), Italy (EUR 24 280 million) and the United Kingdom (EUR 20 301 million). The biggest spenders in terms tourism were the British with expenditure over EUR 44 878 million. The actual financial crisis will affect these indicators and tourism activities in various ways: on the one hand, aspects and statistics indicators relating to capacity and occupancy in collective tourist accommodation (the number of hotels and restaurants, the existing capacity and the functional capacities) and, on the other hand, aspects and statistics relating to tourism demand and the reducing of the consumption dimension - the number of visitors, the number of tourists, the nights spent on hotels and restaurants and other indicators who reflect the tourist consumption. Other effect of financial crisis is the maintenance and extending the ecological problems as a result of reducing the financial resources for ecological projects. But the most difficult part will be the restabilising by the managers of the discrepancies which appear between the economical, social and ecological systems.

2. The consumption reduction and the escalation of regional disparities in what regards tourism demand - the major effect of the crisis!

One of the major effects of the financial crisis is the reduction of wages. According to a study of the B.N.S, in the most optimistic scenario, the reduction of wages by 25% would lead to a decrease of 10% in family consumption, in richer regions, and this would generate a decrease of more than 1% in the Gross Domestic Product. In the pessimistic forecast, the consumption would decline by 25% in all the regions, and this would result in a decrease of 2.63% in the GDP. These variation margins are neatly differentiated by regions, the most striking decreases being registered in the poorest regions, with a low development level.

The consequences for the family budget are the reduction of consumption with travels, accommodation, luxury and higher goods and services. Tourism is one of the components of services sector, placed on 3^{d} level of Maslow pyramid that is considerate for pour and middle development countries luxury or expensive goods. In the optimistic scenario the reducing of wages will mean the renouncing of the major part of population

from pour and middle development country at trips, holidays and tourism products. It means also an increasing of the discrepancies with tourism products consume between the development and pour (or middle development) countries.

In 2007, the year when financial crises began, EU residents made nearly a thousand million holiday trips. They made 76 % of these trips to a destination within their own country of residence, while the remaining 24 % of trips were abroad. More than half of all trips (55 %) were short trips of one to three nights and 45% are trips for long holidays. In case of reduction of wages the abroad trip will be dramatic compress to more than half. A large differences could be appear between some countries, where over half of all holidays were spent abroad (this was the case for Belgium, Denmark, Ireland, Luxembourg, the Netherlands and Slovenia) and other countries like Greece, Spain, France and Portugal where 10 % or less of the residents went abroad for their holiday trips.

3. The accommodation' reduction and the escalation of regional disparities in what regards tourism supply – a big effect of the crisis!

Other effect produced by the current anti-crisis in tourism field is the reducing the accommodation tourist capacity as a result of reducing the family consumption.

Being one of the essential components of the material base of tourism, the accommodation structures influence the tourist traffic and flows, contribute to making tourists faithful to a certain type or destination of tourism, assuring through its quality and attractiveness, the creation of new values and the accomplishment of profitability objective.

E.U statistics operate with the capacity of collective tourist accommodation which includes the number of establishments, the number of bedrooms and the number of bed places. Other indicator is occupancy of collective tourist accommodation that refers to the number of arrivals (at accommodation establishments) and the number of nights spent by residents and non-residents, separated into establishment type or region.

According to EUROSTAT, in 2007 there were 202353 hotels and similar establishments active within the EU. In addition, there were 220 497 other collective tourist accommodation establishments (such as campsites and holiday dwellings, etc.). These hotels and similar establishments provided over 11.7 million bed places, of which nearly half (47 %) were in the top three countries: Italy (2.1 million bed places), Germany and Spain (both 1.7 million bed places). The diminishing of tourist accommodation capacity occurred due to the diminishing of the number of units. The causes will be the relocation of business from middle development to development countries. In conclusion, the reduction will be strong in middle development and pour country and in rich countries it may be possible to increase the number of establishments.

The actual financial crises will also affect the costs of accommodation and the number of nights spent abroad. In 2007, according to EUROSTAT statistics non-resident (foreign) tourists spent almost 730 million nights in hotels and similar establishments in the EU-27. In 2008, the biggest group of outbound tourists among the EU population was recorded for Germany. During that year, Germans spent more than 625 million nights in collective accommodation establishments outside of Germany, closely followed by residents from the United Kingdom (546 million nights abroad in 2007). These two Member States alone accounted for more than half of the total number of nights spent by EU residents outside their respective countries.

The top10 countries made-up slightly more than 90 % of the 2 000 million nights that Europeans spent in tourist accommodation establishments outside the Member State where they had their usual place of residence in 2008. When taking into account the country's size in terms of population, Luxembourg was the Member State where the highest proportion of residents (16 years of age or more) went abroad, followed by Cyprus and Sweden. At the other end of the spectrum, during 2008, only 1.6 % of Bulgarians spent at least four holiday nights abroad. In 2008, Spain was the most popular tourism destination for non-residents, with 225 million nights spent in collective accommodation. This country alone accounted for more than 23 % of the total nights spent by non-residents in the EU.

The top three most popular countries were Spain (224 million nights), Italy (163 million nights in 2007) and France (107 million

nights). Together these three countries accounted for 51 % of the nights spent by EU residents in accommodation establishments outside their own country. The least popular destinations were Luxembourg and the three Baltic Member States of Lithuania, Latvia and Estonia – in each case, the effect of the size of these countries should be considered. Putting the number of nights spent in perspective by comparing them to the population of the Member State, tourism intensity can be ascertained. In 2008, this indicator revealed the Mediterranean island destinations of Malta and Cyprus, as well as the alpine/city destination of Austria, as the most popular destinations.

4. The relocation of the tourism business

Another effect of the current crisis refers to the closure or relocation of important tourism businesses that support a series of regions and that are being attracted especially by neighbouring countries. Some multinational companies of the South and South-East Region moved to west because there the reimbursement of the value added tax is carried out more rapidly. By the end of November 2010, even a greater number of companies will relocate, as the increase in taxes and charges will make things worse in the entire country and in all development regions

The increase of the VAT from 19% to 24% in Romania will lead to an increase by 2-3% in prices and implicitly to the decline of the purchasing power. Imposing new taxes to small local companies could result in their closure.

Knowing the possible effect of the current anticrisis to the tourist accommodation capacity might be a target of the elaboration of some rigorous measures necessary for: increasing the quality of tourist accommodation services, promoting a competitive structure of the accommodation services, judiciously correlating of these services with the capacity of economic, social, ecological reception of tourist areas and localities, projecting some attractive tourist arrangements.

5. The maintenance of large differences regarding human resources in tourism

The sharpest social impact of the crisis refers to the escalation of interregional disparities regarding unemployment. Unemployment emerges as a result of the dramatic decline of sales, being the first measure taken by company owners in times of crisis. In the regions with low employment rates, unemployment will mount more than in the central and western regions of the country.

In the social field, the main anti-crisis measure states that the state should pay, instead of employers, the social insurance contributions of the companies that employ unemployed people.

The E.U experience reveals that an excessively tough austerity regime deepens and does not solve the crisis. We believe that a salutary solution at the regional level would be to create solid partnerships that would generate system solutions for a sustainable development. Another suggested solution is the creation of development poles that is of richer areas from an economic point of view, with a firmly established cultural identity and with possibilities to support the development of their neighboring areas.

From governments measures it is necessary to grow the households' income. The main contribution to households' income growth is provided by the compensation of employees, while operating surplus and mixed income. Both of these sources recorded negative rates of change during the recession, most notably in the first two quarters of 2009.

To prevent the major problems in tourism supply (inclusive for human resources who work in tourism sector) the anticipating projections of tourism demand - must be correlated within the plans of regional development. This measure is able to prevent the poor evaluation coming from the super-dimensioning of tourist accommodation capacities in a period of crisis. In this respect the settlement of an optimum weight of various comfort categories in the total accommodation and nutrition capacities will contribute to a better adaptation of the tourist offer to the real evolution of the potential hotel demand.

6. The maintenance of large differences regarding pollution – an other effect of crisis

Tourism sector has a great impact to the protection of natural resources and especial on limitation the degree of urbanization and pollution.

The effects of financial crisis from source consumers include:

a. The reducing of costs and financial resources with protection and restoration of facilities and the monuments of art and culture;

b. Degradation of the landscape by negligence of natural resources;

c. Increasing the pollution grad because of urbanization

d. Degenerated cultural and moral pollution.

The effects of financial crises have a great impact also to other aspects: Over the physical and psychological personnel; The decline of tradition; The social conflicts; The deteriorating environment; The increasing rate of dependence on developed countries.

Although the pollution problems are released from a region, the effects could provoke some environmental problems in other countries or will easily affect the whole planet because pollution is "disconnected" from its place of manifestation.

These major environmental risks are:

- Alteration of the ozone layer;
- Aggravating the greenhouse effect;
- The pollution of water;
- The pollution of air.

Among these is predictable the maintenance of the actual pollution problems:

- Noise pollution. The noise sources may affect the health, peace and finally they determinate the tourists to short their holidays.

- Pollution aesthetic. An attractive tourist destination becomes not only through quality services, but also by esthetic-ambient atmosphere, which leads to customization any landmarks in landscape architecture and art. The landscape and architecture is a component of tourism product. So, being a tourist means being a impressed spectator by the picture they offer it.

- Face Water pollution from air pollution, water pollution is much more present because many tourism activities are not run in the absence of water resources, especially when it comes to the health and quality of tourist services offered. Water consumption calculated for each tourist is quite high, - in E.U countries it takes 20 l/day for each tourist.

- Soil Pollution is caused by expanding travel arrangements and transport, which leads to removal from circulation of important areas for parks, sites for children's playgrounds, green spaces, as required in urban centers (making parking, food stations with fuel, etc.).

7. Conclusions

The main indicators concerning the demand and supply will be affected by the actual financial crisis. The dimension of tourist demand will be more reduced than the indicators of tourist supply. It is about aspects and statistics relating to the reducing of the consumption dimension - the number of visitors, the number of tourists, the nights spent on hotels and restaurants and other indicators who reflect the tourist consumption.

The accommodation capacity was already deteriorated in some regions from causes that not depend of financial crises: insignificant investments in the domain; the incorrect exploitation and even degradation of the material base of the tourist network; abuse in the administration of the tourist bases; absence of various facilities and stimulants for potential investors in tourism; a restrictive commercial policy for foreign tourists; persistence of some inflexible organizing systems etc.

Assimilating the triple bottom line principle as fundamental principle in grounding and implementing the regional strategies for tourism is a big necessity. The three bottom lines might help to overcome the mindset some managers have with respect to making only short-term profit. Neglecting the social and ecological efficiency is detrimental to the image which is favourable to the integration and runs counter to the obligations assumed, which refer to the observance of the minimum social and ecologic standards and requirements when trading tourist services.

The requirements and the criteria needed for sustainable development must be applied in tourism sector. Sustainable development is a desideratum that may be reached at in different ways, using one or several models, each with its own action tools. Within the chosen model, the taking into account and the use of the triple bottom line principle should be found in the statement of the objectives and

of the strategic options. The statement of these options must have in view the need of continuity in the strategic action at a regional level a well as the need to adopt some fundamental strategic options, according to the regional specificity.

8. References

[1] M. Purvis, A. Grainger, *Exploring Sustainable Development*, Publishing Earthscan, London, 2008
[2] P. Lavery, *Travel and Tourism*, Publishing ELM Publications, Northants, 2007
[3] *** www.sustainable-development.gov.uk

The Main Effects of Reducing the Economical Capacity

Dionisie Cristina
"Petre Andrei" University of Iasi, Faculty of Economics
cris_dion@yahoo.com

Abstract

Starting with the main characteristics and causes, who generates the reducing of the economical capacity the research reveals the main possible effects that may be produced in the next years. The research insists for necessity of prevention of these effects, with measures that can be adopted by any country. The proper measurements for stopping the current crisis and his negative effects must be include in the national and global strategies.

Key words: economical capacity, anti-crisis measures, sustainable development, sustainable solutions
J.E.L. classification: P5, P51

1. Introduction

Under the impact of the crisis triggered in 2007, the country's regions and cities were faced with complex problems: unemployment has been and is constantly increasing; companies are faced with low turnover and liquidity restrictions. A particularly serious problem, the impact of the crisis, triggered in 2007, refers to the alarming decline of economical capacity. Capacity savings are lower in many countries, both due to lower net income, about half from other countries like Germany, United Kingdom, Norway, Sweden, but also because the number of employees is small in comparison with this countries.

In Romania and other countries from esteem and sudden, the economies and money from working abroad have been invested abroad (at the end of the work contracts they have not returned home). Working abroad many citizens prefer to keep to saving with foreign Banks.

2. The main causes of reduction of economical capacity

The effects of the economic crisis has had on the respondents concerns: rising prices, reduction of salary or earnings of the respondent or a family member, loss or extra benefits -wage, loss of employment by the respondent or a member of the family (extended family is taken into account) - (17.3%), and increased rates on loans due to devaluation leu (16.2 %). The main cause of reduction in the capacity of saving and financial impact of an economic crisis is to reduce wages.

In the E.U countries the reduction of wages by 25% would lead to a decrease of 5-9% in family consumption, in richer regions, and this would generate a decrease of more than 1% in the Gross Domestic Product. In the pessimistic forecast, the consumption would decline by 25% in all the regions, and this would result in a decrease of 1.8-2.63% in the GDP. These variation margins are neatly differentiated by regions, the most striking decreases being registered in the poorest regions, with a low development level.

Other cause generated at the regional level by the financial crisis refers to the reinforcement of the restrictions related to cash and the difficulties encountered in the management of current expenses. For some countries, like Romania that should enter the ERM 2 (the European Exchange Rate Mechanism – the Euro antechamber) at the beginning of 2012 and, for two years, the exchange rate should not fluctuate with more than 15% over or bellow a previously established level. Or, after the announcement of the anti-crisis measures, the exchange rate grew with more than 15% and in the future the increase in taxes and charges will lead to further fluctuations over this level.

Another cause of the current crisis refers to the closure or relocation of important businesses that support a series of regions and

that are being attracted especially by neighbouring countries. Some multinational companies of the South and South-East Region from Romania moved to Bulgaria as early as 2008 and the beginning of 2009 because there the reimbursement of the value added tax is carried out more rapidly. Some businessmen from the areas and regions of Ardeal have announced that they would move to Hungary or Serbia. By the end of September 2010, even a greater number of companies will relocate, as the increase in taxes and charges will make things worse in the entire country and in all development regions

The increase of the VAT from 19% to 24% will lead to an increase by 2-3% in prices and implicitly to the decline of the purchasing power. Imposing new taxes to small local companies could result in their closure.

The sharpest social impact of the crisis refers to the escalation of interregional disparities regarding unemployment. Unemployment emerges as a result of the dramatic decline of sales, being the first measure taken by company owners in times of crisis. In the regions with low employment rates, unemployment will mount more than in the central and western regions of the E.U country.

3. Effects of reducing capacity savings

1) The main effects of capacity reduction will be felt on both savings and the banking population, vital areas of the economy, as well as externally. There is so the effects of reducing capacity savings and the economic crisis change the consumer behavior. According with Mednet Marketing Research Center, in Romania, the economic crisis has affected 44.0% of study participants with more than 100,000 inhabitants in cities large and very large extent. On the other side there represents only 14.1% of respondents said they are not at all affected by the current financial crisis. Compared with the end of 2009, specifically November, the percentage of those who declare themselves largely affected by the crisis and is greatly increasing (from 36.4% to 44.0% in November 2009 to April 2010). In terms of behavior modification as a result of the crisis, the survey data reveals that: 34.9% of respondents have not changed consumer behavior, while 65.1% reduced their consumption or turned to cheaper products (47.7% buy the same products but in smaller amount, 8.3% buy cheaper products, but in the same amount, 9.1% buy cheaper products and smaller amounts).

2) Other possible effect is the failure of paying loans from banks contacted. This aspect becomes even greater importance with the indebtedness of households is maintained at a high level, 33.5% of these loans by paying 10 to 25% of monthly income and 33.2%, between 25-50%. It also noted that expectations of a worse financial situation leading to a decrease in the probability of saving 14 to 15%. Maintain low saving capacity dependence of local credit institutions.

Blocking or reducing the supply of high liquidity (funding) domestic branches of foreign banks on liquidity due to the shock suffered by the latter, favored by the existence of shock in those banks' portfolio of "toxic assets" which were instigated financial and economic crisis. In connection with mortgage banking loan, consider that a given volatile nature of financial and economic crisis will lead to a continuing reluctance of banks to the idea of resuming or increasing importance of this category of credit as previously stated, securitization of bank loans mortgage could, however, and once again become an important source of refinancing their current banking system, eliminating the possibility of providing the same product package mortgage loans

3) A most important effect of the reducing the economical capacity is the increasing of discrepancies concerning the consumption between the pour, middle development and development countries. According with EUROSTAT dates, the pessimistic variant, consumption would fall by 25% in poorer regions, which will lead to a contraction in GDP by 2.63%. Contraction in consumption will reduce the tax base and adding the amounts collected to the budget by increasing the VAT rate expected, only negative effect you will feel the companies and consumers is clear. Increased taxation will have a strong psychological effect which will cause restriction to reduce consumption and sales companies, with direct effect on liquidity in the market and will put additional pressure on the private sector. Companies will try to implement new measures for restructuring and resizing costs to adapt to new market

requirements; it can lead to an increasing number of unemployed in the private sector.

4) The remigration phenomenon of domestic labor force, currently working abroad is other effect of reducing the economical capacity. The remigration phenomenon also depends on the preservation or not comparative advantage generated by the migration decision: the comparative advantage was in most cases, the wage differential. This differential may undergo significant changes, depending on the extent that a crisis had on the countries of destination, compared to the country of origin. In addition, with financial and economic crisis has also appeared in a variable "equation" for a decision - the probability of finding and securing job

5) Reducing the volume of activity of firms. Compressing the volume of work will contribute to: 1) increased inter-regional economic disparities; 2) increasing structural gaps. To prevent this effect it's desirable that governments to encourage the young people who wish to start up small enterprise with fiscal incentives, exemption from paying some taxes and charges. At the level of local and regional authorities, there could be established advisory committees formed by groups of specialists who could help the young entrepreneurs to speed the start-up of their business. Among the supplemental solutions that could be adopted at the regional level we suggest establishing priority areas with priority development needs by consulting the main economic stakeholders and the citizens. Another way of speeding up the implementation of this measure is to encourage the start up of innovative companies of the spin-off type, by separating the groups of employers who support innovative business ideas from the source company.

6) Increased risk of deformable positioning on the international market. We envisage that the new world financial order is expected to redefine power and its capacity for saving. In this perspective we must not forget that the current crisis was triggered when the banks when borrowers have turned to new loans that can support payments on loans they had earlier. The term "sub prime" is all about specialty items, he contacted reflecting new loans to pay previous ones. Sub prime market that have been made but the financial products they offer on the market and sold them were not sure that those who want to refinance their economies actually impotence to pay some previous commitments, and that the product "sub prime" can be paid to the last cent.

4. Saving solutions for improving the economical capacity

We believe that the main solutions for improving the savings could be targeted in two main directions.

I. Measures for recovery and sustainable growth:

1) Recovery and sustainable growth;

2) Making investments focused on vital sectors of the economy;

3) Modernization of county and municipal roads;

4) Ensure safe water and sanitation in all villages.

II. Measures and solutions to the banks. Recognition - the status of credit companies - that depositors are actually owners of all resources, including resources that we call "resource decision." Following this recognition, the banks should accept the conditions and depositors, not just to set conditions. Deposit contract who wants to make savings and deposits at the bank, once signed another perspective entails the decision will be restricted and the executive manager of a bank will not be able to decide on the use of discretionary money deposited with them. Those who want to develop a business must prove at the outset that they are able to contribute with their savings and may even co-development by 20%.

A practice that should cease: finance both the production and consumption in the same amount percentage. A manufacturer can develop their business by 100% consumer credit and also may finance its consumption by 100% credit. This model will contribute to sustainable development implementation of new systems that large businesses will grow gradually from small businesses that have demonstrated profitability.

The "first big deal at the expense of those who have made savings" on credit, it other people's money without any prior expertise developed in smaller businesses, often without the risk of losing their savings to disappear in the new order economic crisis. The current model, in which people who are not able to save a penny they can finance their oversized living their abilities or socio-economic

development only with money saved by others, can not continue. Of course, those savings will be able to find other forms of disposal of surplus value of their work to ensure sustainability and saving measure. A new global financial order and we will certainly involve the act of saving sustainable systems.

At the level of EU countries, the main tool used in the adoption of anti-crisis measures was the "European Economic Recovery Plan in Regions & Cities", designed by the Committee of the Regions. The priorities include paying the state's debts to companies, and granting some facilities and tax exemptions to young people. The state's debts to companies exceed the amount of 1.5 billion Euros. Applying this measure might result in maintaining big companies that support entire regions. In what regards immediate investment, the plan states that 1.5 billion Euros will be offered to finish the roads and highways under construction and to build new ones. Within this plan, we notice that the richest regions benefit from money support while poorer regions are neglected.

One of the measures with beneficial social and economic middle and long term effects stated in the restoration plan refers to the granting of three billion Euros for investment in energy-producing state companies, in the rural economy and in environmental projects.

5. References

[1] Adumitrăcesei, I., 2009**,** *Criza economică*, Editura Junimea, Iaşi

[2] Băcescu, M., Fota Dyonisius**,** 2009, *Criza economică din România anului 2009, Cauze, efecte, soluții,* Editura Universitară

[3] *** Sixth EU Environment Action Programme 2010: *Our Future, Our Choice*, European Commission

Global Crisis and International Trade: Prospects for 2010

Dobre I. Claudia
Şorici Costin
"Ovidius" University of Constanta, Faculty of Economic Sciences
dobre_claudia@yahoo.com

Abstract

Towards the end of 2008 the global crisis initiated to manifest itself in international trade. In this paper we show that the slump in global demand and the slowing-down in economic growth translated into a substantial reduction in international trade that has affected the cross-border trade of virtually all countries and economic sectors.

Adittionally, we focus on the reasons why trade declined so steeply, with 12% in 2009. The emerging consensus is that the great trade collapse was mostly a demand shock – although supply side factors played some role.

Finally, we observ that after a challenging two years in which the global economy endured the worst recession since the Second World War, recovery is now unambiguously underway.

Key words: integration effects, trade, single market, Europe Union
J.E.L. classification: D10

1. Introduction

The begin of the present crisis can be traced back to July 2007, with the liquidity crisis due to the loss of confidence in the mortgage credit markets in the United States. The expectation was that the crisis would be restricted to financial markets, with few repercussions on the real economy and the rest of the world. This expectation was shattered in September 2008 as the crisis entered an acute phase, with strong downward fluctuations in the stock markets, substantially reduced rates of economic growth, volatile exchange rates, and squeezes in demand and consumption, leading to falls in industrial production and decreasing flows of international trade and FDI, and producing impacts on related areas such as transfer of technology.

2. Drop in the volume of world trade

These declines are quite high, however the numbers should be expounded carefully. International trade is generally expressed in United States dollars, and thus is heavily influenced by exchange rate fluctuations. More, commodity prices were very tall in the first half of 2008, inflating the overall value of international trade. The sharp drop in commodity prices towards the end of 2008 (the UNCTAD commodity price index fell by about 20 per cent between January 2008 and January 2009) similarly deflated the value of trade.

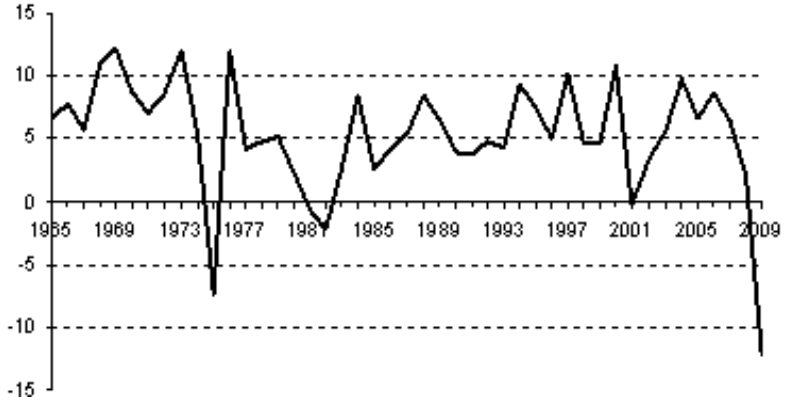
In the same time, for many countries, the diminish in international trade has been considerably smaller in volume terms, as well as in local currency terms. For example, Mexican pesos depreciated about 20 per cent vis-à-vis the United States dollar in 2008, while Mexican exports in dollar terms fell about 30 per cent. That results in a smaller decline in peso terms. Other countries, such as the Republic of Korea, Brazil, and Chile, have seen their currency fall in value by about the same extent as the fall in exports.

The 12,2% drop in the volume of world trade in 2009 was more than most economists had predicted. This distortion also exceeded the WTO's earlier forecast of a 10% decline. World trade volumes fell on three other occasions after 1965 (—0.2% in 2001, —2% in 1982, and —7% in 1975), but none of these episodes approached the magnitude of last year's economic slide (figure 1).

Trade in current US dollar terms slumped even further than trade in volume terms (—23%), thanks in large part to falling prices of oil and other primary commodities.

Economists have indicated a number of reasons why trade declined so steeply, including the imposition of some of protectionist measures. But the consensus that has emerged centres on a sharp contraction in global demand as the primary cause. This was increased by the product composition of the fall in demand, by the presence of global supply chains, and by the fact that the decline in trade was synchronized across countries and regions. The weakness in private sector demand was related to the global recession triggered by the sub-prime mortgage crisis in the United States. What began in the US financial sector soon spread to the real economy, with global repercussions. Limited availability of trade finance played a role.

Figure 1: Volume of world merchandise exports, 1965-2009 (annual % change)



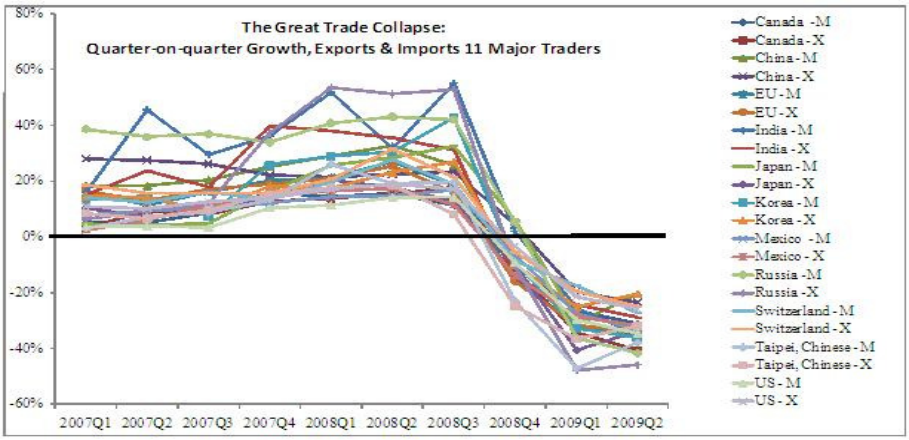
Source: WTO, 2010 PRESS RELEASES, *Trade to expand by 9.5% in 2010 after a dismal 2009*

Sharp falls in wealth during the recession caused households and firms to cut their spending on all types of goods, especially consumer durables (automobiles) and investment goods such as industrial machinery. Purchases of these items could be delayed easily in response to heightened economic uncertainty, and they may also have been more sensitive to credit conditions than other types of goods.

3. The fall in international trade was synchronised

All 104 nations on which the WTO reports data experienced a drop in both imports and exports during the second half of 2008 and the first half of 2009. Figure 2 shows how imports and exports collapsed for the EU27 and 10 other nations that together account for three-quarters of world trade; each of these trade flows dropped by more than 20% from 2008Q2 to 2009Q2; many fell 30% or more.

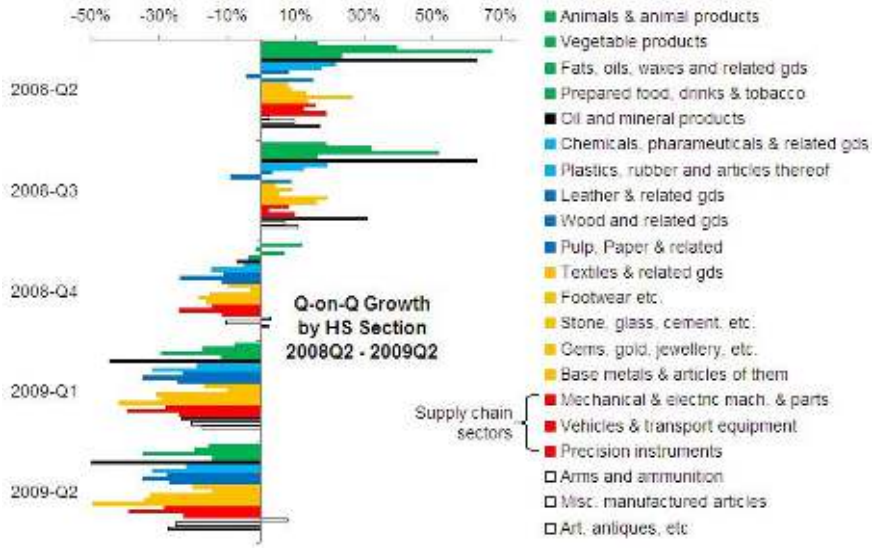
Figure 2: The great trade collapse



Sources: WTO online database.

Figure 3 shows that world trade in almost all product categories were positive in 2008Q2, almost all were negative in 2008Q4, and all where negative in 2009Q1. The categories most marked by international supply chains (Mechanical and electrical machinery, Precision instruments, and Vehicles) saw some of the biggest drops, and empirics finds that supply chains were hit harder controlling for other factors.

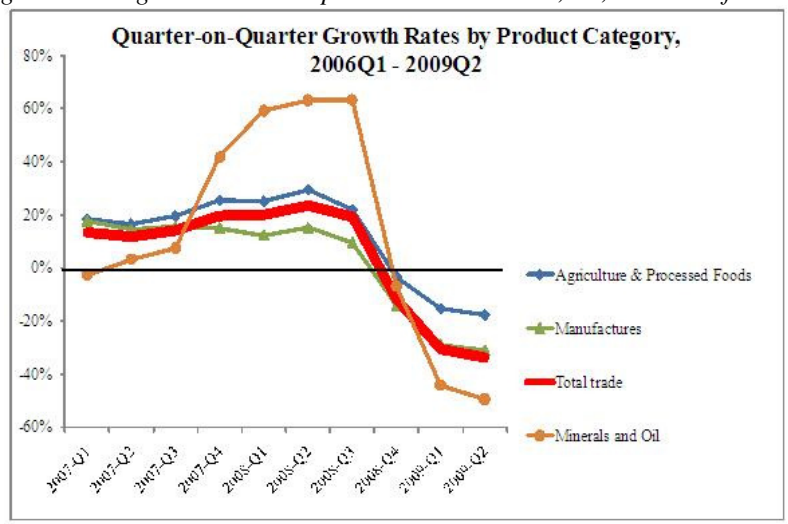
Figure 3: All types of goods trade collapsed simultaneously



Source: Comtrade database

Trade collapsed across the board, but it is important to distinguish between commodities and manufactures. The collapse in minerals and oil trade started from a boom time and fell faster than total trade (Figure 4). The reason was prices. Food, materials and especially oil experienced a steep run up in price in early 2008; the boom ended in mid 2008 – well before the September 2008 Lehman's debacle. The price of manufactures, by contrast, was rather steady in this period.

Figure 4: The great trade collapse and values: Food, oil, and manufactures



Source: ITC online database.

4. Emerging consensus on the causes

Economists around the world have been working hard to understand the causes of this unusually large and abrupt shut down of international trade.

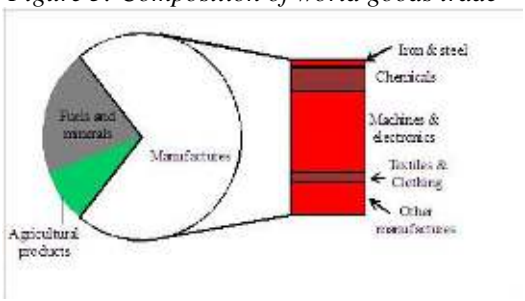
The emerging consensus is that the great trade collapse was mostly a demand shock – although supply side factors played some role. The demand shock operated through two distinct but mutually reinforcing channels:

- Commodity prices – which tumbled when the price bubble burst in mid 2008 – continued to follow world demand in its downward spiral. The price movements and diminished demand sent the value and volume of commodities trade diving.
- The production and exports of manufacturing collapsed as the Lehman's-induced shock-and-awe caused consumers and firms to wait and see; private demand for all manner of 'postpone-able' consumption crashed.

This consensus view, however, is incomplete. It raises the question: If the trade drop was demand driven, why was the trade drop so much larger than the GDP drop? The answer provided by the emerging consensus is that the nature of the demand shock interacted with "compositional" and "synchronicity" effects to greatly exaggerate the movement of the trade-to-GDP ratio.

The compositional effect turns on the peculiar nature of the demand shock: reducing demand for all related intermediate inputs (parts and components, chemicals, steel, etc). The compositional-effect argument is founded on the fact that postponeables make up a narrow slice of world GDP, but a very large slice of the world trade (Figure 5).

Figure 5: Composition of world goods trade



Source: WTO online database for 2007.

The synchronicity effect helps explain why the great trade collapse was so great in an even more direct manner; almost every nation's imports and exports fell at the same time. There was none of the averaging out that occurred in the three other postwar trade drops. But why was it so synchronised?

There are two leading explanations for the remarkable synchronicity. The first concerns international supply chains, the second concerns the ultimate cause of the Great Recession.

The profound internationalisation of the supply chain that has occurred since the 1980s – specifically, the just-in-time nature of these vertically integrated production networks – served to coordinate, i.e. rapidly

transmit, demand shocks. Even a decade ago, a drop in consumer sales in the US or Europe took months to be transmitted back to the factories and even longer to reach the suppliers of those factories. Today, Factory Asia is online. Hesitation by US and European consumers is transmitted almost instantly to the entire supply chain, which reacts almost instantly by producing and buying less; trade drops in synch, both imports and exports. For example, during the 2001 trade collapse, monthly data for 52 nations shows that 39% of the month-nation pairs had negative growth for both imports and exports. In the 2008 crisis the figure is 83%. (Baldwin Richard 2009)

The second explanation requires a bit of background and a bit of conjecture (macroeconomists have not arrived at a consensus on the causes of the Great Recession). To understand the global shock to the demand for traded goods, we need a thumbnail sketch of the global crisis.

Extensive research in behavioural economics shows that people tend to act in extremely risk averse ways when gripped by fears of the unknown (as opposed to when they are faced with risk, as in a game of cards, where all outcomes can be enumerated and assigned a probability). Fall 2008 was a time when people really had no idea what might happen. This is Ricardo Caballero's hypothesis of "Knightian Uncertainty" (i.e. the fear of the unknown) which has been endorsed by the IMF's chief economist Olivier Blanchard.(Caballero, 2009)

Consumers, firms, and investors around the world decided to "wait and see" – to hold off on postponeable purchases and investments until they could determine how bad things would get. The delaying of purchases and investments, the redressing of balance sheets and the switching of wealth to the safest assets caused what Caballero has called "sudden financial arrest" (a conscious reference to the usually fatal medical condition "sudden cardiac arrest").

The "fear factor" spread across the globe at internet speed. Consumers, firms and investors all feared that they'd find out what capitalism without the capital would be like. They independently, but simultaneously decided to shelf plans for buying durable consumer and investment goods and indeed anything that could be postponed, including expensive holidays and leisure travel. In previous episodes of declining world trade, there was no Lehman-like event to synchronise the wait-and-see stance on a global scale.

The key points as concerns the trade and GDP collapse:

- As the fear factor was propagating via the electronic press; the transmission was global and instantaneous.
- The demand shock to GDP and the demand shock to trade occurred simultaneously.
- "Postponeable" sector production and trade were hit first and hardest.

The Lehman-link "sudden financial arrest" froze global credit markets and spilled over on the specialized financial instruments that help grease the gears of international trade – letters of credit and the like. From the earliest days of the great trade collapse, analysts suspected that a lack of trade-credit financing was a contributing factor.

Such **supply-side** shocks have been important in the past. Careful research on the 1997 Asian crisis and historical bank crises provide convincing evidence that credit conditions can affect trade flows. In global trade finance have not had a major impact on trade flows. While global credit markets in general did freeze up, trade finance declined only moderately in most cases. If anything, US cross-border bank financing bounced back earlier than bank financing from other sources. In short, trade financing had at most a moderate role in reducing global trade.

Internationalised supply chains are a second potential source of supply shocks. One could imagine that a big drop in demand combined with deteriorating credit conditions might produce widespread bankruptcies among trading firms. Since the supply chain is a chain, bankruptcy of even a few links could suppress trade along the whole chain.

Such disruptions did not occur this time. They do this by looking at very disaggregated data and distinguishing between the so-called "intensive" and "extensive" margins of trade. These margins decompose changes in trade flows into changes in sales across existing trade relations (intensive) and changes in the number of such relations (extensive). If the supply-chain-disruption story were an important part of the great trade collapse,

these authors should have found that the extensive margin was important. The great trade collapse has been primarily driven by the intensive margin – by changes in pre-existing trade relationships. Trade fell because firms sold less of products that they were already selling; there was very little destruction of trade relationships as would be the case if the extensive margin had been found to be important. This findings may be due to the notion of "hysteresis in trade", namely, that large and sunk market-entry costs imply that firms are reluctant to exit markets in the face of temporary shocks. Instead of exiting, they merely scale back their operations, waiting for better times.

Protectionism is the final supply shock commonly broached as a cause of the great trade collapse. While many measures have been put in place – on average, one G20 government has broken its no-protection pledge every other day since November 2008 – they do not yet cover a substantial fraction of world trade. Protection, in short, has not been a major cause of the trade collapse so far.

5. Prospects for 2010

Without any further upheavals in the global economy, world merchandise trade should resume its normal upward trajectory through the end of 2010, although some deviation from its previous trend line will persist indefinitely.

The prospects are more terrible for export-oriented developing countries, mainly those with a small domestic economy, where the decrease in international demand is more likely to grow unemployment. Farther, in some developing countries, workers are shifting out of dynamic export-oriented sectors into lower-productivity activities. These effects could bring millions of people back into poverty.

According to World Bank, given the expected weak recovery and weak base effects, trade is projected to expand by only 4.3 percent in 2010 and by 6.2 percent in 2011. As a result even two years into the recovery, the overall volume of goods and services traded is forecast to be 5 percent lower than its 2008 peak.

A more favorable projection belong to World Trade Organization: international trade will expand by an unprecedented 13.5 this year, the World Trade Organization said, revising its forecast because of a faster-than-expected recovery in flows of global commerce. it now sees global trade growing at a faster rate than at any time since the data were first measured in 1950 as exports and imports surge, especially in China and other emerging economies.

WTO Director-General Pascal Lamy said the strong recovery of trade signalled improved economic activity worldwide.

"This surge in trade flows provides the means to climb out of this painful economic recession and can help put people back to work," he said in a statement. "It underscores, as well, the wisdom governments have shown in rejecting protectionism."

Merchandise exports of developed economies are predicted to expand by 11.5% in volume terms while the rest of the world (including developing economies and the Commonwealth of Independent States) is expected to see an increase of 16.5% for the year .

Merchandise exports and GDP by region, 2007-2010 (Annual % change)

Volume of merchandise exports	2007	2008	2009	2010 a
World	6.5	2.2	-12.2	13.5
Developed economies	4.8	0.8	-15.3	11.5
Developing economies and CIS	9.0	3.8	-7.8	16.5

a Projections.

Source: WTO Secretariat

This would be the fastest year-on-year expansion of trade ever recorded in a data series going back to 1950. But such a large growth rate should be understood in the context of a severely depressed level of trade in 2009, when world exports plunged by 12.2%. The next fastest year-on-year growth was 11.8% in 1976, one year after the then unprecedented decline of 7.3% in 1975.

6. Conclusions

Economists around the world have been working hard to understand the causes of this unusually large and abrupt shut down of international trade. They do not all agree on all points, but a consensus is emerging. when sales drop sharply – and the great trade collapse was a gigantic drop in international sales – economists look for demand shocks and/or supply shocks. The emerging consensus is that the great trade collapse was mostly a demand shock – although supply side factors played some role.

This consensus view, however, is incomplete. It raises the question: If the trade drop was demand driven, why was the trade drop so much larger than the GDP drop? The answer provided by the emerging consensus is that the nature of the demand shock interacted with "compositional" and "synchronicity" effects to greatly exaggerate the movement of the trade-to-GDP ratio.

Finally, we observ that after a challenging two years in which the global economy endured the worst recession since the Second World War, recovery is now unambiguously underway.

7. References

[1] Baldwin, Richard, 2009, "*The Great Trade Collapse: Causes, Consequences and Prospects*", CEPR

[2] Caballero, Ricardo, 2009, „*Sudden financial arrest*", VoxEU.org, 17 November 2009

[3] Dobre I. Claudia, Sorici Costin Octavian, Pociovalisteanu Diana-Mihaela, 2010, „*International trade in the midst of global crisis*", Conferinta internațională, Sibiu

[4] UNCTAD, 2009, Press releases, „*Global economic crisis: implications for trade and development*"

[5] World Bank, 2010, *Global Economic Prospects 2010: World trade*

[6] WTO, 2010 Press releases, *Trade to expand by 9.5% in 2010 after a dismal 2009*

[7] WTO: 2010 press releases, *Trade growth forecast revised upwards for 2010*

American Troubled Assets Relief Program – One of the Most Important Measures Against Actual Crisis

Dobre Elena
„Ovidius" University of Constanta, Faculty of Economic Sciences
elenadobre2006@gmail.com

Abstract

Troubled Asset Relief Program (TARP) is already known as the greatest governmental measure in the world. This is a program of the United States government to purchase assets and equity from financial institutions to strengthen its financial sector. It is the largest component of the government's measures in 2008 to address the sub- prime mortgage crisis. "Troubled assets" are defined as residential or commercial mortgages and any securities, obligations, or other instruments that are based on or related to such mortgages, that in each case was originated or issued on or before March 14, 2008, and any other financial instrument. To participate in the bailout program, companies will lose certain tax benefits and, in some cases, must limit executive pay. In short, this allows the Treasury to purchase illiquid, difficult-to-value assets from banks and other financial institutions.

The targeted assets can be collateralized debt obligations, which were sold in a booming market until 2007 when they were hit by widespread foreclosures on the underlying loans. TARP is intended to improve the liquidity of these assets by purchasing them using secondary market mechanisms, thus allowing participating institutions to stabilize their balance sheets and avoid further losses. The effects of the TARP have been widely debated in large part because the purpose of the fund is not easily understood. Hence, we find some controversies linked to banks that received bailout money had paid their top executives nearly $1.6 billion in salaries, bonuses, and other benefits in 2007. The purpose of this paper is to present administrative structure, eligible assets and valuation criteria, participants and controversies arise about this measure against crisis.

The aim of research is to spread the specialized glossary and to understand the hole problematic by progress through sharing method. Conclusions raised are linked to sharing this experience to other specialists, other governments and other countries..

Key words: crisis, collateralized debt obligations, Troubled Asset Relief Program, Mortgage-backed securities purchase program, Equity purchase program.
J.E.L. classification: G01, G21, G32

1. Introduction

Troubled Asset Relief Program (TARP) allows the United States Department of the Treasury to purchase or insure up to $700 billion of "troubled" assets. "Troubled assets" are defined as: (i) residential or commercial mortgages and any securities, obligations, or other instruments that are based on or related to such mortgages, that in each case was originated or issued on or before March 14, 2008, the purchase of which the Secretary determines promotes financial market stability; (ii) any other financial instrument that the Secretary, after consultation with the Chairman of the Board of Governors of the Federal Reserve System, determines the purchase of which is necessary to promote financial market stability, but only upon transmittal of such determination, in writing, to the appropriate committees of Congress.

The most important feature of this program is that TARP does not allow banks to recoup losses already incurred on troubled assets, but officials hope that once trading of these assets resumes, their prices will stabilize and ultimately increase in value, resulting in gains to both participating banks and the Treasury itself. The concept of future gains from troubled assets comes from the hypothesis in

the financial industry that these assets are oversold, as only a small percentage of all mortgages are in default, while the relative fall in prices represents losses from a much higher default rate.

The Act requires financial institutions selling assets to TARP to issue equity warrants (a type of security that entitles its holder to purchase shares in the company issuing the security for a specific price), or equity or senior debt securities (for non-publicly listed companies) to the Treasury. In the case of warrants, the Treasury will only receive warrants for non-voting shares, or will agree not to vote the stock. This measure is designed to protect taxpayers by giving the Treasury the possibility of profiting through its new ownership stakes in these institutions. Ideally, if the financial institutions benefit from government assistance and recover their former strength, the government will also be able to profit from their recovery.

Another important goal of TARP is to encourage banks to resume lending again at levels seen before the crisis, both to each other and to consumers and businesses. If TARP can stabilize bank capital ratios, it should theoretically allow them to increase lending instead of hoarding cash to cushion against future unforeseen losses from troubled assets. Increased lending equates to "loosening" of credit, which the government hopes will restore order to the financial markets and improve investor confidence in financial institutions and the markets. As banks gain increased lending confidence, the interbank lending interest rates (the rates at which the banks lend to each other on a short term basis) should decrease, further facilitating lending.

The TARP will operate as a "revolving purchase facility." The Treasury will have a set spending limit, $250 billion at the start of the program, with which it will purchase the assets and then either sell them or hold the assets and collect the 'coupons'. The money received from sales and coupons will go back into the pool, facilitating the purchase of more assets. The initial $250 billion can be increased to $350 billion upon the President's certification to Congress that such an increase is necessary. The remaining $350 billion may be released to the Treasury upon a written report to Congress from the Treasury with details of its plan for the money. Congress then has 15 days to vote to disapprove the increase before the money will be automatically released. The first $350 billion was released on October 3, 2008, and Congress voted to approve the release of the second $350 billion on January 15, 2009. One way that TARP money is being spent is to support the "Making Homes Affordable" plan, which was implemented on March 4, 2009, using TARP money by the Department of Treasury. Because "at risk" mortgages are defined as "troubled assets" under TARP, the Treasury has the power to implement the plan. Generally, it provides refinancing for mortgages held by Fannie Mae or Freddie Mac. Privately held mortgages will be eligible for other incentives, including a favorable loan modification for five years.

2. Administrative structure

The program is run by the Treasury's new Office of Financial Stability. According to a speech made by specialists, the fund will be split into the following administrative units:

1. *Mortgage-backed securities purchase program*: This team is identifying which troubled assets to purchase, from whom to buy them and which purchase mechanism will best meet our policy objectives. Here, we are designing the detailed auction protocols and will work with vendors to implement the program.
2. *Whole loan purchase program*: Regional banks are particularly clogged with whole residential mortgage loans. This team is working with bank regulators to identify which types of loans to purchase first, how to value them, and which purchase mechanism will best meet our policy objectives.
3. *Insurance program*: We are establishing a program to insure troubled assets. We have several innovative ideas on how to structure this program, including how to insure mortgage-backed securities as well as whole loans. At the same time, we recognize that there are likely other good ideas out there that we could benefit from. Accordingly, on Friday we submitted to the Federal Register a public Request for Comment to solicit the best ideas on structuring options. We are requiring responses within fourteen days so we can consider them quickly, and begin designing the program.
4. *Equity purchase program*: We are designing a standardized program to purchase

equity in a broad array of financial institutions. As with the other programs, the equity purchase program will be voluntary and designed with attractive terms to encourage participation from healthy institutions. It will also encourage firms to raise new private capital to complement public capital.

5. Homeownership preservation: When we purchase mortgages and mortgage-backed securities, we will look for every opportunity possible to help homeowners. This goal is consistent with other programs - such as HOPE NOW - aimed at working with borrowers, counselors and servicers to keep people in their homes. In this case, we are working with the Department of Housing and Urban Development to maximize these opportunities to help as many homeowners as possible, while also protecting taxpayers.

6. *Executive compensation*: The law sets out important requirements regarding executive compensation for firms that participate in the TARP. This team is working hard to define the requirements for financial institutions to participate in three possible scenarios: One, an auction purchase of troubled assets; two, a broad equity or direct purchase program; and three, a case of an intervention to prevent the impending failure of a systemically significant institution.

7. *Compliance*: The law establishes important oversight and compliance structures, including establishing an Oversight Board, on-site participation of the General Accounting Office and the creation of a Special Inspector General, with thorough reporting requirements. We welcome this oversight and have a team focused on making sure we get it right.

Officials responsible for the oversight of the TARP has already expressed concerns about the difficulty of properly overseeing the complex program in addition to his regular responsibilities. They called oversight of TARP a "mess" and later clarified this to say "The word 'mess' was a description of the difficulty my office would have in providing the proper level of oversight of the TARP while handling its growing workload, including conducting audits of certain failed banks and thrifts at the same time that efforts are underway to nominate a special inspector general."

3. Participation criteria

The Act's criteria for participation states that "financial institutions" will be included in TARP if they are "established and regulated" under the laws of the United States and if they have "significant operations" in the United States. The Treasury will need to define what institutions will be included under the term "financial institution" and what will constitute "significant operations." Companies that sell their bad assets to the government must provide *warrants* so that taxpayers will benefit from future growth of the companies. Certain institutions seem to be guaranteed participation. These include: U.S. banks, U.S. branches of a foreign bank, U.S. savings banks or credit unions, U.S. broker-dealers, U.S. insurance companies, U.S. mutual funds or other U.S. registered investment companies, tax-qualified U.S. employee retirement plans, and bank holding companies.

To participate in the bailout program, *"...companies will lose certain tax benefits and, in some cases, must limit executive pay. In addition, the bill limits 'golden parachutes' and requires that unearned bonuses be returned."* The fund has an Oversight Board so that the U.S. Treasury cannot act in an arbitrary manner. There is also an inspector general to protect against waste, fraud and abuse.

CAMELS ratings (US supervisory ratings used to classify the nation's 8,500 banks) are being used by the United States government in response to the global financial crisis of 2008 to help it decide which banks to provide special help for and which to not as part of its capitalization program authorized by the Emergency Economic Stabilization Act of 2008. It is being used to classify the nation's 8,500 banks into five categories, where a ranking of 1 means they are most likely to be helped and a 5 most likely to not be helped. Regulators are applying a short list of criteria based on a secret ratings system they use to gauge this.

The *New York Times* states: "The criteria being used to choose who gets money appears to be setting the stage for consolidation in the industry by favoring those most likely to survive" because the criteria appears to favor the financially best off banks and banks too big to let fail. Some lawmakers are upset that the capitalization

program will end up culling banks in their districts. However, the Wall Street Journal suggested that some lawmakers are actively using TARP to funnel money to weak regional banks in their districts.

Known aspects of the capitalization program "*suggest that the government may be loosely defining what constitutes healthy institutions. [... Banks] that have been profitable over the last year are the most likely to receive capital. Banks that have lost money over the last year, however, must pass additional tests. [...] They are also asking if a bank has enough capital and reserves to withstand severe losses to its construction loan portfolio, nonperforming loans and other troubled assets."* Some banks received capital with the understanding the banks would try to find a merger partner. To receive capital under the program banks are also "*required to provide a specific business plan for the next two or three years and explain how they plan to deploy the capital*."

Whether hedge funds, as virtually unregulated institutions, will be included depends on the discretion of the Treasury, but it seems unlikely. Hedge funds (partnerships in which experienced investors' pool their money to make complex, and often risky, investments using advanced investment strategies) have recently become politically unpopular in the U.S. as a result of their perceived role in creating the crisis. This perception of hedge funds makes it difficult for the Treasury to allow them to participate in a taxpayer-funded bailout program.

4. Eligible assets and asset valuation

TARP allows the Treasury to purchase both "troubled assets" and any other asset the purchase of which the Treasury determines is "necessary" to further economic stability. Troubled assets include real estate and mortgage-related assets and securities based on those assets. This includes both the mortgages themselves and the various financial instruments created by pooling groups of mortgages into one security to be bought on the market. This category probably includes foreclosed properties as well. Real estate and mortgage-related assets (and securities based on those kinds of assets) are eligible if they originated (that is, were created) or were issued on or before March 14, 2008, the date of the Bear Stearns bailout.

One of the most difficult issues facing the Treasury in managing TARP is the pricing of the troubled assets. The Treasury must find a way to price extremely complex and sometimes unwieldy instruments for which a market does not exist. In addition, the pricing must strike a balance between efficiently using public funds provided by the taxpayer and providing adequate assistance to the financial institutions that need it.

The Act encourages the Treasury to design a program using market mechanisms to the extent possible. This has led to the expectation that the Treasury will use a "reverse auction" mechanism to price assets. A reverse auction means that bidders (that is, the potential sellers of the troubled assets) will place bids with the Treasury for the right to sell a specified type of assets. The sale price will be the lowest price at which the bid will provide the required quantity of the item. Theoretically, the system creates a market price because the bidders will want to sell at the highest price they can get, but they also want to be able to make a sale, so they must set a low enough price to be competitive. The Treasury is required to publish its methods for pricing, purchasing, and valuing troubled assets no later than two days after the purchase of their first asset. The Congressional Budget Office (CBO) uses procedures similar to those specified in the Federal Credit Reform Act (FCRA) to value assets purchased under the TARP. In a report dated February 6, 2009, the Congressional Oversight Panel concluded that the Treasury paid substantially more for the assets it purchased under the TARP than their then-current market value. The COP found the Treasury paid $254 billion, for which it received assets worth approximately $176 billion, for a shortfall of $78 billion. The Cop's valuation analysis assumed that "*securities similar to those issued under the TARP were trading in the capital markets at fair values*" and employed multiple approaches to cross-check and validate the results. The value was estimated for each security as of the time immediately following the announcement by Treasury of its purchase. For example, the COP found that the Treasury bought $25 billion of assets from Citigroup on 10/14/08, however, the actual value was estimated to be $15.5, creating a 38% (or $9.5 billion) subsidy.

5. Expenditures and commitments

As of February 9, 2009, $388 billion had been allotted, and $296 billion spent, according to the Committee for a Responsible Federal Budget. Among the money committed, includes:

- $250 billion to purchase bank equity shares through the *Capital Purchase Program* ($195 billion spent);
- $40 billion to purchase preferred shares of *American International Group* (AIG), then among the top 10 US companies, through the program for Systemically Significant Failing Institutions ($40 billion spent);
- $20 billion to back any losses that the *Federal Reserve Bank of New York* might incur under the *Term Asset-Backed Securities Loan Facility* (none spent);
- $40 billion in stock purchases of *Citigroup and Bank of America* ($20 billion each) through the *Targeted Investment Program* ($40 billion spent)
- $12.5 billion in loan guarantees for *Citigroup* ($5 billion) and *Bank of America* ($7.5 billion) through the *Asset Guarantee Program* (none spent);
- $25 billion in loans to automakers and their financing arms through the *Automotive Industry Financing Program* ($21 billion spent).

The Congressional Budget Office released a report in January 2009 reviewing the transactions enacted through the TARP. The CBO found that through December 31, 2008, transactions under the TARP totaled $247 billion. According to the CBO's report, the Treasury had purchased $178 billion in shares of preferred stock and warrants from 214 U.S. financial institutions through its Capital Purchase Program (CPP). This included the purchase of $40 billion of preferred stock in AIG, $25 billion of preferred stock in Citigroup, and $15 billion of preferred stock in Bank of America. The Treasury also agreed to lend $18.4 billion to General Motors and Chrysler. The Treasury, along with the FDIC and the Federal Reserve, has also agreed to guarantee a $306 billion portfolio of assets owned by Citigroup.

6. Participants

The banks agreeing to receive preferred stock investments from the Treasury include *Goldman Sachs Group Inc., Morgan Stanley, J.P. Morgan Chase & Co., Bank of America Corp. (including Merrill Lynch), Citigroup Inc., Wells Fargo & Co., Bank of New York Mellon and State Street Corp.* The Bank of New York Mellon is to serve as *master custodian* overseeing the fund.

As of 2009, the U.S. Treasury has not yet released an official list of TARP recipients (though it periodically announces recipients in batches). News organizations *ProPublica* and the *New York Times* have kept lists of the recipients based on Treasury and individual institution announcements. Beneficiaries of TARP include:

Company	Preferred Stock purchased (millions USD)	Assets guaranteed (millions USD)	Repaid TARP money	Additional details
Citigroup	$50,000	$306,000		Two allocations: $25,000 on October 28, 2008
Bank of America	$45,000	$118,000		Two allocations: $25,000 on October 28, 2008 and $20,000 in Jan 2009
AIG (American International Group)	$40,000			
JPMorgan Chase	$25,000		Y	October 28, 2008
Wells Fargo	$25,000			October 28, 2008
General Motors	$13,400			
Goldman Sachs	$10,000		Y	October 28, 2008
Morgan Stanley	$10,000		Y	
PNC Financial Services Group	$7,579			Bought longtime rival *National City Corp.* within hours of receiving TARP money.
U.S. Bancorp	$6,600		Y	
GMAC Financial Services	$5,000			
Chrysler	$4,000			

Capital One Financial	$3,555		Y	
Regions Financial Corporation	$3,500			
American Express	$3,389		Y	
Bank of New York Mellon Corp	$2,000 to $3,000		Y	
State Street Corporation	$2,000 to $3,000		Y	
Discover Financial	$1,230			

Of these banks, *JPMorgan Chase & Co., Morgan Stanley, American Express Co., Goldman Sachs Group Inc., U.S. Bancorp, Capital One Financial Corp., Bank of New York Mellon Corp., State Street Corp.* and *BB&T Corp* have repaid TARP money.

7. Similar historical federal banking programs

The nearest parallel action the federal government has taken was in investments made by the *Reconstruction Finance Corporation* (RFC) in the 1930s. The RFC, an agency chartered during the Herbert Hoover administration in 1932, made loans to distressed banks and bought stock in 6,000 banks, totaling $1.3 billion. "*A similar effort these days, in proportion to today's economy, would be about $200 billion.*" When the economy had stabilized, the government sold its bank stock to private investors or the banks, and is estimated to have received approximately the same amount previously invested.

In 1984, the government took an 80% stake in the nation's then seventh-largest bank *Continental Illinois Bank and Trust*. Continental Illinois made loans to oil drillers and service companies in Oklahoma and Texas. The government was estimated to have lost $1 billion because of bad loans purchased as part of Continental Illinois, which ultimately became part of *Bank of America*.

8. Controversies

The effects of the TARP have been widely debated in large part because the purpose of the fund is not easily understood. For example, a review of investor presentations and conference calls by executives of some two dozen US-based banks by the *New York Times* found that few banks cited lending as a priority. Further, an overwhelming majority saw the program as a no-strings-attached windfall that could be used to pay down debt, acquire other businesses or invest for the future. The article cited several bank chairmen as stating that they had no intention of changing their lending practices to "accommodate the needs of the public sector" and that they viewed the money as available for strategic acquisitions in the future. Nonetheless, it achieved its primary purpose of providing liquidity in response to the global financial crisis of 2008–2009. Moreover, while TARP funds have been provided to bank holding companies, those holding companies have only used a fraction of such funds to recapitalize their bank subsidiaries. Many analysts have speculated that TARP funds could be used by stronger banks to buy weaker ones. This was proven true when on October 24, 2008, *PNC Financial Services* received $7.7 billion in TARP funds, then only hours later agreed to buy *National City Corp.* for $5.58 billion, an amount that was considered a bargain. Despite ongoing speculation that more TARP funds could be used by large-but-weak banks to gobble up small banks, as of October 2009 none since the PNC-National City deal has occurred. The Congressional Oversight Panel created to oversee the TARP concluded on January 9, 2009: "In particular, the Panel sees no evidence that the U.S. Treasury has used TARP funds to support the housing market by avoiding preventable foreclosures". The panel also concluded that "Although half the money has not yet been received by the banks, hundreds of billions of dollars have been injected into the marketplace with no demonstrable effects on lending." Government officials overseeing the bailout have acknowledged difficulties in tracking the money and in measuring the bailout's effectiveness. On February 2009 the chairperson of the *Congressional Oversight Panel*, told the *Senate Banking Committee* that during 2008, the federal government paid $254 billion for assets that were worth only $176 billion.

During 2008, the companies that received bailout money had spent $114 million on lobbying and campaign contributions. These companies received $295 billion in bailout money. The executive director of *The Center*

for Responsive Politics, said of this information, "Even in the best economic times, you won't find an investment with a greater payoff than what these companies have been getting." Banks that received bailout money had paid their top executives nearly $1.6 billion in salaries, bonuses, and other benefits in 2007. Benefits included cash bonuses, stock options, personal use of company jets and chauffeurs, home security, country club memberships, and professional money management. Obama's administration has promised to set a $500,000 cap on executive pay at companies that receive bailout money, but the proposal would also allow banks to give unlimited amounts of stock to these same executives. A former compensation consultant and author of "The Crystal Report on Executive Compensation," claimed that the limits on executive pay were "a joke" and that "they're just allowing companies to defer compensation." A lawsuit has been filed which challenges the constitutionality of using TARP funds to pay for the Chrysler bailout.

9. Conclusions

The effects of the TARP have been widely debated in large part because the purpose of the fund is not easily understood. It's about need to stabile crisis and progress through sharing method is a good one. Conclusions raised are linked to sharing this experience of such a measure against crisis to other specialists, other governments and even, other countries.

10. References

[1] A CBO Report: The Troubled Asset Relief Program: Report on Transactions Through December 31, 2008. Downloaded January 20, 2009.

[2] Nothwehr, E. (2008), "Emergency Economic Stabilization Act of 2008" University of Iowa Center for International Finance and Development

[3] Summary of the Emergency Economic Stabilization Act of 2008 United States Senate Committee on Banking, Housing and Urban Affairs. (Retrieved October 2, 2008)

[4] U.S. Dept. of Treasury, MHA Guidelines

[5] "Economic rescue swiftly signed into law". AFP. 2008-10-03. http://afp.google.com/article/ALeqM5h40yrrEcqeJEeVRgcrDXB7egDo2A.

[6] Gross, Daniel (2008-10-01). "How the Bailout Is Like a Hedge Fund. It's massively leveraged. It's buying distressed assets. It's taking equity stakes…". *Slate*. http://www.slate.com/id/2201340/.

[7] HP-1207 Treasury Announces TARP Capital Purchase Program Description

[8] Landler, Mark; Eric Dash (2008-10-14). "Paulson Says Banks Must Deploy New Capital: Drama Behind a $250 Billion Banking Deal". *New York Times*. http://www.nytimes.com/2008/10/15/business/economy/15bailout.html?hp. Retrieved 2008-10-14.

[9] "Common (Stock) Sense about Risk-Shifting and Bank Bailouts". SSRN.com. December 29, 2009. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1321666. Retrieved January 21, 2009.

[10] "Debt Overhang and Bank Bailouts". SSRN.com. February 2, 2009. http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1336288. Retrieved February 2, 2009.

[11] Remarks by Secretary Henry M. Paulson, Jr. on Financial Rescue Package and Economic Update

[12] Paulson Shifts Focus of Rescue to Consumer Lending

[13] Valuing Treasury's Acquisitions: A Congressional Oversight Panel Report, February 6, 2009. Downloaded February 10, 2009.

[14] [TARP Conflicts of Interest, Interim Rule, 74 Fed. Reg. 3431-3436 TARP Conflicts of Interest, Interim Rule, 74 Fed. Reg. 3431-3436]

[15] "U.S. Senate votes to ban executive bonuses". Reuters. 2009-02-05. http://uk.reuters.com/article/marketsNewsUS/idUKN0540541220090206. Retrieved 2009-02-09.

Evolution of Internal Auditing in EU Member States

Dobre Mirela
The Academy of Economic Studies, Bucharest
Mirela_dobre@yahoo.com

Abstract

This paper focuses on a CBOK study that shows the evolution of the Internal Audit Function (IAF) in companies around Europe. This research report is the first providing in depth comparative data on the status of the internal audit profession in Europe. The internal audit profession differs significantly within Europe in terms of profile of internal auditors, characteristics of the internal audit function, staffing, compliance to The IIA Standards and internal audit activities. Most of these differences amongst countries can be, directly or indirectly, linked to a different maturity of the internal audit profession in each of these areas. We found that responding internal audit practitioners have very diverse backgrounds in terms of education, professional qualifications and professional experience. Also, it was surprising to see that 35% of the respondents still indicate that their internal audit function does not formally measure their added value, this being an important aspect that defines this profession.

Key words: internal audit function, cross-country research report, standards, audit committee
J.E.L. classification: M42

1. Introduction

The Common Body of Knowledge (CBOK) study is an ongoing global research program funded by The Institute of Internal Auditors Research Foundation (IIARF) to broaden the understanding of how internal auditing is practiced throughout the world. The last edition of this study was conducted in the fall of 2006. The overall purpose of the CBOK project is to develop the most comprehensive database ever to capture a current view of the global state of the internal audit profession. The database contains information about compliance with The Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing (Standards), the state of the internal audit activity (IAA), staffing, skills, competencies, and the emerging roles of the IAA. The objective is to establish a baseline for comparison when the CBOK study is repeated in the future. The database will be updated to understand the evolution of global internal audit practices. Future studies will build upon this baseline allowing for comparison analysis and trending.

This research report includes all aspects covered by the CBOK questionnaires. Complementary to the global CBOK report, containing the worldwide findings, this research report focuses on the European results. More specifically, it provides the detailed comparative results for each of the 21 participating European countries (Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Estonia, Finland, France, Germany, Italy, Netherlands, Norway, Poland, Portugal, Romania, Spain, Sweden, Switzerland, Turkey, UK and Ireland. A total of 2773 valid responses were collected. European Internal Auditors will be able to benchmark themselves with their European peers.

2. Personal background of respondents

IIA Membership: 60% of the respondents became member of The IIA less than 5 years ago. About one third has been member for 6 years or more.
Highest Level of Education: One third of the respondents have a master degree in business whereas 23% has a bachelor degree in business. The proportion of respondents with a degree in other areas than business is smaller, respectively 13% bachelors and 16% masters.

Academic Majors: Economics, accounting, general management and finance seem to be the most popular academic majors of the respondents

Position in the Organization: About 30% of the respondents where Chief Audit Executives, whereas 22% were International Audit Managers and 24% Internal Audit Seniors.

Professional Qualification: Internal Auditing and public accounting are the most common professional qualifications.

Professional Experience: On average, respondents have 6.9 years of experience in engineering, 6.8 years in management and 6.6. years of experience internal auditing.

Years as Chief Audit Executive: On average, CAE's have been in this position for 6.1 years, ranging from 0 to 44 years.

Reporting Status in the Organization: Overall, 36% of the CAE's describe their internal audit function as being an independent position reporting to the audit committee, whereas 29% describe their internal audit function as an officer position reporting to executive management.

3. Organizational characteristics

Listed and privately held companies make up for almost 60% of the responding companies. Public sector and governmental organizations represent about one fourth of the respondents. Consultancy organizations as well as not-for-profit organizations are least represented. In general, almost half of the respondents are employed by international/multinational organizations, whereas 34% are employed by a national organization.

Overall, there is more or less an equal spread over all four industries. Financial service companies are best represented whereas manufacturing companies are least represented.

3.1 Corporate governance and internal audit documents

The corporate governance and internal audit documents that are most frequently used are:

• Annual Internal Audit Plan / Rolling Audit Plan (82%);

• Internal Audit Charter (70%);

• Internal Audit Risk Assessment (67%)

Appointment and Performance Evaluation of the CAE

In a majority of the cases (55%), the Chief Audit Executive (CAE) is appointed by the Chief Executive Officer (CEO). In many cases (44%), the chairperson of the Board is also involved in the appointment. The Chief Executive Officer's involvement is most prevalent also in the CAE's evaluation (46%) followed by the audit committee 39% and senior management 27%.

3.2 Relationship with the audit committee

CAE's confirm that an audit/oversight committee exists in 60% of the cases. On average, CAE's attended (entirely or in part) 4.3 meetings of the audit committee during the last fiscal year. Of the responding CAE's with audit committees, 54% regularly meet privately with the audit committee/oversight committee/chairperson. It has to be noted that for those responding companies with an audit committee, 88% of the CAE's believe they have appropriate access to the audit committee.

3.3 Measurement of added value of the internal audit function

The measures of "added value" with the highest overall average are:

• Recommendations accepted /implemented (48%)

• Reliance by external auditors on the Internal Audit Function (31%)

• Customer/ audit surveys from audited departments (29%)

It has to be marked that 35% of the respondents state that their IAF does not formally measure the added value.

3.4 Internal audit planning

The majority of the responding CAE's (62%) update their audit planning once a year, whereas 34% update their audit planning multiple times a year.84% of the CAE's use a risk-based methodology to determine the audit plan, whereas 73% takes into account requests from management.

3.5 Number of staff members

Responding internal audit functions have, on average, 42 FTE (Full Time Equivalents). Staff members (juniors) represent the largest proportion, followed by contract audit staff (outsourcing or co-sourcing) and supervisors (seniors)

3.6 Outsourcing and co-sourcing

The majority of the responding internal audit functions (73%) currently outsource less than 10% of their activities. The remaining 27% currently outsource more than 10 % of their activities. More than half of the responding CAE's (56%) expect that the proportion of outsourced/co-sourced internal audit activities will remain the same in the upcoming years. In contrast, 36% expect the proportion of out-sourced/co-sourced internal audit activities to increase in the upcoming years. The most frequently outsourced activities that are:

- Technical Competency Training for Auditors (24%)
- Financial Auditing (23%)
- Quality assessment of internal audit activity (15%)
- Quality / ISO audits (10%)
- The most frequently co-sourced activities that are:
- Special Projects (10%)
- Information Risk Assessment (9%)
- Information Technology Department Assessment (9%)
- Technical Competency Training for Auditors (8%)

3.7 Staff evaluation

73% of the responding CAE's indicate that staff evaluation is periodically done by the supervisor. About 40% indicate that audit feedback is also used as a method of staff evaluation. On average, respondents received 132 hours of formal training over the last 36 months.

4. Internal auditing standards

In one section of the questionnaire, all respondents were asked whether they use the IIA Standards (in whole or in part) as well as the reasons for not using the IIA Standards Moreover, all respondents had to evaluate the adequacy of all IIA Standards as well as the Practice Advisories and indicate whether they comply with each of the IIA Standards.

Overall, about 80% of the respondents state to use (in whole or in part) the IIA Standards. In all 21 countries, the percentage of usage (in whole or in part) lies above 50%.

These are the most common reasons for not using the IIA Standards:

- Management of the organization does not perceive compliance with the IIA Standards as adding value (16%);
- Compliance with the IIA Standards is not supported by management (15%);
- Compliance with the IIA Standards is too time consuming (13%);
- Compliance with the IIA Standards is not appropriate for small organizations (12%);
- Inadequate internal audit function staff to comply with the IIA Standards (11%);
- Compliance with the IIA Standards superseded by local/ government regulations or standards (11%);

A comparison between the 21 countries shows:

- A high percentage for *Standards or Practice Advisories are too complex* in Austria, France, Germany and Switzerland;
- A high percentage for *Standards or Practice Advisories not appropriate for small organizations* in Austria, Cyprus, Estonia, Finland, Germany and Switzerland;
- A high percentage for *Too costly to comply with Standards or Practice Advisories* in Cyprus, Switzerland and Turkey;
- A high percentage for *Too time consuming to comply with Standards or Practice Advisories* in Austria, Cyprus, Finland and Switzerland;
- A high percentage for *compliance with Standards or Practice Advisories superseded by local/ government regulations or standards* in Switzerland, Turkey and U.K & Ireland;
- A high percentage for *compliance with Standards or Practice Advisories not appropriate for my industry* in Cyprus, Czech Republic and Switzerland;
- A high percentage for *compliance not supported by the management /board of the organization* in Austria, Cyprus, Germany, Poland and Turkey;

- A high percentage for *Standards are not perceived to add value by the management / board of the organization* in France, Germany, Italy, and Turkey;
- A high percentage for *compliance inadequate IA function staff to comply with Standards or Practice Advisories* in Bulgaria, Cyprus, Greece, Italy and Turkey;
- A high percentage for *Compliance not expected in my country* in Cyprus, Greece and Portugal;

Overall, the Standards that are considered as most adequate are:

- AS 1100 Independence and Objectivity (92%)
- AS 1200 Proficiency and Due Professional Care (90%)
- AS 1000 Purpose, Authority and Responsibilities (90%)
- In contrast, Performance Standard 2600 (Management's Acceptance of Risk) and Attribute Standard 1300 (Quality Assurance and Improvement Program) are considered as the least adequate.

The IIA Standards with a highest degree of compliance are:

- AS 1100 Independency and Objectivity (67%);
- PS 2400 Communicating Results (62%)
- AS 1000 Purpose, Authority and Responsibilities (61%)
- AS 1200 Proficiency and Due Professional Care (59%)

4.1 Adequacy of practice advisories

The Practice Advisories that are considered as the most adequate are:

- PA 1100 Independency and Objectivity (87%);
- PA 1000 Purpose, Authority and Responsibilities (87%)
- PA 1200 Proficiency and due Professional Care (80%)

4.2 Quality assessment and improvement program

AS 1300 on Quality Assurance and Improvement Program (Q.A.I.P) has the lowest percentage of compliance. Furthermore, respondents were asked to indicate whether their IA function has a quality assessment and improvement program (Q.A.I.P) in accordance with the AS 1300.

Other results show that:

- 29 % indicates that there's not a plan to put in place a Q.A.I.P in the next twelve months;
- 27 % states that their organization currently has a Q.A.I.P;
- 22 % points out that a Q.A.I.P will be put in place within the next twelve months (at the time they completed the questionnaire).

5. Internal audit activities

The four most common internal audit activities are:

- Operational Audits (80%)
- Internal Control Testing and Systems Evaluation (78%)
- Control Framework monitoring and development (62%)

When studying the overall evolution/s in the period 2003-2009 results shows an increase in the importance of consulting/ advisory governance audits information technology audits and management audits. On the other hand, we notice a decrease in the importance of compliance audits, financial process audits and operational audits. The proportion of fraud investigations remains stable over this 6 years period.

In a majority of the cases, the CAE is primarily responsible for reporting audit results to senior management. In almost half of the cases (47%) the primary responsibility for monitoring corrective action lies with both the internal auditor and the audit whereas in 35% of the cases, this responsibility only lies with the internal auditor.

6. Tools, skills and competences

The following audit tools are currently most extensively used:

- Other electronic communication (e.g. internet, email);
- Risk based audit planning
- Electronic work papers
- Analytical review

The tools that are currently less extensively used are:

- total quality assessment review tools
- process modeling software
- balanced scorecard or similar framework

It is worth mentioning that for all audit tools, there is an expected increase in the use in the next three years.

The most important behavioral skills for internal audit practitioners, regardless of their hierarchical position are:

- confidentiality
- interpersonal skills
- leadership
- objectivity
- team player
- work well with all level of management

The most important technical skills for internal audit practitioners regardless of hierarchical position are:

- Forensic Skills/Fraud Awareness
- Interviewing
- Negotiating
- Risk Analysis
- Understanding business

The most important competences for CAE's are:

- Ability to Promote the IAF within the organization 80%
- Analytical
- Communication
- Conflict resolution
- Critical Thinking
- Organizations Skills
- Problem identification and solution
- Keeping up to date with professional changes in opinions, standards and regulations

The most important knowledge areas are:

- Auditing
- Internal Auditing Standards
- Ethics
- Enterprise Risk Management
- Technical Knowledge for your industry
- Governance
- Information technology

7. Evolution in the status of the internal audit function

Respondents were asked to state if they expect an increase or a decrease for the following roles: risk management, governance, regulatory compliance, reviewing financial processes, and operational auditing. All five areas are on the rise in the next three years with risk management in the lead with over 81% of the respondents expecting an increase, and governance on the second place with 64% expecting an increase. The largest decrease is expected in the area of reviewing financial processes (20%). IAFs are the most likely to have also a role in the next three years in the following areas:

- Knowledge management system development (41%)
- Strategic Frameworks (37%)
- Alignment of Strategy and Performance measurement (36%)
- Benchmarking (35%)
- Corporate Social Responsibility (35%)
- Developing training and education to organization personnel (35%)

8. Conclusions

It is clear from the study that internal auditing is a young profession for much of Europe: 57% of the surveyed internal audit functions have existed for less than 10 years, a figure that is also reflected in the average duration of IIA membership. This characteristic is most apparent in Eastern Europe, where the proportion of young internal audit functions is highest. The growth of corporate governance codes and other regulatory requirements over the last 10 years may be one of the drivers that have pushed so many organizations to set up an internal auditing function.

We found that responding internal audit practitioners have very diverse backgrounds in terms of education, professional qualifications and professional experience. This indicates that there is no specific "unique internal auditor's profile", rather that internal auditors are recruited from a wide pool; in our opinion this benefits the profession as well as their employers.

With respect to the overall corporate governance context, the CBOK study shows some remarkable differences within Europe. Firstly, corporate governance documents (e.g. code of conduct, corporate governance codes, audit committee charters) referred to in this study are more commonly used in Northern and Western European countries. Secondly, there are notable differences between practices in European countries regarding audit/oversight committees. Compared to the rest of Europe, only a small number of Eastern European companies have an audit committee. This could be due to the fact that

at the time of the study (2006), none of the corporate governance codes in these countries clearly recommended the set-up of an audit committee. This is a key issue as it can be argued that an effective corporate governance system is fundamental to guarantee the effectiveness of the internal audit function.

Given the importance of audit committees, it was noteworthy that only 36% of the responding CAEs described their function as being an independent position, reporting to the audit committee. This percentage was higher in Northern and Western European countries; in most Eastern European countries, the internal audit function is often in a managerial position reporting to an executive manager. It was remarkable to see that in a lot of cases, the CAE is still appointed and evaluated by the CEO. To balance this situation, it is fortunate that the audit committee and/ or board of directors often have also an impact on these decisions.

It was surprising to see that 35% of the respondents still indicate that their internal audit function does not formally measure their added value. For those who do measure added value, the number of recommendations accepted or implemented and the reliance by external auditors on the internal audit function are the most common measures. It should be noted that in most of cases only a small proportion (less than 10%) of the activities is outsourced. More than half of the responding CAEs expect the proportion of outsourced/co-sourced activities to remain stable in the upcoming years.

The majority of European respondents believe that compliance with The IIA's International Standards for the Professional Practice of Internal Auditing is essential to meet the internal auditors' responsibilities to the organization. Even in countries where the profession is relatively young, they follow the guidance included in the Standards. Generally, about 80% of the respondents indicate that their internal audit function fully or partially complies with The IIA Standards. Reasons given for not using the Standards seem to be related to organizational attributes. More specifically, it turns out that compliance with The IIA Standards is not perceived as adding value by many management / board members and is not supported by them. It is clear that one of the major challenges for CAEs is to convince management and the board of the directors of the usefulness of The IIA Standards.

With respect to internal audit activities, European internal audit functions concentrate their agenda on traditional activities such as operational auditing, internal control testing and systems evaluation and control framework monitoring and development. Despite this, the relative importance of traditional audit activities is expected to decrease in the upcoming years, whereas the relative proportion of consulting/ advisory activity is expected to increase. In most Northern and Western European countries, the internal audit agenda has become much broader, involving activities such as (inter alia) business viability assessments, information risk assessments, IT department assessments, and security issues. The study also demonstrates that internal auditing will continue to evolve in the future by incorporating new responsibilities and developing a role in more areas. Given the relative shortage of the internal auditors (high percentage of vacancies in most European countries), an interesting question is raised: to what extent internal audit functions will be able to manage these growing roles?

Overall, this research report has shown that the internal audit profession differs significantly within Europe in terms of profile of internal auditors, characteristics of the internal audit function, staffing, compliance to The IIA Standards and internal audit activities. Most of these differences amongst countries can be, directly or indirectly, liked to a different maturity of the internal audit profession in each of these areas.

9. References

[1] Burnaby, P., M. Abdolmohammady, S. Hass, A. Gramling. 2007. *A Global Summary of the Common Body of Knowledge (CBOK) 2006*, The IIA Research Foundation, ISBN: 978-0-89413-619-1

[2] European Confederation of Institutes of Internal Auditing (ECIIA). 2009. *Common Body of Knowledge in Internal Auditing- A Start of Art in Europe,* Erich Schmitdt Verlang Gmbh & co. Berlin

[3] Sawyer, L.B, M.A. Dittenhofer , J. H. Scheiner, A. Graham. 2003. *Sawyer's Internal Auditing: The Practice of Modern Internal Auditing, Fifth Edition*, The IIA Research Foundation, ISBN: 0-89413-509-0

[4] http://www. eciia.org

The Standardization of Accounts Premise of Public Accounting Consolidation – Decentralized Achievement, Centralized Reporting

Dragu Gabi Georgiana
"1 Decembrie 1918" University of Alba Iulia
gabi.dragu@mfinante.ro, georgiana.dragu@ yahoo.com

Abstract

According to position document no.11 "Economic and Monetary Union", Romania has committed to report after the European System of Accounts ESA 95. The classification of public institutions is necessary to circumscribe the Public Administrations' area (S.13), its division into subsectors and also to define the modalities of their financial statements' aggregation.

The relevance of the "consolidated public accounts" has its origin in the communitarian discipline of the data that the member States must share with the European Community correlated with the growing necessity of delivering more significant and sufficient information regarding the activity of the public institutions, their management and the associated political choices.

The purpose of this research was to present the current image of accounting information delivered to the users/ used by their suppliers.. The exploratory study was used to position the issue into the general context. The data was collected by means of empirical experiment. The research aimed at assessing the practical utility of the model proposed in contributing to enhance correctness, promptitude and quality in delivering accounting information to its users.

Key words: European System of Accounts ESA 95, subsector, consolidated accounts, financial statements,
J.E.L. classification: M 41

1. Romanian background

In the case of Romania, national accounting is attempted to be positioned between two accounting cultures – the traditional continental accounting and the Anglo-Saxon accounting. Due to the communist indoctrination, customs and the many legislative changes, the Romanian accountant that works in the public system demonstrates an aversion to change and he still needs to be said what/ how/ when to act.

The International Accounting Standards (IAS/IFRS/IPSAS) bare a cultural knowledge difficult to assimilate, they are based on the professional reasoning (that was not taken into account during the centralized period) and principles according to which a single problem might have multiple solutions (a fact that leads to controversies when confronted with the control board that might have some other solution). However, no matter their form, the International Accounting Standards are permanently changing, are becoming more and more complex therefore the Romanian accountant must become an international one, holding to the principles and conditions of international accounting.

To *converge* means „to tend toward an intersection point, a common conclusion or result".[1] In the accounting domain, *convergence* is a relatively new term, introduced in 2001 by the International Accounting Standards Board in the context of defining the objectives. One of these objectives states the following: „To collaborate actively with the national standards' regulation boards in order to identify qualitative solutions so that national accounting standards achieve the convergence with the accounting standards established by IASB".[2]

According to the Romanian explanatory dictionary the conformity is defined as "a relation between two resembling or identical entities, matching, congruence, identity. The accounting conformity is the process that determines the congruence between the presented regulations' content and the elaboration of financial statements,

representing an attunement of the national regulations to the regulations presented by the regional and international accounting standardization boards".

We adhere to the following conclusion according to which *„Convergence represents the integration on a national basis of IAS/IFRS/IPSAS principles and theoretical background, respectively embracing some of the accounting processes stipulated by the international standards whereas standardization within accounting domain designates the consistency among and attunement to the accounting standards of various states in the European level".[3]*

Regarding the economical account, in many European Union's states the financial account is referred to as accrual due to lack of data and is characterized by the registration of revenues and expenses' commitments, ratified as to integrate the financial dimension of economical values based on the management of the economical accrual. Using the single-entry strategy, the Romanian public institutions register the revenues and expenses automatically based on the economical accrual for the reference period.

The objectives of the accounting standardization include [4]:

"... to ensure the settlement of accounting practices and therefore contribute to accounting enhancement";

"... to allow the accounting information users to make rational decisions based on the accounting information";

"... to act as a moderator among the various participants in the economical field, especially among accounting information suppliers and accounting auditors that certify the quality of information thus ensuring the social credibility of the accounting information";

"... to allow the consolidation of accounting information at society's groups level";

"... to allow the elaboration of national statistics".

The international IPSAS principles, already taken into consideration for drafting the accounting documents of the European Union institutions, represent a set of technical rules that regulate the Financial Statements in exercise of the public institutions and the Consolidated Financial Statements, establishing the form and structure of the constituent documents as well as the general and specific principles for their drafting.

The accounting-informational system introduced from 1st January 2006 took into account the IPSAS recommendations for drafting the Financial Statements in exercise of the public institutions.

The public institutions' consolidated financial statement represents the main data resource for the accounting records of the public administrations. According to ESA95, the national accounting is understood as a "collection of accounting records and statistics regarding the overall economical system of a country " that introduces and defines the content of the "accounts and charts" that the member States must elaborate and submit to the European Commission for the "monitoring of the economical convergence and to ensure the closest coordination among the economical policies of the member States ."

2. The Romanian subsectors' reporting

According to the position document no. 11 "Economical Monetary Union", Romania has committed to report after the European System of Accounts ESA 95.

The introduction of subsectors' reporting is based on the 2009 internal and external reporting requirements established by the enactment of the Order of the Ministry of Public Finances no. 629/2009 regarding the approval of the Methodological Norms for the elaboration and deposition of public institutions' financial statements and also on some 2009 monthly financial reports with subsequent modifications and addenda (Order of the Ministry of Public Finances no. 2290/2009, Order of the Ministry of Public Finances 2941/2009).

The accounting information user deals with two types of sector organization:

- once the public institutions' reports are distributed into subsectors each one is assigned the annex for the affiliation sector

Annex 40a "Public institutions' assets and debts statement from central administration"

Annex 40b "Public institutions' assets and debts statement from local administration"

Annex 40c "Public institutions' assets and debts statement from the social insurance domain (public assistance, social security, health insurance)".

The classification of public institutions is necessary in order to circumscribe the Public Administrations' area, its division into subsectors, but is also necessary for defining the modalities of the financial statements' aggregation.

The ESA 95 handbook divides the public administrations' sector into four sectors:

- Central Administrations (S.1311)
- Intermediate Administrations (S 1312), *do not exist within Romanian subsectors*
- Local Administrations (S.1313)
- Social Insurance Funds (S.1314).

Analyzing the structure of S.13 sector is necessary for evaluating the classification of the institutions into the above mentioned subsectors and assessing the transactions made by/ within public administrations.

Circumscribing the public administrations' area is essential for the elaboration of the sector's and public administrations' consolidated reports according to the identified standards at European and international level.

It should be noticed the difference between public sector and public administrations resulting from the modalities of institutions' classification. According to ESA 95, an institution is included into S.13 subsector based on its financing modalities and on its commitment to the so called 50% criteria. Since this criteria is strictly statistical, the inclusion or exclusion of an institution into the public administrations' list is not entirely based on its economical and legal profile. In the case of Romania, the institutions are included into the public administrations' area based on two elements: - financing modalities, legal statute

3. The consolidated public accounts

The consolidated public accounts represent the instrument that offers information related to the activity undergone during a certain period of time by all public institutions seen as a distinctive entity.

The rules regarding the processing of the data as a part of the commitments predicted by Eurostat European Statistics Bureau that must be considered for their drafting are listed in the European System of Accounts (ESA 95) Guide.

The purpose of the consolidated accounts is to analyze and present the data regarding the public finances according to the strategy that facilitates the understanding of the dynamics of the national accounts.

Depending on the type of analysis, the operations undergone among the economy's sectors (or within sub-sectors) are certainly more significant than the analysis of gross global data.

For example, the ESA95 Guide emphasizes the following: "the accounts and charts that illustrate the relation creditor/debtor offer a comprehensive picture on the financing of the economy and are considered to be very useful for understanding the ways in which the financial surplus goes from the final providers to the final beneficiaries".

IPSAS accounting principle no.6 regarding the public institutions' consolidated financial statement does not define the consolidation sphere and only state that it is necessary for the institutions included in the Consolidated Financial Statement to have common characteristics (type of financing, undergone activity etc.).

Actually, the consolidation refers to "eliminating the operations that take place among units when they are grouped both from use and from resources and eliminating the reciprocal financial assets and liabilities".

The main feature of public entities under consolidation is the management and delivery of goods and services to the community without a lucrative purpose.

The relevance of the "consolidated public accounts" has its origin in the communitarian discipline of the data that the member States must share with the European Community correlated with the growing necessity of delivering more significant and sufficient information regarding the activity of the public institutions, their management and the associated political choices.

The consolidation process is characterized by the aggregation of the data presented in the financial statements' documents of each institution and by the subsequent rectification of certain categories in order to eliminate the estimations related to the operations undergone among the institutions within the consolidation sphere during a particular period of time.

4. The rectification of aggregated data on subsectors

The total value of different categories from the Financial Statement that results from the aggregation of the data on subsectors and subsequently on the entire sector must be rectified by means of eliminating the data related to the operations undergone among the institutions within the consolidation sphere under consolidation.

The rectification consolidation procedure refers to:

a) the branches of the public institutions included in the consolidation, consisting in eliminating the

- reciprocal account receivables and debts;
- revenues/gains, expenses/costs for transfers and contributions;
- revenues/gains, expenses/costs for interests for some financial operations;
- revenues/gains, expenses/costs for charges and taxes;
- purchases/sales of goods and services;
- revenues/ gains for financial operations costs.

b) the economical-financial effects of some distinctive operations/categories from the financial statement, consisting in eliminating the

- profits and losses possibly included in the patrimonial assets resulted from exchanges among institutions;
- participations of some societies included in the consolidation due to the fact that they comply with the requirements related to the consolidation sphere.

The correct consolidation procedure entails

- the identification, for each accounting category, of all the operations undergone among the institutions included in the consolidation sphere;
- eliminating the clearance sale associated to some operations among the consolidated institutions;
- the examination of potential differences (+|/-) in the consolidation rectifications.

These differences may be due to

-incorrect accounting registering, reporting in a different category than the proper one;

- delayed or omitted registering of the operations undergone among consolidated institutions

As an exception to those stated in the individual procedures, the data under rectification may or may not be eliminated if the associated estimations are not relevant in connection with the global sum of the same nature constituents or if their identification proves to be difficult.

Eliminating the account receivables and debts, the gains and costs as well as the revenues and expenses (from the budgetary execution accounts recorded in a cash base) resulting from the operations among the consolidated public institutions (that belong to the same subsector or sector of the Public Administrations) has an influence over the positions of assets and liabilities from the Patrimonial Statement and/or over the components of the consolidated economical Account and the Budgetary Execution account (according to their nature and functions).

5. Eliminating the reciprocal account receivables and debts among the institutions included in the consolidation process

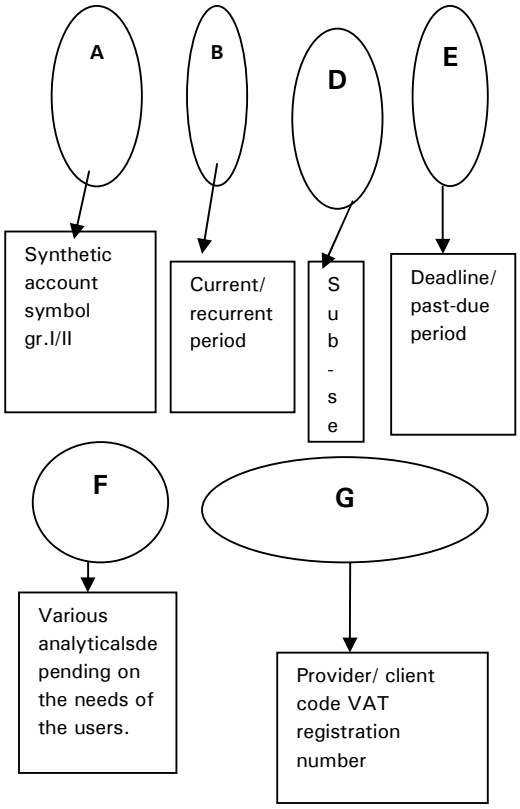
The account receivables determined in the reference date of the Consolidated Financial Statement that must be rectified are the ones each public institution has in relation with other institutions included within the consolidation sphere taken into consideration and they must correspond to the debts registered in the same date within the patrimonial Statement.

The value of the debts and account receivables may result from financial and/or commercial operations undergone among the interested institutions.

The correlation among the values to be eliminated must be identified and verified in maximum detail concerning the accounts, for which is recommended to use the financial statement template developed according to the analytical categories.

It is recommended to create a system that includes the national accounts and allows the merging of the data from various subsectors

Figure no.1 Account structure



Therefore the accounts will be developed according to the following model

4111.1.1314.(1-18) Clients Social Security Administration (S1314) in legal terms of collection

4111.1.1314. (1-12) Clients Social Security Administration(S1314) in legal terms of collection,

4111.1.1314.1 Clients with collection term due in January,

4111.1.1314. 12 Clients with collection term due in December,

4111.1.1314. (13-18) Clients with out-dated collection

411.1.1314.13 Clients with past-due payment under 30 days,

411.1.1314.14 Clients with past-due payment between 31-60 days,

411.1.1314.15 Clients with past-due payment between 61-90 days,

411.1.1314.16 Clients with past-due payment between 91-120 days,

411.1.1314.17 Clients with past-due payment between 121-365 days,

411.1.1314.18 Clients with past-due payment over 1 year,

411.2. Clients with over 1 year term of recurrent account receivables

411.2 11. Clients- economic - agents (S11),

411.2 1311 Clients – Central Administration (S1311),

411.2 1313Clients – Local Administration S1313),

411.2 1314 Clients – Social Security Administration (S1314),

411.2 211 Clients – European Union Member States (S211),

411.2 212 Clients – European Union Institutions (S212),

411.2 22 Clients – Third party countries and European International Organizations (S22),

411.2 14 Clients – other categories (individuals)

Therefore the groups will correlate the following way:

A+B will correlate with the division from the balance sheet on current and recurrent

A+B+D will correlate with the division from Annex 40

A+B+D+E will correlate with the division from Annex 40 and data from Annex 30

Representing the data shown in the reports of the Health Company as debts towards the hospitals, they will be found in the reports of the due clients.

6. Conclusions

Since the recouping is based on the moment of collection/payment of an account receivable/debts, we can determine the cash-flow from the centralized balance sheet both at a centralized level for the analysis of State Treasuries' cash necessities (correlated with the decade situation) and at the public institution level as an instrument of making managerial decisions.

7. References

[1] Ristea M., *Synchronic and Diachronic in International Accounting Attunement*, from the Accountant Career Congress, Bucharest, 3 – 4 September 2004, CECCAR Publishing, Bucharest, 2004

[2] Pop A., *From Standardization to Convergence in Accounting*, from Romanian Accountant Career Congress, Bucharest, 3 – 4 September 2004, CECCAR Publishing, Bucharest, 2004

[3] Alecu Georgeta, Bojianu O., *Convergences and Attunements of Accounting in Public* Institutions, ASE Publishing 2009, p.102

[4] Feleaga N., Taming the Accounting Jungle – *Concept and Standardization in Accounting*, Economica Publishing, Bucharest, 1996, p. 179

[5] S. Briciu,.Dragu Gabi Georgiana , Ivan Oana Raluca. *"Liability to suppliers reporting standardization- quality growth factor of account information* "University Oradea International Conference « EUROPEAN INTEGRATION – NEW CHALLENGES FOR THE ROMANIAN ECONOMY » 6 TH Edition

[6] Dragu Gabi Georgiana*„Standardization of reporting receivables-quality enhancement agent in delivering accounting information „*University "Academia Comercială Satu Mare „ Sustainable development in condition of economic instability" second edition

[7] The law of bookkeeping no. 82/1991, republished

[8] General frame for preparing and presenting the financial situations

The Leisure Consumer – a New Perspective of Global Tourism

Dridea Catrinel Raluca
Gheorghe Camelia Monica
Romanian-American University of Bucharest
dridea.catrinel.raluca@profesor.rau.ro
gheorghe.camelia.monica@profesor.rau.ro

Abstract

As tourism is strongly connected with other sectors in the economy, the impact of key factors will shape the world of the future. Those factors can be grouped in four major sectors: economy and globalization, natural resources and environment, science and technology, and demographics.

Each of those influencing factors will accentuate the importance of global tourism trends and will determine varying inputs in different regions and countries.

As tourism confronts itself with the general economic crisis, attracting different types of consumers represents, nowadays a development priority. As a result, this paper tries to underline the main characteristics of the new consumers of tourism services, the leisure one and the challenge of the tourism industry in adapting to their needs and wants.

Key words: tourism, consumers, globalization, leisure, trends
J.E.L. classification: L 83

1. Introduction

Over the last decade, tourism has developed, becoming the fastest growing industry in the world. The future outlook for tourism is considered to be a bright one, as global tourism has an ascending trajectory, predictable for at least the next 20 years.

Under the influence of negative events, like September 11, 2001, the bombings in Kenya and Bali, SARS, the Iraq war and the global economic crisis, tourism has dramatically changed both the demand for tourism services and their supply by providers.

Even though, tourism has encountered such problems, it will resume to its strongest position by permanently adapting its products and services to the new requirements, taking into account the trends or the critical issues in tourism, such as - technology, globalization, changing travel motivations, environmental awareness, and others.

Specialists have identified major trends that will shape the future of tourism, global drivers and related trends, for instance: population, natural resources and the environment, science and technology, the global economy and globalization, national and international governance, the nature of conflict, etc [9].

These trends will influence the capacities, priorities, and behavior of states and societies and thus substantially define the international market environment.

Taken together, these drivers and trends set the context in which the tourism industry may be expected to develop over the coming decade.

2. Tourism challenges and trends

The global *economy and globalization* will be characterized by dynamism, the economic growth representing the main determinant of tourism flows, encountering trends like: achieving higher living standards, improved microeconomic policies, increase in trade and investment, development of information accessibility, of private sectors, etc [4].

Such economic trends will imply increasing competition in the tourism and hospitality industries over the coming decade. In association with the increasing competitiveness of the industry, tourisms operators realize the benefits of forming strategic alliances, taking action in both the public sector and also in the private sector.

At the microeconomic level, there has already been a shift of priorities to profitability over volume growth with its implications for strict cost management, a reorientation of activities toward more profitable markets, and greater flexibility of supply to meet changing consumer expectations.

The preservation of *natural resources and environment* is becoming increasingly important as the goal of sustainable tourism development becomes more internalized by decision makers in both the private and public sectors.

More than that, the increasing demands for nature-based tourism is placing ever greater pressure on fragile environments.

Tourism businesses have a large interest in protecting the natural, social, and cultural environments that draw tourists, but many lack the long-term vision of adopting environmentally appropriate management strategies. The owners of accommodation establishments, the tour operators and also the travelers have become more aware of the impact that tourism has on the environment. Many organizations are in the process of changing, their actions reflecting the need to minimize the environmental footprint.

The *science and new technology* have strongly influence, virtually all aspects of tourism and hospitality organizations in all sectors. Tourism and hospitality firms must meet the challenges and opportunities offered by technological advances if they are to achieve and maintain a competitive advantage.

The emergence of e-commerce and online technologies presents enormous opportunities for tourism enterprises, intermediaries, and destination managers to enlarge markets and to improve efficiencies in product delivery and communications management.

On regarding the current crisis in world tourism requires both demand-side and supply side responses for its resolution. On the supply side, governments and tourism operators need to address the specific concerns relating to tourist *safety and security*, and on the demand side, tourists need greater assurances of quality, safety, and well being.

The changes encountered are challenges to tourism and hospitality *education.* The content of tourism and hospitality marketing, planning, and policy subjects needs to reflect an awareness of these longer term trends. The importance of education will reflect itself in years to come in the future management of enterprises. Future industry leaders will be those who have the knowledge and skills to enhance organizational competitive advantages via strategy formulation and implementation in a difficult, dangerous, dynamic, and diverse world.

The new types of managers emerging in the tourism and hospitality industries must have the knowledge, but more importantly, must have the adaptive capabilities to apply that knowledge in contexts of change.

An understanding of the different types of impacts of tourism and their significance, as well as skills in formulating strategies to maximize the net benefits to society, is crucial for policy making at all levels.

3. New consumers' trends in the tourism industry

Several types of *demographic* variables are changing in ways that influence future demand for tourism and the specific types of tourism experiences that will be preferred. The most important variables are: *changing social structures, population, health, and aging, new work patterns, values, aspirations, and expectations, etc[5].*

The global change has profoundly marked the social structures, community and family necessities and aspirations, business activities, and individual values.

These consequences are directly related to the aging of the population, the changes of work hours versus free or leisure time, the new consumers' expectations, and so on. The previous factors mentioned have also a special effect on the consumers' behavior regarding the tourism products and development.

The increase of *leisure time* has been a milestone in changing the tourists preferences for free time activities, and therefore, for tourism. As progress has developed in the general societies, the tendency for free time is to increase itself in the detriment of work hours.

Even though the amount of actual leisure time is not expected to significantly increase in most developed countries over a short period of time, there are present some changes in more flexible working patterns, in

the restructuring of work-free time relationship.

The change of *free time* in the general context of time has a positive perspective, but we must not ignore a serious of factor that can influence by decreasing or stabilizing the free time.

Although, people desire more material goods and therefore they tend to work more to achieve that, determining a reduction of the actual free time. Other factor like service development, the change of family role can of course diminish the expansion of free time.

The need for escapism from a long-hours working culture has stimulated the demand for new forms of entertainment and recreation.

Contrary to predictions that leisure time would increasingly take place within the home, it seems that new leisure consumers are more interested in going out than staying in. It also appears that there has been a noticeable rise in the number of holidays being taken within contemporary leisure time.

As tourists' behavior has changed from a recreational point of view to an active respondent of tourism experience, the tourism patterns have headed in that direction.

If consumers have required holidays as pure recreational experience, in the last decade have the need has changed for physical and mental rejuvenation.

Consumers are becoming more interested in self-improvement as part of the tourism experience with an emphasis on health, well being, education, skill development, and cultural appreciation

Therefore, leisure activities as tourism basic services, determine an increasing new way of tourism development. Tourism operators include more and more a large selection of leisure opportunities that reflect the principal way to delimit and differentiate their offers and furthermore to establish a stronger position in tourism market.

The variety of leisure activities influences the creation of numerous possibilities of entertainment and in consequence knowing the meaningful factors of leisure's influence would determine the premises for it .

Leisure tourism represents an important source of revenue and an increase in economic efficiency. In tourism, leisure represents 10-15% of the total expenses for vacations, with various adjustments depending on the type of tourism chosen.

So, developing and diversifying the leisure services offered determines an increase in the volume of revenues as well as a modification in the budget structure for these activities. Another positive influence is the attenuation of the seasonality by reducing the interdependence of the offer and the natural frame by stimulating the decrease in the rigidity in the touristic offer.

The big international companies are constantly studying the consumer profiles, the competition and are revising their strategic management in order to maintain a competitive position in the international market.

A short description of the leisure consumer can encompass the following [1]:

- Relatively young (15–45 years, with great influence of children)
- High disposable income independent
- Escapist on holiday but also work-orientated at home
- Enjoys luxury, comfort, security
- A thrill-seeker but in a controlled environment
- Compulsive consumer
- Short attention span
- Interested in new technology and media
- Fascinated by cult of celebrity

The description offered is very similar to the actual young generation, usually knows as the „dot.com" generation. But the main differences are resulting by the increased interested in leisure experience as a trend of tourism experience.

This interested has also developed under the influence of several factors that have a positive impact of intrinsic human necessities, materialized in: the change of passive holiday to an active one, the accentuation of leisure services participation, the satisfaction of more and more divers hobbies and interests, the major evolution of adventure tourism than other forms of tourism, the search for new and exciting destinations, mentality changes regarding the quality of life and maintaining the psychical health, more interest for tourism services received and more.

The generation dot.com will be major customers for tourism and hospitality services in the future, and the industry will have to learn to market to them appropriately

Why study the tourists 'behavior? The answer is that knowing how consumers behave, or their main characteristic in the field of needs and wants determines the way tourism organizations and destinations representatives can adapt to the new trend and therefore gain a strategic advantage on global market.

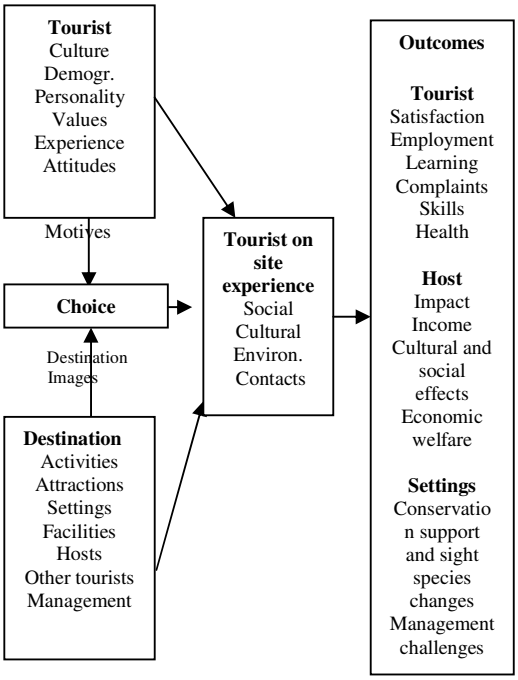
The main challenge for the tourism industry is to develop products and services that meet the changing needs of the consumer. Change in consumer values means that tourists will increasingly want to undertake new experiences, interact with the community, and learn about a destination at more than a superficial level. In consequence, several emerging special-interest markets can be identified: senior tourism, adventure tourism, leisure tourism, nature-based tourism, theme park and attraction tourism, cruise tourism, and wine tourism, and others.

The innovation in tourism is represented by the leisure segment and the methods used to incorporate it in every tourism offer. For this purpose it is a must to strategic plan the leisure activities as a component of tourism industry, to develop the infrastructure for leisure, to create a balance in the activities offered, to develop the human resources, and the technology, to raise funds for promoting this sector, to constantly implicate the private sector and the most important, to understand its importance.

The future of the tourism industry will emerge as a result of the evolution that is already taking place on the consumer's side, as customers are becoming more knowledgeable, informed, sophisticated and demanding.

The changing and adapting of products offered is inevitable, while tourism demand is developing in terms of volume, characteristics, location, preferences and consumer behavior.

Fig.1. Concept map for understanding tourists behavior



Source: P. Pierce, *Tourist behavior: themes and conceptual schemes,* Channel View Publications, 2005;

The figure present the main segments of consumers' choice and behavior under the influence of self actions and characteristics and destination factors and more important the outcomes for them.

The WTO Tourism Forecasts predicts for 2020 that world tourism market will more than double in two decades, reaching 1.6 billion consumers. Most of this growth relies on the consumers' behavior as a result of the amelioration of the living conditions of the world population and it will be especially stimulated by the ripening and strengthening of new tourism markets.

Exotic new destinations will boost the tourism market by bringing more diversity and new consumers into the tourism industry.

The dynamics observed in the evolution of consumers requires the tourism industry to modernize its offerings, innovate, improve existing products, and develop new and exciting experiences. New and innovative products therefore emerge, at both micro-business and macro-destination levels. Some of the major changes that will be operated

worldwide will involve the evolution, and the re-engineering, of old destinations.

Another trend associated with the shift from mass tourism to specific segment oriented tourism. New products associated with nature, sports, shopping and gastronomy will combine special interests, activities and experiences, offering the new leisure experience. The space tourism represents an eloquent example of consumers' necessities for other new leisure opportunities.

The way consumers are progressing, the way new products are being designed and a progressing era of affluence are driving modern work society into a new leisure society.

Gradually, consumers are moving away from the consumption of products and are getting to enjoy experiences that they co-design and produce. Staging their own experience with the help of professionals supports the development of more meaningful exploration of cultures, resources and the intrinsic values. Hence, a new dimension will be brought into the tourist market by tourists seeking to be fulfilled and realized from a spiritual point of view.

4. Conclusions

The optimistic future of tourism organizations and destination must take into account the existing trends of tourists' behavior and therefore, develop suitable proactive and reactive strategies for enhancing their competitiveness.

Tourism, as an activity will continue to change in the face of different challenges, becoming more and more evident that only organizations and destinations that have the knowledge and the capacity to deal with tourism professionally will be able to develop their competitive advantage and achieve their objectives in the future.

The conclusion supports that competitiveness, efficiency, effectiveness, long-term profitability, ethics and sustainability are the main themes that will ensure the long-term prosperity of tourism organizations and destinations.

5. References

[1] D. Buhalis, C. Costa, *Tourism Business Frontiers: Consumers, products and industry,* Elsevier Publishing, 2006;

[2] C. Dridea, G. Sztruten, „Free time- the major factor of influence for leisure", *Romanian Economic and Business Review,* ProUniversitaria Publishing, ISSN 1842-2497, Bucharest, 2010;

[3] Firoiu D., Dridea C., Gheorghe C., Dodu P., *Industria Turismului şi a călătoriilor*, Editura Prouniversitaria, Bucureşti, 2006;

[4]C.Ghoeldner, J.R. Ritchie, *Tourism: principles, practices, philosophies,* John Wiley and Sons Publishing, 2009;

[5] C. Holloway, R. Davidson, C. Humphreys, *The Business of Tourism,* Prentice Hall Publishing, 2009;

[6] Leitner M., Leitner S., *Leisure enhancement*, Haworth Press Inc, New York, 2004;

[7] P. Pierce, *Tourist behavior: themes and conceptual schemes,* Channel View Publications, 2005;

[8] J. R. B Ritchie, G.Crouch, *The Competitive Destination: A Sustainable Tourism Perspective,* CABI Publishers. 2003;

[9] W.Theobald, *Global Tourism*, Elsevier Publishing, 2005;

[10] Tribe J., *The Economics of Recreation, Leisure and Tourism*, Butterworth-Hainemann, 2005

Representations of the *Other* and Stereotypes in the Process of Intercultural Learning

Dumitraşcu Elena
«Ovidius » University of Constanta, Foreign Languages Department
elena_mam2006@yahoo.com

Abstract

This paper examines how communication has been influenced by the process of globalization and how each speaker, by means of intercultural learning, built his identity.

The globalization of the economic market and the growing number of population this implies has made crossculturality to become a controversial topic. The process of economic globalization means that we cannot function in isolation, but must interact with the rest of the world for satisfying our needs, achieving our goals, maintaining our security. And because important decisions in business, politics, education, health, and culture these days usually affect citizens of more than one nation, the question of whether communication between people of different nations is effective and whether all parties emerge with the same understanding is of crucial importance. This is when the intercultural learning makes its appearence.

From a cultural point of view, the purpose of teaching foreign languages is to encourage the harmonious shaping of the learner's personality and identity. In the process of learning/teaching foreign languages, it is essential to make the ones who are learning become aware of the interculturality. The learner is then shown how to be tolerent and how to accept the other who is next to him, how to accept cultural and linguistic diversity. Thus, the values and competences acquired by means of the intercultural process are what is most profound in a human being: his self image, his beliefs, the ability to distinguish wrong from right, the very definition of reality.

Key words: intercultural learning, stereotypes, cultural identity, communication.
J.E.L. classification: A2, A20, A220.

1. Introduction

Within a community, a person, a learner is in possession of a baggage of knowledge that he inherited from the group. But he can be a part in other communities as well, playing a different role in each of them. So, the learner will be able to observe in each group he frequents his behaviour, the behaviour of the individuals around him, the verbal and non-verbal aspects of the conversational exchange. Furthermore, the learner will realize that there are other motivations, other habits, different from his own in each group. He will then apply other social standards in order to analyse the words and gestures of the others. He will, therefore, become aware of his own subjectivity (cultural identity) in order to understand the subjectivity of the others. The representation of the other can be considered as the reflexion in a mirror of the learner. The identity supposes diversity, and the apprehension of the belonging to o group, to a community, the cultural identity, appears only in the presence of other cultural groups, that the learner sees as foreign (the other).

To accept the culture of the other with its characteristics means, above all, to accept his own culture. Thus, it wouldn't be wrong to say that tolerance plays a major part in the process of representation of the other. The representation of the other is in fact the process in the mirror which lies at the bottom of the intercultural aspect; the intercultural speech means that the learner has to reflect both on the other and on his own cultural identity.

2. Representations of the *other*

Becoming familiar with a foreign culture means much more than simply learning data on the country of origin. In order to resolve communication problems, whether in the linguistic or in the intercultural field,

the learner should to be aware of the cultural identity of the other; this will also help him have a better understanding of the one with whom he communicates [1].

By teaching the mother tongue, one aims at teaching the culture inherent in that language, a culture through which it would be possible to have easy access to system values, major and unique symbolic presentations that provide and ensure communication between natives. This kind of education seeks primarily to highlight the central role that should be given to the mother tongues: and that isn't their communication function, but the part role they have in building a sense of belonging to a community and culture; in other words, the cultural function of mother tongues should be central to the learning process. A language is rooted in a culture, and this means that one cannot, under any circumstance, separate the language from the culture it are rooted in; conversely, the culture that is transmitted through the mother tongue can be learned only by and through the mother tongue which is the mediator and the cultural medium that allows us to express our subjective and emotional self. Therefore, learners will be able to explore, by means of their mother tongue, the immediate cultural environment.

3. Stereotypes – the cultural dimension of the concept

The stereotype is a ready-made opinion. It is the result of categorizations that organize our experience and guide our behaviour, especially with respect to a specific group or population of a given country. The stereotype does not describe the behaviour of an individual, it only describes the standard of behaviour attributed to all members of a particular group.

The stereotypes are our mediators with the reality. They can be considered as considerable obstacles in which concerns the intercultural, because their functioning mechanism is that of abusive generalisations or simplifications, that focus only on some traits and neglect the more complex nuances. These fixed patterns, benevolent on the one hand, neutral or even negative on the other hand, in which concerns the *other*, trigger prejudices and cast away the possibility for speakers belonging to different cultural universes to have a real dialogue.

The process of stereotyping is, most of the times, due to a series of anterior conflicts. The stereotypes attributed to a community are very easily transferred to its nationals, who become loyal spokespersons of their cultural models. The mistake is to take things for granted and not to verify, during a conversational exchange, by means of an active perception, stereotype free, whether the speakers are the prototype of the socio-cultural region they come from or not.

Categorisations such as "the Americans" or "the French" or "the Romanian" are extremely poor and create difficulties in communication in concrete situations of cultural encounters between heterogeneous individuals [2]. We can talk about a kind of metonymic illusion [3], because the generalisation mechanism is to take a part for the whole, to say "the French are nationalists" on the basis of the encounter with a few French people from a certain region, who, indeed, have nationalists views and ideas.

Stereotypes aren't a mistake we have to obliterate, but a representation we can objectify and question, because they cause problems in the intercultural relations, especially in the school exchanges. The pedagogic activity must, therefore, aim at fighting against prejudices.

4. A complex representation of the *other*

Even though stereotypes often have negative connotations and aren't exact, they can turn out to be an efficient way of mentally organizing large blocks of information. Categorization, no matter how abusive, represents an essential human capability because it enables us to simplify, predict, and organize our world. Once one has sorted and organized everyone into tidy categories, there is a human tendency to avoid processing new or unexpected information about each individual. Assigning general group characteristics to members of that group saves time and satisfies the need to predict the social world in a general sense.

Furthermore, even if the representation of the other comprises more or less stereotypes and prejudices, it cannot be limited entirely to these phenomena. Also, prejudices coming from the social imaginarium aren't the only ones that cause problems in the relation with the *other;* reality can also cause this kind of

problems.

Thus, the representation that one can have of a foreign person is a complex phenomenon, implying multiple, heterogeneous elements such as: cognitive, affective, behavioral, ideological elements. Some of these elements can precede any meeting between two people. They are influenced by the cultural environment, by the cultural images sent by means of social dialogue, by family and media. For example, in France people have a certain opinion on the Germans, due to a long tradition of conflictual relations between the two countries along the decades. And even if the French has never met a German, he might as well have this stereotyped opinion on them [4].

Another source of complexity in the representation of the other is the fact that two models, two different behaviors come to interact. Each culture has its own models, prototypes (for example, the gentleman), but these models do not coincide with the actual human beings. They can only be seen as referential, unifying social norms over the behaviors of its members.

5. Conclusions

We could conclude by saying that the purpose of intercultural communication pedagogy is to help the learner adjust in a better way to the new cultural universe, thanks to a better cultural indentification. Therefore, in the process of intercultural learning, the multiplication of the activities regrouping individuals belonging to different cultures allows the group to better communicate and to scatter wrong reprezentations, such as stereotypes and prejudices, source of many misunderstandings, barriers for the communication.

6. References

[1] Van Thienen, K, "*A la découverte de l'autre pour une approche basée sur la tache »* in *Encuentros,* site : http://www.encuentrojournal.org/textos/Van%20Thienen.pdf, consulted : 31.07.2010

[2] Ivanciu, N, L'interculturel et les pièges des interactions en milieu professionnel. *Signes, Discours et Sociétés* [en ligne], 1. Interculturalité et intercommunication, 15 juin 2008. Disponible sur Internet:http://revue-signes.info/document.php?id=248

[3] Lipniansky E, M, *" La formation interculturelle consiste-t-elle a combattre les stereotypes et les prejuges ? "*, site : http://www.dfjw.org/paed/texte/stereofr/stereofr4.html, consulted: 18. 09. 2010

[4] *Ibidem*

[5] M. Sauquet, M. Vielajus, *L'Intelligence de l'autre: Prendre en compte les différences culturelles dans un monde à gérer en commun* (Broché), Ed. **:** Charles Léopold Mayer, 2007

[6] Adler, N. J., *Comportement organisationnel*, Reynald Goulet, Canada, 1994

[7] P.Lvris, M. Boldea, *The Importance of Intercultural Business Communication*, Source: C "Vasile Goldiş" Arad Economic Sciences, Arad, 2009

[8]http://www.interculturel.org/files/proiecte/II/Budes_C_M_O_istorie_a_comunicarii_interculturale.doc consulted: 1.10.2010

[9]http://www.dfjw.org/paed/texte/stereofr/stereofr4.html consulted: 18.09.2010

[10]http://www.revue-signes.info/document.php?id=248 consulted: 25.08.2010

[11]http://www.francparler.org/parcours/inteintercult.htm consulted: 06.10.2010

[12]http://www.inrp.fr/biennale/7biennale/CContri/longue/7175.pdf consulted: 01.10.2010

The Global Financial Crisis on World Regions

Eftene Nicoleta
Stănescu Geanina
„Valahia" University of Targoviste
eftene.nicoleta@yahoo.com
geannys2003@yahoo.com

Abstract

The world economy is facing the worst crisis since the Great Depression. All the regions are addressing enormous challenges emanating from the growth slowdown in developed countries as well as the global credit crunch. Shared impacts across regions are slowdown in exports, fall in asset markets, reduced credit for consumption and investment and the resulting increase in unemployment, poverty and increased difficulty in meeting the Millennium Development Goals. Furthermore, regions display a number of challenges specific to their unique circumstances.

Key words: crisis, development, negative growth, globalization.
J.E.L. classification: G01

1. Impact on Africa region

The financial crisis is taking place at a time when African countries are slowly emerging from the effects of the food and energy crises and threatens to reverse the gains made by the region in recent years. Furthermore, it has changed the international environment within which African countries conduct and implement policies and there is general consensus that bold, swift and concerted actions are needed to reduce the potential negative effects of the crisis on poor countries. The immediate effects of the crisis on African economies have been a tightening of credit, weakening currencies and declining stock markets, especially in some of the major stock exchanges in Africa. Moreover, most African countries are also likely to suffer from a second round of impacts, resulting from a decline in global economic activity which would lead to a decline in African exports, trade credits, investments, remittances and receipts from tourism. In addition, pressures to recapitalize financial institutions and support other ailing industries may cause donor countries to reduce aid to developing countries, with serious consequences for the African countries that rely on official development assistance to meet their pressing challenges.

2. Impact on Europe region

The global financial crisis is having significant impacts on all the sub-regions covered by the Economic Commission for Europe (whose membership comprises 56 countries), but the effects vary considerably due to the different economic circumstances in the various regions as do the needed policy responses. North America and Western Europe are facing severe downturns with likely negative growth for all of 2009, while growth in the new members States of the EU (NMSs), Southeast Europe and the CIS is expected to slow down considerably from their recently robust rates to only about two per cent.

Although the initial shock was much more significant in the United States (compared to Western Europe), the policy response in the former in terms of aggressive monetary and fiscal policy has been much greater and as a result the likely downturn is likely to be similar in the two areas. The European response has been limited by inadequate regional co-ordination and built in institutional limitations in effectively being able to use macroeconomic policy. More generally, economic policy in North America and Western Europe must deal with addressing the meltdown in their financial sectors by providing governmental financial support, attempt to provide stimulus to minimize the recession mostly through

increased fiscal expenditures, and begin to redesign the structure and regulatory apparatus of their financial markets to avoid a repeat of the current crisis.

The NMSs and South-east Europe have developed based upon an economic model dependent on capital inflows from abroad; with the freezing-up of global credit markets their ability to maintain this growth strategy is no longer viable and they find themselves in a period of substantial macroeconomic vulnerability. A number of the

European CIS, although not net external borrows, have had a growth strategy dependent on large private sector borrowing from abroad and essentially find themselves in a similar situation. The adjustments that all of these economies will need to make in terms of their exchange rates, credit growth, asset prices, and fiscal spending will be significant and could potentially precipitate domestic financial crises in a significant number these economies. Severe recessions in their major export markets will further weaken their economies. Already six of these economics have had to turn to the International Monetary Fund for support and that number is likely toincrease further as the crisis develops.

The Central Asian CIS will primarily be impacted by the reduction in their exports, the decline in commodity prices and lower remittances from reduced opportunities from working abroad.

Despite globalization, the strongest trade, financial and remittance links for the ECE economies remain with those countries nearby. For this reason a regional approach is an important component of any policy package for addressing this crisis. For example, a fiscal expansion in a European economy will rapidly leak out through trade and financial linkages and will be of little significance for the country that initiated the policy. Thus, whether it is fiscal and monetary expansion or capital market regulation, the actions for addressing this crisis must be regionally coordinated if they are to be effective. The failure to fully appreciate this is already apparent in Europe with the uncoordinated response to deposit insurance in European banks last month and remaining unresolved issues of cross-border financial responsibility and supervision.

The fact that there are extensive cross-border banking relationships in Europe, especially between Western European parents and newer Eastern European subsidiaries is of particular interest for the stability of the region.

It remains unclear whether these banking relationships will prove to be stabilizing factors, by providing Eastern European banks access to funds that they would otherwise be unable to obtain on currently seized-up global capital markets, or whether they will instead prove to be a channel of contagion by which the collapse of banking institutions in Western Europe spreads eastward.

How this plays out will significantly affect other developing countries' future policies regarding financial liberalization and their perceived need for additional regional or global oversight.

3. Impact on the Latin America and the Caribbean region

Latin American economies are expecting a significant slowdown in economic growth in 2009 which is not expected to rise above 2 percent; after five years of steady growth. Whereas the crisis initially seemed to impact only the countries which are more integrated into the international economy and financial markets, such as Argentina, Brazil, Mexico, Chile and Colombia, it is now foreseeable that in the fallout from the new phase of the crisis commodity prices will be affected. This would significantly hurt Argentina, Bolivarian Republic of Venezuela Bolivia, Peru and Ecuador. Conversely, as Central America and the Caribbean are net importers of commodities, the fall in commodity prices would alleviate and partially offset the consequences of the world economic slowdown.

The global economic and financial crisis is expected to impact the economies of Latin America and the Caribbean through five main channels: financial contagion and external borrowing; foreign direct investment; external demand; workers remittances and changes in relative prices (particularly commodity prices).

The effects of the crisis will ripple through to both the macroeconomic and the microeconomic levels. From a social perspective, the global economic and financial crisis will be felt more sharply by

the most vulnerable social groups. Poverty is expected to increase, especially because of higher food and energy prices and deteriorating conditions in the labour market. Employment will be the adjustment variable. The final result will depend on the specific economic, social and institutional framework of each country of the region.

The Latin American and Caribbean countries have adopted a variety of policy measures in response to the financial crisis. Although the macroeconomic fundamentals are significantly stronger than in the past, the region will not be immune to the impact of instability in world financial markets and to the anticipated recession in the developed economies. The range of measures implemented is quite diverse as the effects differ from country to country and the instruments needed also vary owing to differences in the resources available to the countries and in their ability to implement such initiatives. That availability generally depends on the fiscal space available for financing the measures, when their implementation entails the use of public funds or when they involve foreign-currency transactions, and it also depends on the availability of external assets or the access to foreign-currency credit. In the current circumstances, the latter is limited to dealing with international financial institutions.

4. Impact on the Asia and the Pacific region

For the second time in a decade the Asia-Pacific region has been hit by financial crisis. However, this time the source of crisis is from outside the region. The region is better prepared for currency and balance of payment crises than it was a decade ago, having instituted wide ranging reforms, improved current account balances and built up a protective shield of foreign exchange reserves. Notwithstanding this progress, high levels of financial, trade and investment integration with the global economy leave no country immune to these events. Consequently, the global slowdown arising from the crisis has exerted significant downward pressures on growth in the region with attendant social consequences that are still unfolding. There are a number of potential vulnerabilities that raise concerns and need to be tracked carefully as the crisis unfolds.

First, the spark that has led to immediate macroeconomic difficulties for some economies of the region has been, once again, exposure to short-term portfolio capital.

During times of generalized international risk aversion, when short-term portfolio capital exits developing countries, efforts aimed at preventing excessive currency depreciation reduce the availability of reserves to cover external short-term debt repayments and current account deficits in some countries.

Another potential vulnerability stems from the banking sector. Although most economies in the region possess adequate reserve cover for external short-term debt at the national level, banking sectors in some cases may run the risk of being overly dependent on foreign sources for their lending. The global credit crunch may result in banks coming under increased stress in continuing to fund their banking activities.

A third source of vulnerability is the region's dependence on trade and investments with developed countries. Even though intraregional trade has been growing impressively, it generally consists of parts and components in the manufacturing sector. To a large extent these exports are linked to demand for final consumer products in developed countries. Developed country recession will therefore transmit its way back to the region through the channel of trade and investments.

The increasing spill-over effects of the global financial crisis into the real sectors and its evolution into an economic crisis, combined with long term challenges posed by climate change, and huge volatilities in food and fuel prices have all converged to pose a grave challenge for the Asia-Pacific region. A number of questions arise. Has the global financial system with its complex and opaque interplays between financial demanders and suppliers evolved too fast? Have we run the regenerative potential inherent in our ecosystems to the ground? Have we created social inequities that will be difficult to correct and will delay the achievement of the MDGs by the target date? Due to the convergence of crises, compounding effects must be taken into account in devising policy responses. There is a unique opportunity for the region to reorient economic growth

towards a long term development path that is inclusive and sustainable.

5. Impact on the Western Asia region

The global financial crisis is affecting the ESCWA Region in several ways, including through decreasing overall financial wealth and lowering economic growth prospects.

Financial wealth in the region, in terms of stock market capitalization, significantly decreased in 2008 and the real estate market slowed significantly in the 4th quarter of 2008.

The largest and immediate impact of the crisis was seen in the financial markets.

The indices of the stock markets in the region were hit hard through the spill over from the free fall of the global stock markets. The sharp drop varied from over 67 per cent in Dubai to over 55 per cent in Saudi Arabia and Egypt. The total loss in market capitalization was estimated at over $500 billion.

As crude oil prices collapsed from the historical high level of July 2008, the region's fiscal and economic growth prospects have been facing severe downward correction.

The price of oil dropped from its peak of about $147 in June 2008 to below $50 in recent weeks. This will have a major impact on the oil revenues particularly in the major oil exporting countries, which in turn will affect their public spending. At the same time, the drop in oil prices and revenues will affect the capacity of the major oil exporting countries in the region to provide official development assistance to other developing countries, which together with the expected decline in ODA from major industrialized countries would lead to a decline in the ODA inflows to developing countries in the region and outside.

As international money and capital markets became frozen, the effectiveness of monetary policy has been called into question. The government sector's strategic fiscal expansion to sustain domestic demand for growth required in most developed countries. The governments of ESCWA Region have so far pledged fiscal stimulus packages to sustain their respective economies, but several countries in the region are facing fiscal constraints to doing so effectively.

There have also been losses incurred by the sovereign wealth funds in the region which are still not to be adequately estimated.

The expected slowdown in global demand will be translated into a global recession.

This, in turn, will lead to lower financing for development, drop in tourism, workers' remittances and ODA inflows to the region.

Any restrictive fiscal policies by member countries to try to mitigate the impact of the financial crisis would negatively affect the efforts of these countries to achieve the MDGs. Therefore, it is necessary for these countries to maintain a sustainable fiscal expansion to achieve the MDGs. International financial institutions may recommend tighter fiscal spending by developing countries including ESCWA member countries.

However, the budget related to the MDGs should be preserved. International assistance, in form of direct fiscal assistance, should be required to safeguard progress towards the MDGs. The financial crisis has also led to increased unemployment in the region, particularly in Dubai's real estate sector. During this phase of employment adjustment, it is the expatriate labour in the region that is the most vulnerable. Retaining expatriate labour, particularly of skilled classes, will be beneficial for the host countries in the region, but the present state of financial crisis is forcing the private sector to layoff those potentially beneficial expatriate labourers.

6. Conclusions

A joint approach to emphasizing strongly to the international community the need to maintain sufficient resources for financing for development in the face of greater needs arising from the crisis as well as increased budgetary pressure for developed country governments. In this context, a joint research initiative could be undertaken to assess the impact on achieving the MDGs arising from the crisis.

Daily monitoring of the situation is being conducted and a database has been compiled for further in-depth analysis.

An interdisciplinary approach has been considered critical as the effect of the financial crisis will be not on the region's financial sector only, but the economy and social structure at large. (This project was created in the program **POSDRU/88/1.5./S/63269**)

7. Bibliography

[1] Colasse Bernard, *Encyclopédie de comptabilité, contrôle de gestion et audit,* Ed. Economica, Paris, 2009;
[2] *Daianu Daniel, Capitalismul incotro? Criza economica, mersul ideilor, institutii,* Ed.Polorom, 2009;
[3] *Études de l'OCDE sur la politique commerciale*, www.oecd-ilibrary.org;
[4] *The Global Financial Crisis: impact and response of the regional commissions* / United Nations

Accounting and Audit Versus Global Economic Crisis

Elefterie Liana
Ruse Elena
"Spiru Haret" University of Constanta
elefterieliana@yahoo.com
iatan_e@yahoo.com

Abstract

The spillover of the credit crisis into a broader global economic downturn brings with it a number of accounting and financial reporting related issues and risks in financial audit area. In their run to show a big profit, in order to attract investors, the assets were over valuated by the companies and validated by the financial auditors. The key problem is the true and fair value shown in financial statements. Thus, financial auditors are the ones to legitimate the accounting information output, by means of their signature, which certifies the fact that the financial statements are authentic and reflect accurately, and fair the result of the transactions of the entity for the audited fiscal year, compliant to IFRS.

Key words: financial risk, global economic crisis, true and fair value, audit risk, auditors' ethical standards.
J.E.L. classification: M4, M42

1. Introduction

The current global financial crisis has focused a great deal of scrutiny - by investors, banks, media, governments and others users of financial statements- on various aspects of accounting and financial reporting and audit. The focus was initially on financial statements issued by financial institutions, particularly questions involving fair value accounting, securitization, and other off-balance sheet structures.

2. Financial reporting risks

The spillover of the credit crisis into a broader global economic downturn brings with it a number of accounting and financial reporting related issues and risks in financial audit area. In their run to show a big profit, in order to attract investors, the assets were over valuated by the companies and validated by the financial auditors. The key problem is the true and fair value shown in financial statements. In this respect, certain areas of accounting have been receiving significant attention, provide an update on recent developments and changes to accounting rules and highlight areas of financial audit risks and rules.

The scandals involving senior management and CFOs that have manipulated the books in order to make their companies appear more solvency and with a high profitability, compromised also the financial auditors, which accepted such representations at the fair value. The financial auditors have to respect the line of ethical, legal, and moral standards and maintain an impeccable standard of credibility in front of all users of the financial statements, day by day more sophisticated.

3. Accounting and globalization

The development and evolution of every country are.strongly influenced by the globalization process, which brings huge opportunities, like opening markets and enhacing an international global trade. European integration, like many other integrationaist regional precess, synchronizes with globalization, represents an advantage for Romania.

Accountancy, has presently become a controversial and full of interest field for all those involved into business world, while the area of financial accounting data users, covers a growing and multiple range, from shareholders, managers, employees, to investors, banks, trade parteners, stock markets, etc. The growth of accountancy importance is pointed out by modern definition as "language of business". Accountancy is not a purpose in itself, but is

a data processing system, that quantifies, operates and transmits financial information about a legal entity. In fact, it connects economic activities with decision-makers.

The new international system of regulation in accountancy, provided by IASB (International Accounting Standards Board) chose as its major objective, the issuing of an only set of global accounting standards, by finding the convergence between the international accounting standards and the American standards. The year 2005 set the beginning of a new era in the accounting field, through issuing new rules of financial reporting for a worldwide capital market, well known as International Financial Reporting System (IFRS).

Starting with 2005 a number of 15,000 companies from 25 member states of European Union, Russia, Australya, South Africa, and New Zeeland, have started to issue financial reports in compliance with IFRS. As global standards, IFRS will accomplish extended objectives of financial stability, efficiency, transparency, as well as increased credibility of financial markets. Taking up IFRS, means a new system of measuring performance, which must be enacted at the overall level of patrimonial entity, to change ways of working and to possibly involve substantial changes in the field of strategic management. Embracing of a global report language, through IFRS administration, will allow business to be rightly perceived, no matter what users origin might be. Communicated via a common language, unanimously agreed upon, will guarantee a higher credibility level and will maximize access opportunities to capital market. A company whose financial statements are presented in compliance with IFRS, must show this explicitly and with no reserves in its notes to financial statements. Financial accounting data users, day by day, more and more diverse and sofisticated, are being somehow sceptical to financial reports producers, thinking of the latter, that they are not independent from the operations and doubting of their equity and fairness. Therefore, the financial auditors, come between the producers and users of financial statements to control and to validate the financial statements and to draw up an independent opinion upon the fairness and correctness of them.

International Standard Audit (ISA) 700 "The Auditors` report of financial statements" sets norms and makes recomandation regarding the shape and content of the auditor`s report. Particularly, paragraph 17 from ISA 700, requires that, an auditor`s report to clearly stipulate the financial report framework, used for drawing the financial statements. International Auditing Practice Statement (IAPS) 1014, wich supplements ISA 700 was issued at the same time. It does not stipulate new basic principles or essential procedures, but its purpose is to support financial auditors by supplying prescriptions, related to appling ISA 700, when the financial statements are drawn according to IFRS. The auditor must make use of his own professional reasoning, in order to take the right messure according to any of the above mentioned recomandation of the IASP 1014 and the circumstances of a certain entity.

The purpose of this IASP is to supply further specific references, in case that the auditor should convey an opinion upon the financial statements, about which the administration declares that they are drawn:

a) Entirely in accordance with IFRS:

b) Entirely in accordance with IFRS and with national rules for the financial statements;

c) Entirely in accordance with national rules and presenting the degree of compliance with IFRS.

4. Conclusions

Business transparency implies free access to correct and true information about the financial position of a legal entity. Thus, financial auditors are the ones to legitimate the accounting information output, by means of their signature, which certifies the fact that the financial statements are authentic and reflect accurately, and fair the result of the transactions of the entity for the audited fiscal year. The error risk grows with the amount and the complexity of the accounting procedures, as well as with the frequent usage of the professional reasoning, imposed by IFRS, thus the consequences of misinterpretation upon the users became severe, if we take in consideration the fact that the financial information is used by them for the decisions making.

This is why the resulting information from financial statements drawing in compliance with IFRS, are taken into consideration by the users, only after they have been validated by a financial auditor, which backs up their degree of credibility and sustainability of the companies audited.

5. Bibliography

[1] L.Malciu, N. Feleagă, *Eseuri şi analiza standardelor IAS-IFRS*, Volumul 1, Economică Publishing, Bucureşti, 2008.
[2] Standardele Internaționale de Raportare Financiară, translation issued by The World Bank, Irecson Publishing, Bucureşti, 2008.
[3] Interpretarea şi aplicarea Standardelor Internaționale şi raportare Financiară, BMT, Publishing House, 2009.
[4] Standardele Internaționale de Raportare Financiară, CECCAR Publishing, 2009.
[5] www.iasplus.com.
[6] www.pwc.com.
[7] www.iasb.org
[8] www.cafr.ro
[9] www.finance.toolbox.com

New Challenges of Contingency Theory in Management Accounting System, in Terms of Global Economic Crisis

Ene Dumitru
"Valahia" University of Targoviste
armata_ultra86@yahoo.com

Abstract

This paper aims to answer the question:
1. The contingency theory can be a source of improvement in management accounting research ,in terms of global economic crisis?''
2. Can be Contingency factors a bridge between organizational theories and management accounting?
Research purpose:
-The contingency theory can be a source of improvement in management accounting research, in terms of global economic crises;
-Contingency factors can be a bridge between organizational theories and management accounting.

Key words: contingence, contingency theory, contingency factors, management accounting.
J.E.L. classification: M 41

1. Introduction

Applying the contingency theory to management accounting systems has fueled a prolific stream of research, particularly in the Anglo-Saxon. Indeed, this theory is very attractive because it allows, at least in principle, explain the structure of management accounting systems in an almost mechanical, the action of different factors. The articles on this theme are nombreaux , since the 1970s, in various journals.

2. The potential heuristic research on contingence

The advantage of cotingence in its contemporary form, is that it remains a balanced theory that analyses the role of external variables outside the company without without however neglecting the power of decision for managers.

Thus, it seems a compromise between two extreme positions: voluntarism (which focuses on the decisions and the conscious actions of organizational actors of the company as a ensamble) and determinism (which focuses on the influence of external factors - enterprise structure, global context). In cotigencency theory, the manager keeps his rationality (limited or not) and he makes choices determined by the same rationality, while tempting account of the influences that various factors (external or internal) can excrete on the operation of its business.

In our opinion, the essential contribution of contingency theory is not to propose structural models suitable, under certain conditions. Rather it helps to understand the complex relationships that develop between the internal organization and environmental constraints. This is how, not prescriptive and more flexible, that means the contingency (this is a point of view developed by some of the founding authors .

A balance of contingency research type reinforces this idea. Indeed, the first intake of year 1950 and 1960 (Woodward, Burns and Stalker etc.) and even studies and position papers most recent (late 1990s and early 2000s. contingency was never able to provide universal solutions (in this case it is contingent solutions), or construct an indisputable model of inf1uences external on structure.

3. Contingence management accounting systems

Applying the contingency theory to management accounting has fueled a prolific stream of research, particularly in the Anglo-Saxon. Indeed, this theory is very attractive because it allows, at least in principle, explain the structure of management accounting systems in an almost mechanical, the action of different factors. The are more articles on

this theme, since the 1970s, in various journals.

3.1 Application contingency in management accounting

Research on contingency management accounting systems is extremely abundant and diverse. To structure our literature review, we relied on quelques synthetic and critical articles (Chenhall, 2003) (Covaleski et al., 1996) (Fisher, 1995) (Fisher, 1998) (Gerdin & Greve 2004), (Ot1ey, 1980), (Chapman, 1997). For the most part, studies are undertaken on a large scale, cross-sectional, and date are collected by questionnaire and then treated statistically. This process naturally limits the number of variables analyzed and the results obtained are sometimes contradictory due to the peculiarities of the sample used or the definitions used.

Most contingency research employ, therefore, a quantitative methodology, or assumptions derived from previous similar studies. Chapman (1997) argues that it would be necessary to question these search patterns established through qualitative studies.

French writers have not discussed the issue of incidental contingency, such as Booker, in his books of management accounting and control (Booker, 1997, 2004).The only article on the contingency in a French magazine seems to be that of Gosselin (2000), which deals with the influence of strategy on the adoption and implementation of the ABC method..

Also should mention the literature review of Chiapello (1996) on the different control modes, the second part are related to contingency. It classifies the contingency factors by type:

-Characteristics of the work or the technology used;

- Characteristics of the outputs, objectives or results;

- Characteristics of the exchange;

- Characteristics of the environment;

- integrated models that handle several types of factors.

Traditionally, the contingency theory of management accounting is defined as an attempt to determine the accounting control systems are most appropriate in a given set of conditions (Odey, 1995). This theory has been more successful in identifying the contingent variables in the analysis of their impact.

In terms of contingency, the study of management control systems, and in particular a system of accounting management, is based on three approaches (Fisher, 1995, 1998):

- Specific approach - the factors that influence the system are unique and specific to the company, it is impossible to establish universal models.

- Universal approach - that there is a system of management control optimum adaptable to each situation and each company; invalidated by the empirical evidence in favor of contingency.

- Contingency approach - the adequacy of the system depends on the characteristics of the company. Unlike the specific approach, the studies draw generalizations from a certain group of characteristics. This approach has become dominant. It is to identify specific aspects of the accounting system that are associated with certain defined characteristics and prove the existence of a determination..

Generally the type of contingency research based on the premise that a better balance between the various factors and the control system leads to desired results (that is to say better). This poses the problem of measuring this performance: what are the selected indicators, benchmarks and so on. Often the type of contingency research negligent measuring the effectiveness of management accounting systems (there are, however, studies on factors influencing the perception that corporate actors have the effectiveness of the systems).

In addition, the efficiency itself is a contingency factor (Odey, 1995): the establishment of a management accounting system will be supported by real or perceived effectiveness. Therefore, studies on contingency suffer from circularity - it is impossible to use the efficiency criterion to evaluate the adequacy of management accounting, because that efficiency is itself a contingency factor.

The problem of circularity is larger, because among the contingency factors and the management accounting system there is a double relation of determination (the system will act also on the factors), and this will pose new problems. The inverse relationship, that is to say the influence of the system of

control over the various internal or external factors has now been another class of studies.

Without doubt we must admit that a model that brings together all types of possible relationships between the contingency factors, environmental variables and the perception of actors would be too complex and impossible to test empirically.

The literature reviews that we have mentioned conclude the lack of a general framework for analyzing the relationship between contingency factors and management accounting systems. What seems problematic is not the idea of contingency in itself, but the different analytical frameworks proposed by researchers.

In the contingent type searches, accounting appears most often as a formal and routine technology, whose main elements is present in stable environments and absent in unstable environments. This goes against the very obvious: the accounting systems are ubiquitous in the modem business and occupy a central place (Macintosh, 1994; Chapman, 1997).

According Covaleski et al.(1996), the basic idea of contingency is that the strict system of management control are appropriate for centralized organizations using simple technologies and operating in stable environments; however, the systems "loose" control are better suited to organizations with decentralized face and the dynamic and complex environments.

In what follows, after introducing in a first step, the two classifications of contingency - type searches that seem most relevant, that of Fisher (1995, 1998) and that of Gerdin and Greve (2004), we identify the main research findings from literature reviews of Odey (1980), Waterhouse and Tiessen (1978) and Chenhall (2003).

3.2 Search ranking

Fisher (1995 and 1998) classifies studies on the contingency of management control systems into four categories depending on their complexity.

- Level 1 - analysis of the correlation between a contingency factor and a variable system of management control, without evaluation of effects on performance;
- Level 2 - joint effect of a contingency factor and a mechanism controle management on an outcome variable (in general performance).
- Level 3 - linking the mechanisms of management control (as system), a contingency factor and results
- Level 4 - taking into account a multitude of contingency factors and their interactions to determine what is the optimal system of management control.

In its simplest form, the contingency theory suggests that the structure of the Organization depends on various contextual factors.

This simple form of contingency is in reality congruence, it does not examine how this adaptation affects the performance context, but assumes that adaptation is the result of a process of natural selection after which only the top performing organizations.

Research must identify in this case the contextual variables and analyze the effect of variables on the structure. The absence of the concept of performance is often considered a defect because survival does not always mean performance.

3.3.Periodization of the main contributions

In his review of literature, Chenhall (2003) divides into two major periods of research on contingency management accounting systems:

- A period that begins with the publication of seminal work in 1960 and ends in the 1980s. The first applications of contingency theory in Accounting appear in the year 1970 (Odey, 1980). Research will focus here on the influence of the environment, technology, size and structure of organizations on management accounting systems.
- The period after 1980 and until now, and during this period, researchers are developing the initial arguments while adapting to new developments and identifying new contingency factors - including the strategy (Langfield - Smith, 1997) .

The main contributions of the first period will be summarized from the literature review published in the late 1970s by Waterhouse and Tiessen (1978) and Otley (1980).

The research aims to build a contingency model capable of explaining the variation in the effectiveness of the organization, establishing links between the context of the

organization, structural features of it and finally efficiency.

Research in the field of contingency that is developed in two distinct ways (Odey, 1980):

1. studies leading to a system of contingency factors without using an explicit part of this type, the development of the contingency approach is due in part to the need to explain the conflicting results of studies initially adopting universal view (Fisher, 1995, 1998) for the three types of approaches related to contingency.

2. formulation of a framework and then contingent valuation (theoretical or empirical) hypotheses, the basic idea is that there is no ideal system of accounting management.

The contingency factors set by the research evidence of this first period (until 1980), are (Odey, 1980):

-organizational context as a whole (origin, size, technology, dependence) (Bruns & Waterhouse, 1975);

-environment (dynamism, heterogeneity, uncertainty, hostility, etc..) and the relations of the organization with it - (Gordon & Miller, 1976; Hayes, 1977; Amigoni, 1978)

- the type of competition - (Khandwalla, 1972)

-objectives of the organization

- management style

-technology (variety and complexity of tasks, diversity of product range)

-factors related to the interdependence between departments (Hayes, 1977)

- internal factors (Hayes, 1977).

According to Waterhouse and Tiessen (1978), contingency factors belong to two main categories: Technology and the Environment.

During this first period, the model on which are founded, most studies is simple and liniare: contingent variables - organizational structure - accounting information system - organizational effectiveness (Otley, 1980).

Furthermore, no study combines these four steps, the effectiveness of the organization is rarely measured.

In the period after 1980 and until now, Research based on contingency model variables (environment, technology, size, structure, etc..) Continues after 1980 (Chenhall, 2003) and takes into account the latest developments in these variables.

Many studies analyze the role of strategy as a contingency factor (Langfield-Smith, 1997), others examine the inf1uence of new methods of production management (JIT, TQM etc..). Research on cultural contingencies take an important place (Harrison & McKinnon, 1999).

Among the relatively recent development we can also mention the research on the development of contingency systems ABC (Gosselin, 1997; Krumwiede, 1998; Anderson & Young, 1999; Gosselin, 2000). Other innovations (cost target, overall cost etc..) have received less attention. However, research on the contingency remains very diversified, because it focuses on many contemporary aspects related to management control (extra budgetary process, use of non-financial indicators, complexity of controls, trust accounting measurement, strategic cost etc.

Factors studied by contemporary research on contingency management control systems are essentially the same as those identified by the same work by the founders or by the earlier research:

-The external environment
-Technology
-Organizational Structure
-Contemporary technologies
-size,
-the strategy
-Culture

4. Conclusions

Undoubtedly, contemporary research on contingency management accounting systems following the lineage of traditional research, taking into account recent developments concerning the different variables. The contingency factors are the same, except that the environment is becoming increasingly uncertain and complex as technologies . The organizational structure evolved to a more organic matter and more power to individuals.

To understand recent developments in contingency factors and their impact on management accounting systems, the results of previous research may be useful mount (Chenhall, 2003). For example, Kalagnanam and Lindsay (1999) implement the ideas of Woodward to develop their theory on the importance of control in organic production environment organizes just-in-time.

To evolve, research on contingency management control systems integrate the contributions of other theories of organizations, as well as contributions from other disciplines (Chenhall, 2003).

5. Bibliography

[1] CHENHALL, R. H. (2003), Management control systems design within its organizational context: findings from contingency-based research and directions for the future. *Accounting, Organizations and Society,* , pp 2-3.

[2] CHAPMAN, C. S. (1997), Reflections on a contingent view of accounting. *Accounting, Organizations and Society,* , pp2.

[3] COVALESKl, M. A., DIRSMITH, M. W. & SAMUEL, S. (1996), Managerial accounting research: the contributions of organizational and sociological theories. *Journal of Management Accounting Research,* pp. 1-35

[4] FISHER, J. (1998), Contingency theory, management control systems and firm outcomes: past results and future directions. *Behavioral Research in Accounting,* 10, supplement.

[5] GERDIN, J. & GREVE, J. (2004), Forms of contingency fit in management accounting research - a critical review. *Accounting, Organizations and Society,* pp. 303-326

[6] GORDON, L. A. & MILLER, D. (1976), A contingency framework for the design of accounting information systems. *Accounting, Organizations and Society,* pp 1,

[7] KHANDWALLA, P. N. (1972), The effect of diferent types of competition on the use management controls. *Journal of Accounting Research,* 1972, autumn.

[8]LANGFIELD-SMITH, K. (1997), Management control systems and strategy: a critic al review.,*Accounting, Organizations and Society,* pp 2.

[9] OTLEY, D. (1980), The contingency theory of management accounting: achievement and prognosis. *Accounting, Organizations and Society,* pp 4.

[10] WATERHOUSE, J. H. & TIESSEN, P. (1978), A contingency framework for management accounting research. *Accounting, Organizations and Society,* pp 1.

The Business Incubator Management Strategy
Case study of the Business Incubator Located in Mangalia

Epure Dănuț Tiberius
Cuşu Dorinela
"Ovidius" University of Constanta, Faculty of Economic Sciences
epure_dan@yahoo.com
cusudorinela@yahoo.com
Teliceanu Claudiu Daniel
„Dunărea de Jos" University of Galati
teliceanu_claudiu@yahoo.com

Abstract

Through this paper we intend to analyze the management process of a business incubator. To achieve our aim we will use for example the Business Incubator located in Mangalia developed by the Establishment and Development of Business Incubators Project in Romania, a program initiated by The Agency for Implementing Projects and Programmes for SMEs (AIPPSME) and United Nations Development Programme (UNDP). The main aspects considered in this work are related to the administrator selection procedure of a business incubator and the effective management process of a business incubator with direct examples from Mangalia Business Incubator in Constanta County, Romania.

Key words: business incubator administrator, selection, public auction, development strategy
J.E.L. classification: M13

1. Introduction

The Establishment and Development of Business Incubators Project in Romania seeks to support small and medium sized enterprises by establishing business incubators and strengthening the operational capacity of existing incubators. The aim of the project is to create a network of incubators that will lead to economic growth and poverty reduction, to establish business incubator through which local entrepreneurs can benefit from consultancy services and financial support needed to develop an existing business or a business in an early stage, resources that allow start–up firms to become viable and financially independent at the end of the business incubation period. Now the project is multiplied in the following counties: Satu Mare, Mures and Constanta. The administrator is the local manager of a business incubator. In the following we will analyze the administrator selection process of a business incubator and we will exemplify its responsibilities through the administrator of Mangalia Business Incubator (Constanta County).

2. Who can be administrator of a business incubator

The administrator of a business incubator can be a legal trader, a non-profit organization, an Territorial Office of Small and Medium Enterprises Cooperatives (O.T.I.M.M.C.). The administrator's selection process consists in the analyse of their application, taking into account a number of criteria such as holding a history activity with a positive balance for private firms, collaborative projects completed with local authorities, consultancy projects undertaken and their results lately, the business project for medium and long term development of the incubator, not be in a state of bankruptcy or liquidation, have no commercial activity suspended, possession of qualified personnel with experience in business management, owning its own infrastructure needed to ensure services to program beneficiaries, business knowledge of the incubator geographic area, the ability to engage in supporting the business incubator in relation with local authorities, banking units, research institutes, universities, economic units in the

geographical location of the business incubator.

For the selection of a business incubator administrator it is formed a committee which will include representatives from local authorities, A.I.P.P.S.M.E., U.N.D.P. and O.T.I.M.M.C.

2.1. The framework management contract

The legal basis for the designation of the business incubator administrator is the framework management contract, through which are set the administrator's obligations such as providing monthly financial reports, both for its own activity and the incubated SMEs activity, monitoring method for the incubated SMSs, reporting regularly to U.N.D.P.

For the whole period of the framework management contract, the business incubator administrator will receive a payment, lei equivalent of 50.000 dollars, allocated in four tranches.

This amount is intended to cover training expenses of potential entrepreneurs during the pre-incubation period, editing and printing costs made for training curricula developed during pre-incubation period, expenses incurred in organizing the projects evaluation process, SMSs selection, expenses incurred in creating the website to promote incubator activities [7].

From the administrator financial aid it is retained a 10% representing performance bond framework management contract that will be returned at the end of the contract, after submitting the final activity report by the administrator.

2.2. Administrator's responsibilities

The administrator of a business incubator has a number of responsibilities such as signing management contracts with local authorities, A.I.P.P.S.M.E., to implement the Program, signing incubation contracts with the selected beneficiaries of the Program. As well, the administrator is directly responsible for using funds provided by U.N.D.P., is charged with preparing and providing the accounting records of the incubator to authorities involved in implementing the program, fulfilling obligations to pay outstanding taxes and debts to the state budget and local budgets, organizing local promotion of the program from its own resources.

The technical documentation on the selection procedure of program's potential beneficiaries is drawn up by the administrator.

3. Administrator selection. Case study – Mangalia Business Incubator

In 2010 through The Establishment and Development of Business Incubator Project in Romania were selected three new locations for establishment of business incubator: Mangalia, Satu Mare and Targu Mures. As shown above the administrator of a business incubator can be a legal trader, a non-profit organization, an O.T.I.M.M.C. chosen following a public auction organized by local authorities. In this respect, Mangalia Municipality organized the public auction for the purchase of business incubator management services, after the building destined to become a business incubator was renovated, equipped with necessary equipment (office furniture, IT equipment and telephone equipment) prepared to give potential customers all the services they need (internet, heat, electricity, etc.) . Mangalia Municipality has developed in this direction the purchase documentation of Mangalia Business Incubator management services, Constanta County, and made public this documentation using the electronic public procurement system (S.E.A.P.). After 20 days of the documentation publication the mayor organized a committee to evaluate the offers submitted, committee consisting of representatives of City Hall, A.I.P.P.S.M.E., O.T.I.M.M.C. and U.N.D.P. After opening all the offers and analyze of the technical, economic offers and of the business plan, it was designated the winning offer, the auction result has been sent within five days.

Clever Consulting Company participated in this auction, her offer being designated the winning offer, thus obtaining the local management of the Mangalia Business Incubator. Clever Consulting Company is a limited liability company established under Law 31/1990. Company's services cover a very wide range of services; the company aims to provide complex consulting services: business consulting services, marketing services, human resources services and management services.

4. Clever Consulting Company's development strategy, as administrator of the business incubator in Mangalia

4.1. Marketing Plan Services

The target market for the services provided by the administrator is represented by business start-ups entrepreneurs and potential entrepreneurs in the Constanta County, focused on the Mangalia City and surrounding areas most affected by economic restructuring processes. The potential beneficiaries have the minimum education level of high school and are within the age of 50 years. Selection will be done using the database of The County Employment Agency Workforce (A.J.O.F.M.), The Chamber of Commerce, Industry, Agriculture and Navigation Constanta (C.C.I.N.A.), Trade Register Constanta (O.R.C.), Mangalia City Hall and the database of Clever Consulting Company, which is in business and management consultancy.

The product offered is one of education, information, advice, persuasion, training and guidance for the development of entrepreneurship in the selected sample. Entrepreneurs and managers will be advised on issues of business management in order to increase chances of success and reduce uncertainty in the markets where they operate. The product is offered to the highest quality standards, by its own specialists, in spaces and using facilities provided by the incubator.

The Price. Services such as recruitment, selection, initial counseling, training, and consultancy are offered free to individuals and companies that are selected to be incubated in accordance with the project budget. A range of consultancy services, support and promotion will be offered to incubated firms with a service fee.

The promotion of the activities will be achieved both through ads in local media and especially directly through presentation letters and phones to targeted people. During the contract promotion in the media of the services that are offered in the business incubator through the administrator will be accomplished by vectors with the greatest impact on the Constanta market: television (TV Neptun, PROTV Constanta, CTV, Antena 1 Constanta), radio (C FM, Radio Constanta, Radio Neptun, SKY FM), press (Telegraf, Cuget Liber, Replica).

The distribution. Services are provided directly to the selected companies and are financially supported by the administrator of the business incubator as its own contribution.

4.2. The range of clients' services and assistance required. Method of delivery

Potential clients of the business incubator (firms that can be selected by the administrator to be included in the incubator) require consultancy and assistance for starting a new business. In this respect, the administrator of the Mangalia Business Incubator, Clever Consulting Company, provides two types of services to its clients: basic services and specialized services.

Basic services include information operations of potential incubator clients, their selection, consultancy services and training services.

Information is realized through media, telephone and through letters sent directly to potential clients, which are searched in the database of Clever Consulting, AJOFM and ORC Constanta. Following these activities, firms and individuals will be selected within the target group and all the information on the business incubator activities will be presented on its own website.

Selection in made based on analysis of business plans prepared by individuals entry into business incubator, psycho-analysis skills and entrepreneurship analysis and a interview before a selection committee.

Consultancy services are done individually or in small groups (up to 10 persons), face to face, at the company's office or in the incubator, either by appointment or on demand. At the beginning of this stage is done a psycho-analysis skill of components of the target group.

Training is done centrally, with five groups of 20 students, at the company, in tutorial system. Students will receive the course manual since the first meeting, and the teaching system will be an interactive one, using modern methods of teaching (projector, video projector, flip chart). Seminars will be held quarterly, after a program that will be given to students at the first meeting.

Specialized services refer to entrepreneurial training group and individual counseling.

Entrepreneurial training group includes modular training courses in marketing, financial management, investment management, human resource management, strategic planning and business plan preparation. These trainings will be organized in a modular system, in each quarter during the first year of operation of the business incubator; each module is materialized in the 20 hours of training by specialists – permanent collaborators of the company, among academics, lawyers, chartered accountants. Each module will conclude with an examination, and after the examinations will be the second selection of the entrepreneurs/managers who will participate on the full assistance program of the business incubator. Schedule and budget for these trainings will be communicated to students during the first session.

Individual counseling consist in technical assistance in the process of setting up a business, such as: drafting articles of incorporation, company registration, contracts, legalizations of documents, business plans, feasibility studies and financing documentation, investment plans and programs, assistance in market development, design of promotional programs, protection of intellectual and industrial property rights and partnerships development.

Work methods are modern, interactive, in tutorial system, adapted to students, aiming at raising the level of knowledge about business, education and entrepreneurship. In addition to theoretical presentations, discussions will have a crucial role, developing the entrepreneurial and market thinking systems of the learners. *"During a project are used dialogue sessions, which refer to open discussions among team members, that will allow everyone to understand everyone's perceptions on collective activity. Solving problems is difficult if members have different perceptions of problems and whether these perceptions are not openly discussed and evaluated. Without dialogue team learning process is affected. In order to achieve the mutual understanding, to improve solving problems, to increase knowledge in the team it is necessary continuous communication in the organization, dissemination and sharing of any kind of knowledge.[5]"*

In practical applications, students will prepare business plans so that under the guidance of professional trainers to develop their analytical and synthesis thinking of the business they are going to start or develop. These will be constantly monitored and updated until the goals and objectives are achieved. Entrepreneurs will also be helped to prepare documentation to obtain refundable financing or grants and to learn to seek and use necessary information for current and future activities.

4.3 Who are the administrator's collaborators in carrying out the task assigned ?

In carrying out all the activities the administrator has developed partnerships with various institutions in Constanta city.

The County Employment Agency Workforce Constanta – as manager of unemployment problems in the county – provides statistics on the unemployment situation in the county areas and lists of jobless people.

Small Employers Constanta provide lists with people left jobless in the big firms in the district, firms that are members of employers and identify business opportunities through vertical and horizontal collaboration with member firms of employers.

Trade Register Office – provides information on newly established firms in the county of Constanta.

Local universities – provide database of graduates, ensure access to university libraries and provide specialists which will advise on issues that may arise in the business incubator.

4.4 Working method and organization of the services

The first activities will be the promotional activities, made through media and directly, and it will inform potential clients about the services offered.

In the second stage it is proceed to the formation of the five working groups through direct contact with those who will join the campaign by sending out promotional letters or calling those recommended by employers, ORC, University and AJOFM. Selection it

will be done analyzing candidates business plans or business proposals, evaluating their psychosocial skills and through an interview face to face with the members of the selection committee.

Consultancy services will be given individually by appointment or whenever it will be required in the incubator.

Training will be done in an interactive system, focusing on the practical side of preparing students, in the training rooms at the company office or in the incubator. Following the first set of training programs, based on examination, it will be the final selection of the firms/individuals which will attend the subsequent actions of the incubator.

The activities schedule it will be communicated to all persons or companies in the incubator, it will be displayed on the webpage and on the notice board arranged for this purpose. There will be a telephone line used only for communications with the incubated companies and, on request, can be insured against payment centralized secretarial services.

Through its activity, Clever Consulting Company, as administrator of the business incubator, aims to create new jobs by developing the incubated companies (at least 3 new jobs created over the next two years for newly established companies, at least 3 new jobs created in the following operating year for companies with a working history older than 2 years); increase the annual turnover of incubated SMEs with at least 10% (the actual turnover, adjusted by inflation rate) by increasing the numbers of contracts or/and their value (market growth).

4.5. Monitoring and monthly reporting to the contracting authorities

The business incubator is regularly monitored by the contracting authorities. In this case incubator administrator will prepare, monitor and annually report a number of cases and indicators (according to specifications) such as: the use of incubator area (in square meters), the number of jobs created / SMEs incubated, the number of incubated SMEs – it is aimed at maintaining a constant 20 SMEs in the incubator at the same time, the number of newly created incubated SMEs, the number of SMEs excluded from the incubator, the ratio of business incubator employees / incubated SMEs, quality of services delivered and their average operating costs, failure rate of the incubated SMEs after the incubation period, survival rates of SMEs after the incubation period, financial and economic results, average increase in turnover, economic exchanges with partners outside the geographic location of the business incubator.

5. Conclusions

The administrator of a business incubator can be a legal trader, a non-profit organization, an O.T.I.M.M.C. chosen following a public auction organized by local authorities, the legal basis for the designation of the business incubator administrator is the framework management contract, through which are set obligations, responsibilities, duties and remunerations of the business incubator administrator.

Following the public auction for the purchase of business incubator management services Clever Consulting Company has become the administrator of that business incubator. The company is a limited liability company located in Constanta City, specialized in business and management consultancy services. An important aspect in winning this public auction was the business incubator development strategy designed by the firm.

In the marketing strategy, the target market for the services provided by the administrator is represented by business start-ups entrepreneurs and potential entrepreneurs in the Constanta County; the product offered is one of education, information, advice, persuasion, training and guidance for the development of entrepreneurship in the selected sample. These services are offered free of charge to companies that are selected to be incubated and the promotion of the activities will be achieved by means of mass media on the market in Constanta.

In carrying out all the tasks arising from the post of administrator of the business incubator, the company has agreements with several institutions in Constanta County, such as The County Employment Agency Workforce Constanta, Trade Register Office, and local Universities.

Company carries out basic activities such as entrepreneurs' information from Constanta County on the possibility of incubation,

selection, consultancy and training companies to be incubated and specialized services such as entrepreneurial training group and individual counseling. These services aim to raise the level of knowledge about business, education and entrepreneurship and to determine students to start their own business within the business incubator. Entire activity of the company will be monitored by the contracting authority: the Agency for Implementing Projects and Programmes for SMEs, the United Nations Development Programme (UNDP) and the Territorial Office of Small and Medium Enterprises Cooperatives.

6. Bibliography

[1] Dănuț Tiberius Epure, *European coordinates concerning the companies and the business environment,* Libertatea Publishing, Panciova - Novi Sad, Serbia 2007

[2] Dănuț Tiberius Epur*e*, *Promovarea firmei,* Muntenia &Leda Publishing, Constanța, 2006

Dănuț Tiberius Epure, Stejarel Brezuleanu, *Managementul proiectelor de afaceri ale întreprinderii*, Muntenia Publishing, Constanța 2010

[3] Dănuț Tiberius Epure*, Strategii de întreprindere,* Muntenia Publishing, Constanța, 2008

[4] Dănuț Tiberius Epure, Victor Jeflea, Cristian Mosnianu, *Strategii şi politici privind întreprinderile în context european,* Muntenia Publishing, Constanța, 2008

[5] Horga Maria Gabriela „The impact of going to the economy based upon knowledge on leadership", 12th IBIMA Conference on Creating Global Economies through Innovation and Knowledge Management – Theory & Practice, International Business Information Management Association (IBIMA), University of Malaysia, 2009, pg. 99

[6] The Implementation Procedure Establishment and Development of Business Incubators Project in Romania

[7] Guide to establish a business incubator in Romania, May 2010

[8] www.aippimm.ro

[9] www.undp.ro

[10] www.portalincubatoareimm.ro

Evolution and Perspectives of the Romanian Economy Related to the Economic and Financial Crisis

Epure Dănuț Tiberius
„Ovidius" University of Constanta, Faculty of Economic Sciences
epure_dan@yahoo.com
Nancu Dumitru
„Andrei Şaguna" University of Constanta, Faculty of Economic Sciences
nancu_dumitru@yahoo.com
Cuşu Dorinela
„Ovidius" University of Constanta, Faculty of Economic Sciences
cusudorinela@yahoo.com

Abstract

World economic crisis affects both financial markets from România, and its macroeconomic perspective, but the analists consider that 2010 will be characterized through substantial reduction of the economical growth and financial markets waisting. Throughout out this paper we intend to summarisse the effects of the financial crisis on the romanian economy, focussing on the situation regarding the inflation rate, unemployment rate, small and medium enterprises sector.

Key words: financial crisis, inflation, unemployement, legislative solutions**,** small and medium enterprises sector
J.E.L. classification: G01, G17, G28

1. Introduction

Most recent forecasts into the G8 economy points an extension of the economical crisis, taking into the fact the unemployment rising and the chary private consumption sector which inhibits the economies relaunching in the near future.

Annual decrease of the GDP it was speed up in Europe's fastest economies in the second timester comparing to the similar period in 2008, baltic countries which has been affected are: Lithuania -22,4%, Letvia -19,%, Estonia -16,6%, and also Slovakia 5,3% in second trimestre, Hungary 7,6% from 6,7% in the first trimestre.

2. Romania economic case

In July 2009, Romania has reached an annual inflation rate of 5.06% meaning a decrease of 0,77% from previous month, taking in to consideration the fact that the prices of the nutrition goods has decreased up to 0,5%, the prices of the non-food goods has increased up to 0,14%, and service tariffs to 0.32% till June 2009.

Romania was in July 2009 the highest annual inflation in the European Union (Eurostat), EU average was 0.2% in the eurozone and a deflation of 0.7%. The average increase in prices in total in the last 12 months (August 2008 July 2009) from the previous 12 months (August 2007 July 2008) determined by the consumer price index CPI, and determined by the Harmonized Index of Consumer Prices (HICP) is 6.6%.

Although inflation reduction was significant in the second quarter, it has progressed a relatively slow pace of the scale contraction of aggregate demand.

The relative persistence of inflation has been fueled by evidence of structural rigidities in the economy, the adjustment with a gap of the dynamics of relative wages to labor productivity in some sectors and the possible effects of high uncertainty.

In June 2009, compared to the corresponding month of previous year industrial production fell by 5.9% (as adjusted series, the index presents a decrease of 8.9%), due to the decrease of the three industrial sectors: mining and quarrying (21, 7%), production and supply of electricity and heating, gas, steam and air conditioning (5.2%) and manufacturing (4.9%).

In the first half of 2009, the current account of balance of payments recorded a deficit of 2.37 billion Euros, down 73.3% compared with same period of 2008. Influence on reducing the current account balance had a trade deficit, which totaled 2.96 billion Euros, down 67.2% from first half 2008.

The account deficit in the first half of 2009 was financed entirely by non-residents' direct investment in Romania, which registered 2.89 billion Euros, compared with 5.07 billion Euros in first six months of 2008. Compared to June 2008, exports decreased by 17.5% in value in euro, while imports decreased by 38.0%.

Commercial deficit FOB CIF in June 2009 was 668.3 million Euros, with 1.42 billion Euros less than in June 2008.

The estimates of the National Institute of Statistics, gross domestic product (GDP) decreased by 8.8% in second quarter 2009 compared to the corresponding period of 2008 and first quarter 2009 compared with 1.2% (data adjusted seasonal).

According to NBR, in 2009, the impact of global crisis on the national economy has grown substantially. For the first time after 2000, Romania has an economic growth in the first quarter of this year a negative annual debate of 6.2%, stressing compared with fourth quarter 2008, decreasing real GDP or below potential.

In the first half of 2009, implementation of the general consolidated budget recorded a deficit of 14.38 billion lei, representing 2.7% of GDP. Following correction of the August 2009 budget, the budget deficit by 2009 was set at 7.3% of GDP.

Unemployment rate registered in July 2009 was 6.3%, compared to 6% the previous month and 3.8% over the same month of 2008. Therefore, the total number of unemployed is growing, at the end of June 2009 was recorded in the county agencies a total employment of 572,562 people unemployed and the number of unemployed people has grown till march 2010 reaching 765 285. In the last 6 months (apr.2010-sep2010) the statistics available on A.J.O.F.M. show a slowdown of the total number of unemployed people with almost 68 000.

According to the National Commission for Prognosis, in 2010, the main macroeconomic indicators are the following:

- Gross domestic product is forecast to reach a value of 568.5 billion lei (135.4 billion euros) in 2010;
- Real GDP growth is expected to be 0.1 for 2010, gross value added in industry decreased from 1.3% in 2008 to 10% in 2009, respectively -- 3% in 2010;
- The average inflation rate is projected at 3.5% in 2010;

According to the International Labor Office estimates, the number of unemployed will drop slightly.

These financial data and forecasts made by the competent authorities in the field shape the image of a deep economic crisis that could endanger Romania's economic stability and, thereby, public order and national security.

3. Developments and trends in business firms

The main effects of the financial crisis, a reduction in exports, declining investment, including financial blockage have repercussions particularly on micro, small and medium enterprises.

Reduction of orders and lack of funding are the main problems faced by most small and medium enterprises (SMEs). In Romania there are approximately 600,000 registered small and medium enterprises and the financial crisis phenomena generated by the financial crisis fairly quickly extend across an increasing number of such large companies.

In a survey conducted by the National Council of Private Small and Medium Enterprises in Romania (CNIPMMR), in April 2009, was found that almost 50% of SME's are severely or very severely affected by economic and financial crisis and only 2% of companies do not feel effects of the crisis.

The survey conducted in the eight development regions of Romania showed that 23.53% of companies surveyed were affected "on a catastrophic level" of the financial crisis and 25.49% were very high affected.

Also, 36.27% of SME respondents sites recognized environmental impact of new financial and economic climate on their business and 11.76% of them said they conducted their business suffered only slightly.

Only 4% of companies have received state aid, although 70% of respondents said that they need aid in a very large extent and large.

Profile management and ministry officials predict that 30-40% of companies will go bankrupt due to the financial crisis.

Representatives of the sector estimates that over 90% of SME's in the country are affected by financial crisis and the solution for the recovery area may come from the adoption of legislation necessary operational emergency measures to support firms during the crisis.

From data collected by the Trade Register result that the number of companies suspended in 2009 is approximately the same as the registered companies, while in 2007, companies were suspended only 8.45% of those who have registered.

The proposed scheme takes full account of the specific current economic situation, will not seriously affect the domestic market and no level playing field for European companies and will not lead to actions detrimental to the Community.

By implementing the scheme referred to, is expected to maintain at least 20 000 jobs and boost the SME sector in the commercial circuit remaining at least 1 000 companies.

Aid measures provided for in this scheme are cumulated with aid not covered by the European Commission Regulation no. 1998/2006 of 15 December 2006 on the application of art. 87 and 88 of the Treaty establishing the European Community for de minimis aid for the same eligible costs.

If the company has already received de minimis aid before the entry into force of this scheme, the amount of aid received under the measure provided for in Section 4.2. the temporary framework and of de minimis aid received does not exceed EUR 500 000 from January 1, 2008 and January 31,2010.

4. Conclusion

Economic crisis, structural global phenomenon affecting the Romanian economy requires exceptional measures, which by the efficiency and timeliness of application, the effect of reducing its results and creates premises for building capacity to support SMEs to strengthen their capacity to overcome financial difficulties caused by the current economic context.

Promoting legislative solutions to support business in order to overcome financial difficulties and relaunch commercial circuit is part of the overall effort undertaken by the Romanian Government in the long term to boost competitiveness and innovation, attract investment, increase employment and improve working conditions for development of a competitive economy, in line with competitive conditions in Europe and globally.

In this context, and to create additional sources of funding to the operators, is proposed adoption of additional measures to help generate and maintain the pace of growth in the long term.

Being included in the package expressly crisis promoted by the Government, this measure is circumscribing aid targets set by the package, namely, recovery and boost growth, financing the economy, increasing liquidity and reducing financial block.

5. References

[1] Bal Ana, *Transformări economice regionale şi globale*, ALPHA MDN Publishing, 2009

[2] Bal Ana, „Opinii privind cauzele crizei financiare actuale", The Romanian Economic Journal , No 31, 2009

[3] Blundell-Wignall A., Atkinson P., Hoon Lee S., „The Current Financial Crisis: Causes and Policy Issues, Financial Market Trends", OECD, 2008.

[4] Mureşan Mihaela, "Arhitectura politicii de coeziune în contextul extinderii",.in Tribuna economică,v. 16, no. 45, p.82-84, 2005

[5] Onica Daniela, "Implementarea fondurilor structurale şi de coeziune în România", in Finanţe Publice şi Contabilitate Journal, v. 18,no. 6, p. 20-30, 2007

[6] www.bnr.ro

[7] www.ins.ro

[8] www.zf.ro

[9] www.wall-street.ro

Optimization Methods of Production Planning Process in the Context of Global Economic Crisis

Filip Florina-Cristina
"Transilvania" University of Brasov
cristinaflorinafilip@yahoo.com

Abstract

Reduction consumption to global level has affected populations around the world and first affected were exporters. All economic activity manifest retention in business and investment extension and some units have reduced production rate amid lower orders, especially for export. Period of economic crisis affected most industrial enterprises by registering a significant decrease for the number of orders received from customers, reason why enterprises have been forced to restrict the area of production activity and make some layoffs staff. This paper proposes an ample study on optimizations methods and efficient development of the entire technological flow and production process, products planning in the most optimal conditions and with qualified personnel, in order to obtain products to a higher level of quality, even on terms less favorable. So, is follow the identification, analysis, adapting and implementation efficient management methods and techniques specific of production systems, by which take place honoring customer orders on time, in quantity and on quality desired by them. For this it is includes all the process planning stages, since receiving orders from customers until final delivery of products.

Key words: reorganization, planning, quality, cost reduction, Supply Chain Sales**.**
J.E.L. classification: L23

1. Introduction

Hiring to accelerated economic development of countries with large populations (China and India approx. 1 / 3 of the world population) and economic development from Central and Eastern European countries over the last decade, have caused major changes in global economic system. Thus, have been affected the balance of energy markets, of raw materials, capital, workforce and the global ecological balance. Oil and gas price fluctuations, inflation, food industry crisis, financial markets crisis, reducing the pace of economic development in some countries, all these are aspects of a regulating or self-regulation phenomenon of a "more global" economy [1].

In Western Europe more strong companies have announced restrictions of production activities, as a measure to adapt to the current market turmoil. Countries of Eastern Europe, whose economies have recorded growth rates higher than those in Western Europe, have not escaped the effects of slowing global economy and demand for exports coming from the East European region, has decreased.

In Romania, the first economic sectors affected by crisis, are those related to exports, especially exports to the EU to which is goes around 70% of total exports. The automotive industry in Romania has been affected partly by the effects of economic crisis, largely directing the market by low cost cars. Automotive components productions developed in recent years in Romania for export to biggest manufacturers car, was strong influenced by reducing their production [7].

An internal survey conducted by the National Union of Romanian Employers (NURE) in late March 2009, show that small businesses are most affected by economic crisis. According to the NURE survey, 74% of small and medium entrepreneurs argue that the current crisis is caused by external conditions, while 26% blame the government for the lack of consistency in the application of economic measures.

The gloomy predictions on the economy have led most small employers to review their negative profit estimates for 2009, while only 18% keeping their estimates established in 2008 [10]. So, over 90% of small and medium enterprises (SMEs) in Romania are

feeling the economic crisis, more than half of them saying that sales were reduced by an amount between 20% and 50%. In order to combat the effects of the crisis, 36% of companies have reduced administrative costs, 19% have resorted to layoffs, while 15% of them have reduced activity.

In the first quarter of 2009, industrial production decreased by 13% in real terms, due to lower manufacturing by 15,2%. However, monthly developments show some recovery, in March industrial production was 21,5% above the level recorded in January 2009 and 21% higher than in December 2008. As a result, in March 2009, industrial production was only 8,5% below March 2008. In the first quarter of 2009, number of employees has been reduced by 1,8% from the first quarter of 2008.

Following of external demand reductions, in the first quarter of 2009, goods exports continued their downward trend recorded in the last quarter of 2008, decreasing by 19.4% over the same period of 2008, lower reduction that recorded in the first two months (-26,0%), following the exports decline in March to just 6,9%. Decreased production in January 2009 was 37% compared to October 2008. Thus, for industrial production indices, January was the minimum point in the evolution of production volume. This means a change, an inversion in evolution and a moment of conclusion a phase of industrial sector restructuring.

Since March 2008 the analysis conclusions of this dates, indicates a slowdown of industrial production evolution, with an emphasis on the decline in the last quarter. In this case, December 2008 become the minimal point. Starting with 2009, growth process from one month to another of industrial production volume is resumed, even if the increase rhythm is more slowly [8], [9].

2. Reorganization the technological production flow

In this paper, I analyses the reorganization module of production process by moving an entire technological flow from a production hall to another hall. For this I follow to create some manufacturing cells in the new production hall, consisting of three machines served by two operators. Thus, existing a continuous production flow by which is desired to reduce adjustment time of technological equipment and maximum reduction of transport time between operations.

This study was realized to the Company X, which in 2009 as a result of reductions of customer orders number, had to restrict his production area and make some staff layoffs in order to reduce the production costs [2]. Production planning process to obtaining products is made according to the customer requirements, raw material, required technology and delivery deadlines established through a permanent dialogue with external customers.

Achievement, implementation and completion the project of production process reorganization in order to honor orders on time even in less favorable conditions, is done a careful evaluation of raw material suppliers, a simplification of raw material management process, achievement the pre-development and innovation process, development product and proper equipment for workplaces.

2.1 Suppliers evaluation process

Process of suppliers evaluation is an important stage of re-planning process and of reduce production cost, by this pursuing the identification of those suppliers which offering quality products at reasonable prices. In offer process preparing the offers on established contracts, as a result of agreements that have reached, then are negotiate sales prices and delivery deadlines. They will be then approved and registered in process.

Offer process ensure:

- requirements on products are properly defined and documented, analyzed and sent to the customer, for confirm their before acceptance;
- different requirements classified before transmission the offer or ending the contract (changes related to interruptions, delivery deadlines and quantities, prices, delivery points).

In accordance with the standard "Supplier Agreement on Quality Assurance - Supplier Evaluation", the evaluation process is done quarterly because the results directly affect the requirement on quality management certification and of environmental management system made by third parties [4]. Also, is aims develop, maintain and

continuously improve of relationship with current and potential suppliers.

2.2 Production process

Within Supply Chain by production process is done a high production quality, with delivery deadline compliance and optimization of production cost. Requirements from the Supply Chain Sale (SCS) or the unfulfilled orders by external customers, are processed in production orders. After production process, the finished products are again transferred to SCS, for their receiving in finished product warehouse. From here result a unitary process with a economic and clearly defined interface.

For create and optimize the production flow sequence, to production planning and control system are taken into account the planning objectives and the production feedback. Materials and necessary resources to the production process are planned, purchased and made available for achieve the new technological flow. Long term requirements regarding operators and equipments are also taken into account for the new SCS planning [6].

Principal processes:

- production planning and acquisition planning process;
- development and tracking individual orders and the change of orders;
- development and transmission of row materials necessary for supply;
- receipting goods and production materials;
- production process.

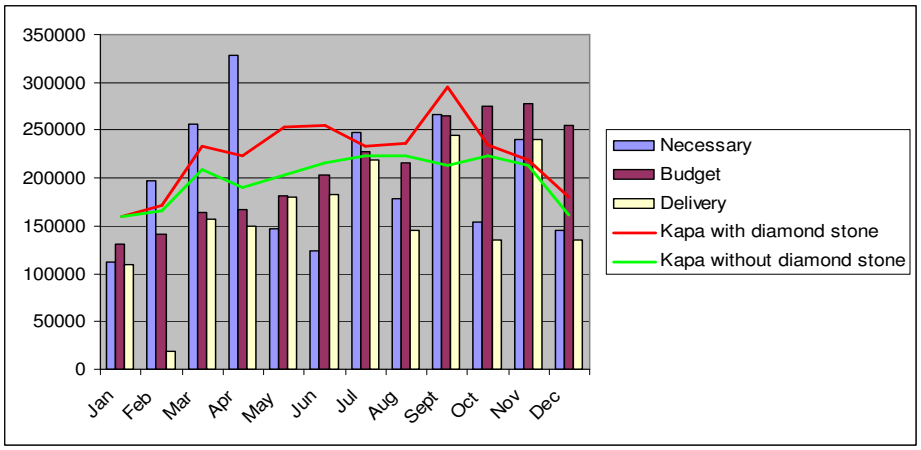
Based on customer orders and originally planned requests, with planning system (computer system) are generated the optimized applications for production planning stages and supply planning of row materials, in order to replenishment stocks or for their further processing.

2.3 Technological production process

Project of reorganization technological production flow, by moving equipments from a production hall to another hall, aims optimization and development of entire technological flow and production process, products planning in the most optimal conditions and with qualified operators, in order to obtain products of a higher quality level.

In old production hall, technological equipment were grouped into machines groups, reason for which wasn't existed a continuous production flow and exist losses regarding the adjustment time of machines. Also, some equipment were in another production hall and this thing lead to high transport time of parts between operations.

Figure 1. Orders existing for 2009



According to figure 1, are months when demands exceed working capacity of machines and thus can not be honored all customer orders. Also, there are months in which deliveries can not be all honored by various other reasons (such as technical malfunctions or other failures), which leads to delay regarding the parts delivery deadline, which must then recovered. Replacement the non-diamond stone with diamond stone device, leads to increase production capacity of equipment. For this reason, once with changing and moving the process flow into a new production hall, for technological

equipment will be used only stone diamond device.

Machines placement in the new production hall aims to achieve orders for 2009 according to the new technological flow, regarding manufacturing cells formation and using diamond roller for technological equipment. So, even in restricted conditions of production area and staff reduction, customer orders can be honored on established deadlines and in quantity they demanded.

3. Conclusions

The measures regarding reorganization planning process, have led to increasing transparency and improving control systems, balancing the production volume, cost reduction and compliance delivery deadlines of finished products, according with customer demands [5].

Production process optimized by budget time refers to:

- creation a continuous production flow achieved by manufacturing cells or manufacturing islands;
- continuity on machines loading and technology according the Just-In-Time and Kanban methods.

Also, the benefits can be evaluated by:

- operators number reduction;
- adjustment time reduction;
- minimizing of handling auxiliary time and transportation times.

Thus, it creates a continuous production flow by which is reduces the machines adjustment time and the auxiliary transport time between operations.

Based on information flow has been achieved:

- planning, production optimization and ensuring his deployment in optimal conditions;
- preparing the raw material orders, keeping the inventory of raw materials and of existing requirements;
- collaboration and maintaining relationships with suppliers of raw materials and logistics department;
- checking daily production, permanent actualization of production data and tracking production flow conducted in the new production hall;
- checking of worked number minutes and correct reported in the system, of compliant products, waste, daily analysis, intermediary stock analysis and achievement of production graphs;
- permanently collaboration and dialogue with customers in order to respect delivery date, according with orders requested by them.

Deployment process of technological flow in a new production hall and reorganization equipments by forming manufacturing cells, leads to getting products at a high quality and quantity level, according with external customer demands and to reduction of production costs.

4. Acknowledgements

This paper is supported by the Sectoral Operational Programme Human Resources Development (SOP HRD), financed from the European Social Fund and by the Romanian Government under the contract number POSDRU/88/1.5/S/59321.

5. References

[1] F. Tregenna, "The fat years: the structure and profitability of the US banking sector in the pre-crisis period", *Cambridge Journal of Economics*, Vol. 33, 2009, pp. 609 - 632.

[2] G. Militaru, *Production and Operations Management*, Publisher ALL, Bucharest, 2008.

[3] M. Dubey, "Global Economic Crisis: Response of the International Community", *India Quarterly: A Journal of International Affairs,* Publisher SAGE, Los Angeles, 2009, pp. 453–467.

[4] P. Nica, A. Iftimescu, *Management: Concepts and Applications*, Publisher Sedcom Libris, Iasi, 2004.

[5] R. Frenkel, M. Rapetti, "A developing country view of the current global crisis: what should not be forgotten and what should be done", *Cambridge Journal of Economics*, Vol. 33, 2009, pp. 685-702.

[6] R. U. Mendoza, "Review of Financial Stability Instruments for Emerging Market Economies", *CESifo Economic Studies*, Vol. 55, 2009, pp. 353–397.

[7] *** *Effects of global financial crisis on the Romanian Industry*, Accessed on 20/09/2010, http://www.ugir1903.ro/.

[8] *** *Over 90% of SMEs feel the economic crisis*, Accessed on 20/09/2010, http://www.efin.ro/.

[9] *** *Romanian Industry during the crisis*, Accessed on 20/09/2010, http://www.cnp.ro/.

[10] *** *SMBs in crisis: Rescue Solutions for SMBs*, Accessed on 20/09/2010, http://www.9am.ro/.

Risk and Uncertainty in the Banking Business Planning

Florea Dragoş
"Valahia" University of Targoviste
floreamdragos73@yahoo.com

Abstract

Risk analysis and its sources in lending is an area of great importance in lending activity. From this point of view on a prudential risk analysis has the effect of increasing performance, limiting the waste of resources and timely detection of any anomalies in the existing banking institutions. Successful management of risk requires the creation of internal risk control, the establishment and development of risk management procedures, establish cooperation relations with the department of control of banks and no the least the integration of analysis and risk control procedures in the financial strategy of the bank.

Key words: risk, detection, evaluation, control, finance
J.E.L. classification: G32

1. Risk and uncertainty in banking credit activity

The notion of risk is of great interest to all those involved in the business world, because proper management of risk leads to a greater degree of success. Risk management it doest mean to say no to everything, it helps people to say yes, taking into account those calculated risks. Everything around us is becoming increasingly complex and in the same measure it is important the need to understand and effectively manage the risk and very difficult to do this[4]. The risk is an effect of uncertainty over the organization objectives, in this case banking institutions[9]. This effect can be explained through a positive and / or negative deviation from the expected result.

The risk is a challenge for each banking institution, precisely because it can never be eliminated entirely from its operations. This challenge is undertaken differently by each banking institution depending on the behavior and the attitude toward risks.

Many times the risk becomes a complex economical category, difficult to evaluate and managed, especially since it is about operations in a banking environment.

Credit risk is the probability of not collecting the revenue on maturity, anticipated by the creditor(advanced capital plus interest [6].

Financial risks are related to fluctuations on the financial markets.

Of course the banks are more actively involved with financial risks, because they are directly related with the object of their operation.

Financial risks that banking institutions are meeting are market risk, interest rate risk, credit risk, operational risk, technological risk, currency risk, country risk, liquidity risk, payment risk, legal risk and insolvency risk.

Effective management of risk is essential for the performance of these Financial institutions [3].

Another approach of the risk is that one in which the risk can be viewed as " the inability of a decider to adapt itself on time and at lowest cost to the environmental changes[4].

From this point of view the risk of an investment made by a banking institution has as a main source the business climate instability and its inability to counter in time and without high costs the effects arising from this continue evolution.

The strategy of banking companies regarding the management of significant risks must determine the relationship between risk and profit that the bank considers it acceptable, in terms of ensuring continuity of banking activity on the base on prudent principles [7].

Experience proves that banks usually takes those types of risk that affect its balance sheet. Yet even these risks are not fully supporrted by the banks. Any bank will try to

eliminate or at least to mitigate risks to which it is subjected by using specific methods of protection against risk, risk transfer or business partners [8].

Uncertainty is a state or a situation of information deficiency on understanding or knowing an event with probability of occurring but also with consequences [5].

The uncertainty comes from the question of each individual to predict the results of their decisions. In this way the concept is exactly the opposite situation that decision is clear, this is the situation where the decision maker can anticipate its own future actions, nor those of others [2].

In the case of banking institutions, the uncertainty is caused mainly by environmental factors that influence its evolution and whose forecasting and control are difficult to achieve by the decider, unlike those factors strictly related on the characteristics of a business or technological process, for which the degree of predictability is higher.From this point of view that it can be concluded that the uncertainty has two components:

-Uncertainty objective, which is identified with the concept of risk. It identifies with the situation where some of the possible outcomes are known and most anyone involved in decision making are unanimous in predicting the probability of producing the same effects as identified by each of the data provided by previous developments.

- Subjective uncertainty, which can not be measured directly. It is the situation in which knowledge about the possible outcomes and the mechanisms that influence them are inadequate or missing and must be filled complete with analysis estimates each decider.

The relationship between risk and uncertainty and certainty is not a simple relationship, but a complex one. Unlike risk, uncertainty is described as a situation where the decision maker can identify all or none of this possible events to occur and the less the prediction of their occurrence, having mathematical significance of variable incompletely defined [1].

Uncertainty is more drastic than the risk and in most cases comes from the absence of information from its poor quality or because of some decision-maker's information system failures. The uncertainty of a business is given to those risks that can not be identified at a time, while the degree of risk is given the hazards identified. The more in the economic environment the weight of not identifiable is higher, the most uncertain is the purpose of actions undertaken[1].

From any angle would be seen working in a banking institution involve risks that may affect the performance objectives. These targets relate to all business processes, from strategic initiatives operations, processes and projects and are reflected in terms of strategic, operational, and financial as outputs or outcomes, impacts or environmental impacts.

As a structured approach to management of uncertainty and insecurity, the sequence of human activity defined as risk management include:

-Assessment, identification, analysis and evaluation risk

-Oriented and developed strategies for managing risk;

-Promoted procedures for reducing risk;

Risk management helps to formulate the most appropriate decision, taking into account the uncertainty and its effect on achieving objectives and argues the need for development and application of specific preventive and corrective actions in response to a financial institution management.

Risk identification is the process of search and discovery recognition, printing, characterization, grouping and recording the risk to be managed by banking institutions.

Defining components or elements that is associated with risk in banking institutions:
-Source of risk or chance, to follow the firm's objectives;

-The risks are related to facts which cause problems when they occur, various hazards or threats.

-The event or incident, something that occurs, occurs because the source of risk is related to the impact / result / natural consequence of the occurrence risk.

To summarize, the risk is a bank:

-Complex event with adverse consequences for the bank;

-And possibly uncertain future event that may affect the overall activity of a banking company.

Substantiation decisions of banking institutions under the conditions of uncertainty and potential risk requires deep knowledge and timely internal and external environment of banking activity.

Assessment of economic climate, financial, social and political in a certain period of time and surprise trends should be viewed in its double aspect:

-The right to receive possible dangers that may occur, and probability of possible damage to the level of aggregate phenomena.

-Beneficiaries of services including society as a whole, to know the consumer offerings for each of the services and costs required to meet human needs [5].

2. Sources of risk and uncertainty in lending

Risk identification is the process by which the organization continuously and systematically identify risks and uncertainties that are exposed.

"Bank risk is usually caused by bank customers who contract it some do not repay loans on time and are not covered by adequate guarantees, causing losses to the bank. As the risk can be caused by external competitive environment and banking company in which it operates "[5]

Practical the risk identification starts from identifying potential sources of risk. Any entity operates in relation to its environment action which include: customers, competitors, state employees, shareholders. The main sources of risk arising from contact with different environments:

-Natural Environment: One of the fundamental sources of risk comes from the natural environment (earthquakes, volcanoes, rain, flood). Natural events can not be controlled by any one of the operators involved in carrying out banking transactions being associated with major force and is clearly defined from the beginning since their initiation in the loan contracts. Risks arising from the natural environment are usually transferred to insurance companies.

-Social Environment: radical change of human behavior and institutional changes in social structures, value systems (strikes, social convulsions, civil wars), can cause substantial losses to the lending of banking institutions.

-Policy environment: any change in the political (elections, change the President) may be an important source of risk. The investments in a foreign country can be seized, government monetary and fiscal policies can affect a project. These risks are also subject to special insurance policies - such banks as Eximbank they can take these risks.

-Legal Environment: various existing regulations and standards in some countries can affect the activity of a certain country (property laws, accounting laws, legislation and capital transfers from abroad, legislation on imports and exports.

-Operating Environment: refers to the procedures established to ensure customer service in a cost effective manner. In this context both are important service offerings and management's ability to evaluate and control costs related to providing these services.

- Financial Environment: refers to the potential losses arising from changes in interest rates are bad on financial markets.

The risk arising from this environment is a risk that arises when it comes to fixed interest and interest when it comes to variable. This risk affects both lenders and borrowers in a credit relationship and cover or contractual clauses in the contract negotiation of credit) or contractual (through derivatives (futures, options, swaps) [4].

- The economic environment: it is strongly linked to political and refers to a number of issues related to barriers to entry or exit from a market. As a market involvement is even greater interest in economic matters is higher.

- The competitive environment is inherent in banking because most financial products offered on the market are offered by a bank and other financial institutions.

- Cognitive Environment: refers to the ability of managers to understand, to perceive and analyze potential sources of risk. But risk managers' experience and subjective way to predict correctly events that could affect our future decisions and they can increase the level of related risk.

Not to be forgotten sight of the fact that when we took a decision that involves risk and uncertainty of the time you have available is limited (time pressure makes us vulnerable to mistakes), the information we have available are not perfect and nor complete (we can not ever know everything no matter how many efforts we make in this regard), many events are outside our direct control [4].

3. Conclusions

The present paper wants to show the importance that has a risk analysis and its sources in lending activity, to ensure the financial health of any banking institution. But this requires that the financial regulations of the banking hold specifics of banking, as well as financial infrastructure available to a country. The basic purpose of any prudential regulation is to ensure protection of customers, shareholders and creditors of banks by defining an adequate level of bank capitalization.

4. References

[1] C.A.V. Gotcu, "Evaluarea si prevenirea riscului in activitatea de creditare - Metode Financiare", Tehnopress Publishing, 2008;
[2] H.H. Hoppe, "On Certainty and Uncertainty, in The Review of Austrian Economics", 1997;
[3] K.Kosmido and C. Zopounidis ,"Goal Programming Technigues for Bank Asset Liability Management", 2004;
[4] C. Paun and E. Radu ," *Gestiunea riscului in afacerile internationale"*, Universitara, Publishing, Bucuresti , 2009;
[5] M.A. Rădoi ," *Gestiune bancară"*, Editura Economică, Bucureşti, 2009;
[6] L.V. Roxin ," *Gestiunea Riscurilor Bancare,* Didactica si Pedagogica Publishing , Bucuresti, 1997;
[7] A. Socol, "Contabilitatea si gestiunea societatilor bancare", Economica Publishing , Bucuresti, 2005, p.455-456;
[8] T. Trenca, "Managementul riscurilor bancare", Casa Cartii de Stiinta Publishing, Cluj Napoca, 2005, p.439;
[9] I.Vişoiu and C.Rusu, "*Implementarea managementului riscului la nivel organizațional-ghid aplicativ",* Economică Publishing, Bucureşti , 2010

Cultural Influences on Management Ethics

Gavrilescu Liviu
Romanian Academy, Iasi Branch
liviu.gavrilescu@yahoo.com

Abstract

Managerial ethics, as a branch of applied Ethics, is a relatively recent approach to the management of the organizations, as an interference of the Philosophy with Economics, due to increasing awareness of the need of connecting managers' behavior and actions to the rules and moral values of society. These values differ in the human communities within society, the differences being caused by various factors of influence. The most important factor determining managers' behavior is the cultural factor, religion being the main provider of moral values and norms.

The paper presents an analysis on the influence of major religions of the West and East on the characteristics of major economies - the U.S., Europe, Japan, also a comparison between the main features of the philosophy of management in these regions.

Also, the ethical differences determine different views on the role and rationale of businesses. Classical approach, the idea of maximizing profit, precludes an approach to social responsibility of the company, that gain more ground, due to cultural interference and challenges of the modern business environment.

Key words: Ethics, management, values, culture, religion
J.E.L. classification: M14

1. The concept of managerial ethics

The last decades have strongly imposed into the public consciousness the importance of taking into account the ethical dimension of organizations' lives. Codes of ethics, ethics committees, ethics audits, ethics education for staff, techniques for creating an moral institutional culture - all these have become more and more widespread realities - among others for being politically imposed and, in many countries, they have received a formality and a legal force. It is true that their inclusion in the habits of people has not reached a spectacular level, but the process is in progress. "Institutionalization of ethics" is a new reality which is required to be analyzed, in order to find influences and models.

The ethical problem deciphered by the modern moral philosophy is the human satisfaction / dissatisfaction in the industrial and post-industrial society and also the problems of humans surviving in disadvantaged societies, struggling with underdevelopment, material and cultural poverty. Ethics and moral philosophy do not hesitate to reveal adverse effects on humans caused by fighting and fierce competition, by the spiritual and physical isolation and insecurity of peoples, and by international terrorism that threatens people from different corners of the world.

The term „ethics" has a dual sense: a) a scientific discipline of study covering rules of conduct governing relations between people, i.e. the science of morality, of right and wrong, b) the ensemble of rules governing human behavior in society - rules to be applied in life to practice good as opposed to evil - rules whose observance is imposed by force of habits established in society [12].

In management literature the term „ethics" is used in both above-mentioned directions, the distinction being made according to the context. Thus, ethics is understood either as "study of morals and rules of conduct" [10] or as "rules and principles that define good or bad behavior" [20].

Management ethics is a form of applied ethics, which refers to the conduct and actions of people with leadership positions in private and public organizations [11].

In the case of management ethics, too, cultural norms are values enshrined by tradition and education, their compliance

being imposed by the normal requirements of social life, as they are perceived by public opinion.

Managerial problems in which ethical issues may arise are: pricing, promotion of products on the market, conditions of work offered, product quality, reducing labor, relations established with suppliers, relationships that exist with the local community, environmental pollution, advertising ; promotion of staff (motivation), relations between employers and trade unions [9].

2. Religion, a cultural factor of managerial ethics

Most analysts and experts converge to highlight the crucial importance of environmental influences on the development of an organization. There is no doubt that between the ethical aspects of the social environment and various business concepts, management styles, education systems for leaders and followers and organizational culture in companies there is a close interdependence [8].

The most important factor in determining the ethical behavior of managers, the values on which it is based, is undoubtedly the cultural factor, influenced largely by the religious spirit. This criterion has an essential contribution to coherently explain the differences in the important economies of the modern world, the Western (which joins Europe and America) and the Oriental, especially Japanese, but more and more the economies of China and India.

Great ancient and medieval philosophers have stimulated the philosophical and moral meditation in Europe and Western space, which has never been totally separate from the Asian, Oriental space, marked by several current and ethics as important as those of famous Greek: Brahmanism and Buddhism initiated by the ancient Indians and, then, expanded in various countries of Asia, Lao Tzu Taoism and Confucius in ancient China. Good and evil are fundamental ethical values also for these philosophical and religious currents, conceived in the perspective of enlightenment (Nirvana), achieved by switching off any desire and by experiencing pain the whole way, when the soul acquires its full peace.

The ethical evolution mentioned above can be traced in the Bible, too, respectively, in the three religions intertwined: Judaism, Christianity and Islam.

Islamic moral philosophy is a rational synthesis between pagan philosophy (Plato and Aristotle in particular) and Muslim religion, linked to two other, Jewish and Christian religions.

The East remains a source of moral values stemming from contemplation and speculation, thus completing the moral values of Western characterized by activism and domineering spirit

For the issues addressed in this paper, the interest is accorded to the Christian religion and the religious philosophies of the Pacific Arc, especially in Japan. As regards Christianity, we will put an emphasis on Catholicism and its reformist currents that dominate the capitalist world. The Orthodox religion, perhaps the most tolerant and impregnated with mysticism, has never exercised a decisive influence on the economic development, since poverty on earth was considered the supreme virtue and condition of happiness in the eternal world. This attitude is reflected, in general, in all Christianity, but in time, both in Catholicism and (especially) in the reform currents have occurred new ideas and experiments of adaptation to the socio-economic developments.

In the West, the notions of "ethics" and "business" have been associated over time in different ways. If money remained suspect for medieval Catholicism from an ethical point of view, a moral businessman seeming a contradiction in terms, Protestantism has made it possible to reconcile ethics with business. Moreover, the Protestant work ethic has helped, according to Max Weber, the affirmation of capitalism [21]. He showed that Protestant asceticism is characteristic for the rationalistic spirit of Western capitalism. This asceticism consists of the cult of labor and of condemnation of laziness, begging and parasitism of any kind, and the moderate cult of wealth and money.

Catholicism is oriented towards the „other world", the eternal paradise, considering life on earth as an intermediate stage for the eternal existence. According to the Catholic teaching, Jesus Christ has established that the pope is the head of the Christian church, as the successor of Saint Peter. After the

ideology of Jesus, the poor and the disadvantaged were privileged in the next life, while the rich were not admitted into paradise. To a faithful Catholic it is generally undesirable, and not in God's grace to accumulate excessive wealth.

Beginning with the nineteenth century, a stream came known as social Catholicism, aimed at promoting economic and social reforms in the spirit of the Gospel. Currently, all European Catholic countries are in favor of social market economy, a social capitalism with a strong concern for the disadvantaged.

Lutheran Protestantism, following Martin Luther's reform (1488-1546), gives more importance to life on this world. Luther gave a high value to concepts like hard work, vocational pursuits, sense of duty and seriousness that are pleasing to God and make access to paradise, into the next world. Moreover, these concepts underlie the Protestant ethic. Many modern scholars see Luther's ideology in a fulcrum of modern capitalism.

The seriousness and hard work of the Germans and "The Dual Professional Educational System" are rooted in their Protestantism. The same qualities are specific to the Nordic countries (50% of the population of Germany and almost 100% of the Scandinavian embrace the Lutheran religion). Consideration to the underprivileged and the social component of capitalism are values of Catholicism.

Calvinist Protestantism, initiated by the French reformer Jean Calvin (1509-1564) is a solemn affirmation of the sovereignty of God, the only savior of men through predestination. According to the Calvinist ideology, human beings are - fundamentally - weak, helpless and they can not do anything against this evil and its consequences: non-admission to paradise. God alone, arbitrarily selects and predestines certain individuals to paradise. During the earthly life, those chosen by God achieve economic success and the others not; the predestinated are rich and the others poor.

Undoubtedly, the "ideology of predestination", resulting from the reformist ideas of Calvin, is the basis of hard capitalism in some western countries, especially the U.S. This ideology seems to be the philosophy of greed and selfishness, but some individuals' inclination towards unlimited accumulation of wealth should not be attributed only to the Calvinist reform.

Religions in Japan are four in number: Confucianism (in fact, not a religion), Buddhism, Shinto and Christianity, whose influence is split, without totally dominate the Japanese business environment.

Confucianism, with approx. 200-250 million followers worldwide, is more a philosophical and moral concept, due to the Chinese writer and philosopher Kong-fou-Tse (551-479 BC), which emphasizes the importance of morality and loyalty to others and believes that the answer to world problems is in the order, personal change for the better and development of a sense of human solidarity.

Buddhism, with approx. 450-500 million followers worldwide, is the name that designates the founder of this doctrine, Gautama, after he received the enlightenment in 525 BC (Buddha = the enlightened). Buddhist doctrine is a response to pain, which is identified with existence itself. To exit from the cycle of births and deaths (reincarnation theory) and to reach "nirvana", one should start by releasing the causes of suffering, that are the desires that press us every day.

Some fundamental concepts of Confucianism and Buddhism, like "harmony" and "self-improvement" have, even today, a strong influence on the population, including the industrial and business companies. They manifest through the spirit of cooperation, social responsibility, self-discipline, respect for others, especially to the elderly, mutual trust, meditation etc.

Shinto is Japan's own religion, dating before Buddhism (introduced in the late sixth century), which honors the deities - personifications of the forces of nature, the ancestors and the Emperor. Since the fourteenth century, Shinto turned into a nationalist movement. Separated by the state, in 1946, Shinto remained very influential in Japan.

A key characteristic of Japanese social climate and their specific culture is paternalism. Essentially, it consists of the Japanese tendency to focus on the group they belong, in the sense of protection, affection, discovery of its proper functioning needs, and engagement for life.

Psychologically, most Japanese have two families: one at home, the classical one, the other being the collectivity within the

company. Both have a vital importance to form a balanced universe in which their lives are conducted.

In Table 1 are compared (West vs. Japan) the behavioral criteria and the managerial attitudes towards them.

Table 1. Comparison between Western and Japanese management philosophies

Criterion	West	Japan
Objectives	Profit (quarterly)	Customer satisfaction (long term)
Company Results	Maximizing financial profit (short term)	Profit is a consequence, not an end in itself
Organization	Hierarchical, military style	Teamwork, self-organizing network
Employing staff	With experts, tough-type, winner	Multidisciplinary, team-oriented
Staff Dismissal	Easy, fast, without problems	Almost inconceivable
Management Development	Vertical	Extended in all directions, rotation of professions
Professional education, continuing education	As needed, short-term	Extended; provided long-term
Job description	Precise, detailed, limited	Vague, general, partial
Suggestions, proposals from staff	Trivial	Singular importance, the top priorities, incentives, motivation and reward
Wages, compensation, pay staff	Based on the work, by functions	Based on qualification, performance and skills of each individual
Motivation	Money, company status	Joint Vision (team, company, nation)
Planning	Either nothing or very sophisticated plans	Long-term strategic planning, but not detailed
Projects, strengths	Additional tasks in relation to the current	High prestige, quality, sufficient long-term resources
Collaborators assessment	Individually, depending on momentary interests	Especially in the group, in a spirit of assistance, in relation to team
Quality Control	Q.C. Department's responsibility	Priority no. 1. Each member of the company feels responsible for quality
Handling errors	The responsible (guilty) individuals are searched to be punished	Inquire about the causes of errors. Efforts to eliminate these causes. Opportunities for future lessons.

3. Differences in business philosophy

Undoubtedly, cultural differences, including religious, present in Eastern and Western economies, and mutual influences manifested especially in recent decades due to globalization, lead to two opposing views about the rationale of the firm: to one extreme the ultimate goal of the company is considered as to maximize profit (the classical approach), to the other, it is alleged that the company exists to promote the welfare of society (socio-economic approach).

Classical approach supports the thesis that companies exist to bring benefit to the owners (shareholders) or to reduce transaction costs. Among representatives of this approach is included, for example, Nobel laureate Milton Friedman. He assumes that currently most managers are employed as professionals, i.e. they do not own the business (separation between property and management), as such, their main responsibility is to manage the business so as to maximize the benefit of owners, the shareholders. And shareholders have, as Friedman, one concern: financial results.

After the same author, when managers decide to spend discretionary resources for "social goods", they undermine the market mechanism. Distribution of assets resulting from social activities will be ultimately paid, either by the shareholders (if profits are reduced, following additional costs with

"social goods") or by the employees (if wages are reduced) or by consumers (if the company's products prices increase, in the latter case, sales may decrease and, in extreme cases company will not survive).

Socio-economic approach considers that "profit maximization is the second priority of a company, the first is to ensure business survival." This involves the pursuit of broader goals than just maximizing profits. In this sense, several arguments are brought:

First, corporations are legal persons registered in a country and must comply with the legal and business climate in the country of operation. They are therefore not independent entities, responsible only to shareholders.

Second, the existence of the firm is not the short-term, as would result from the classical approach. Supporters of the socio-economic concept consider that managers must ensure the maximization of financial results on long-term, in which case they must accept certain social obligations (as non-polluting, non-discrimination, fairness to customers, etc.) and their associated costs.

Thirdly, the practice of modern companies stated that these are no-longer 'pure' economic institutions: they are involved in politics (lobbying), cultural and sports activities (sponsorship), supporting national and local authorities, etc., enriching the managerial ethics with the concept of "social responsibility".

One of the most famous businessmen in Japan, Konosuke Matsushuita (b. 1894, author of the Panasonic brand, founder in 1980 of The Institute of Matshushita School of Government and Management) speaks not of responsibility, but of the social mission of the company and show that: "The industrialist's mission is to defeat poverty, to liberate the society in general of poverty and bring wealth. Business and production are designed to enrich not only the respective company stores or factories, but the whole society "[14].

5. Conclusions

Empirical studies [20] show a positive correlation between the degree of social involvement of a firm and its economic performance, and the explanation of this result seems to be that social involvement brings a number of benefits that cover and exceed costs induced by it.

6. Acknowledgements

This paper was made within The Knowledge Based Society Project supported by the Sectoral Operational Programme Human Resources Development (SOP HRD), financed from the European Social Fund and by the Romanian Government under the contract number POSDRU ID 56815.

7. References

[1] M. Bosche, *Le Management interculturel*, Nathan, Paris, 1997
[2] M. Canto-Sperber, *Dictionnaire d'etique et de philosopohie morale*, PUF, Paris, 1996
[3] P.B. Clarke, A. Linkey, „Dictionnary of Ethics", *Theology and Society*, Routledge, London, 1996
[4] R.T. De George, *Competing with Integrity in International Business*, Oxford University Press, New York, 1993
[5] O.G. Drobnitki, *Noțiunea de morală*, vol. I, II, Editura Ştiințifică şi Enciclopedică, Bucureşti, 1981
[6] A.S. Eisenstadt, A. Hoogen-Boom, H.L. Trefousse, *Înainte de Watergate*, Ed. Politică, Bucureşti, 1989
[7] K. Fatehi, *International Management, A Cross-Cultural and Functional Perspective*, Prentice Hall, New Jersey, 1996
[8] L. Gavrilescu, *Selecția şi antiselecția managerilor*, Ed. Risoprint, Cluj Napoca, 2005
[9] Ş. Gönczi, „Etică şi bogăție", *Revista „Tribuna Economică"*, Bucureşti 1997
[10] R.M. Hodgetts, F. Luthans, *International Management*, The McGraw Hill Companies, Inc., 1997
[11] O. Hoffe, *Petit dictionnaire d'ethique*, CERF, Paris, 1997
[12] L.T. Hosmer, *The Ethics of Management*, Irwin, 1987
[13] G.Y. Kervern, *La culture reseau. Ethique et ecologie de l'entreprise*, ESKA, Paris, 1993

[14] K. Matsushita, „Not for Bread Alone. A Business Ethos", *Management Ethics*, PHP Institute Inc., Kyoto, Tokyo, Japan, 1984
[15] R. Munteanu, *Cultura europeana in epoca luminilor*, Ed. Minerva, Bucureşti, 1998
[16] N. Nistorescu, (coord.), „Mutații majore în economia mondială", *Centrul de informare si Documentare Economica, Caietul nr.l/1995,* Bucureşti
[17] I. Nitobe, *Bushido. The Soul of Japan*, Charles E. Tuttle Company, Tokyo, 1990
[18] K. Ohmae, *The Bordless World*, Harper Collins Publishers, 1991
[19] A. Puiu, *Management în afacerile economice internaționale*, Ed. Independenta Economica, 1996
[20] S.P. Robbins, M. Coulter, Management, Prentice Hall, International, Inc., 1996
[21] M. Weber, *Etica protestanta si spiritul capitalismului,* Ed. Humanitas, Bucureşti, 1993

The Statement of Changes in Equity and Financial Performance. The Necessity of a Global Performance Situation

Gâdău Liana
"Spiru Haret" University of Bucharest
lianagadau@yahoo.com

Abstract

For the presentation of an enterprise's performance, not only is enough information from the profit and loss account but also is necessary to detail the information about the incomes and expenses recognized directly in the equity and unrealized. This information can be found in the statement of changes in equity.

Because users are tempted to give greater importance to the profit and loss account than the changes in equity situation when they analyze the performance of an enterprise, there is a need for a unique financial situation to present the performance, a problem started and supported by two major accounting referential IASB and FASB.

Presently it is used the concept of comprehensive result, including a statement of comprehensive incomes, which represents the intersection of financial performance requirements of both the IASB and FASB accounting referential.

Key words: financial performance, profit and loss account, statement of changes in equity
J.E.L. classification: M40, M41

1. Introduction

The performance of an enterprise is reflected in the financial statements though the result indicator developed by the company during the activity period.

The exercise result can be determined either as a difference between incomes and expenditures found in the profit and loss account, or as a variation of the capital, excluding the transactions with shareholders. In the first case, the data reflect only the realized revenues and expenditures, which in the historical costs approach reflect the completely the enterprise performance, making insignificant the presentation of a statement of changes in equity.

The problems become more complex when historical cost is combined with various other valuation bases, generating the need for recognition in the financial statements of unrealized gains or losses. The changes in fair value of many balance sheet items do not appear in the profit and loss account but are directly recognized in equity. Thus, it appears the global approach of the result, according to which the result is generated by changes in equity during the period and is calculated as the difference between the net assets at the end of period and net assets at the beginning of period as expressed in fair values, the difference corrected with the capital transactions with owners.

The variations in the assets during the period are recognized in the profit and loss account, but the accounting reference permit in certain situations the direct recognition in the equity items.

We will present some examples in which the gains and losses do not cross the profit and loss account:

- Revaluation of tangible and intangible assets;
- Variations from the revaluation of financial investments;
- Variations of exchange rate resulted from the conversion of foreign entities' financial statements;
- Further evaluation of financial assets available for sale;
- Accounting policy changes and corrections of errors;
- Current and deferred taxation of profits.

Currently, the performance presentation cannot be achieved only through the profit and loss account but is required a situation which will detail that incomes and expenses recognized directly in equity and unrealized.

This situation is the statement of changes in equity, seen separately from the profit and loss account by IASB, while the FASB encourages an aggregate presentation.

The statement of changes in equity has as objectives:

- To calculate the total gains and losses resulting from business;
- To examine elements of these changes to assess enterprise performance and ability to generate cash flows.

To meet these needs, in order to present as complete the performance of business entities, the IAS 1 "Presentation of Financial Statements", includes into the set of financial statements a situation that must reflect:

- the net profit or net loss for the period;
- each item of income and expense during the period that is recognized directly in equity and all these elements;
- the incomes and expenditure of the period as the sum of the elements above, with separate disclosure of related party investors' interests and the minority party;
- the effect of changes in accounting policies and correcting errors in accordance with IAS 8 'The accounting policies, changes in accounting estimates and errors", for each component of capital;
- the values related to transactions with owners and distributions;
- the initial and final balance of accumulated profit or loss and changes in the period;
- the reconciliation between the accounting value of each class of capital and reserves at the beginning and the end of the period, with the distinct presentation of the changes each presenting.

The last three requirements can be presented in the actual situation and in explanatory notes, because they complete the information on changes in equity than those that generate the global result. Thus, the two models that illustrate the situation of changes in equity are:

- A more complex model that contains all changes in equity and
- A model that shows these changes in capital gains or losses that are recognized for the year. However, an explanatory note should supplement this model.

The model called "The situation of changes in equity" should include a reconciliation of the balances of each class of share capital, premium and retained earnings of each reserve at the beginning and end of each period, with details of changes origin. The situation called "The recognized gains and losses" include, apart from the result reported periodically in "The profit and loss account", all gains and losses recognized directly in equity (the pluses or minuses of revaluations, exchange rate differences). Also changes in equity resulting from transactions with shareholders (ex. in the form of issuance of shares, dividends and buybacks) and other movements in equity should be included in the Notes.

In terms of European Directives, they do not explicitly mention the requirement to submit a statement of changes in equity, but does not prohibit such a situation. More than a fourth of the EEC Directive allows the inclusion in the financial statements of any further presentations to the imposed requirements, as long as they are consistent and not in contradiction with the content guidelines.

2. The statement of changes in equity and financial performance

Currently, the concept of comprehensive income is expanding more and more, so we can speak of a statement of overall performance, which is one of the issues discussed by the two international bodies in convergence process, the IASB and FASB.

It supports more the idea that the result presented in "The profit and loss account" do not characterized this image of the company. Moreover, the financial statements should include the presentation of all transactions and events that characterize the effects of enterprise activity, including those that generate changes in equity, without transit through profit and loss account.

This raises the concept of comprehensive income that represents the changes in equity during a period arising from transactions and events other than those with the owners.

The changes that affect the equity of the company are now reflected in "The profit and loss account", and "The statement of changes in equity".

Because users are tempted to give greater importance to the profit and loss account when they analyze the performance of an enterprise, it is necessary to be drawn up a single situation that would reflect the financial performance.

In this regard, the International Accounting Standards Board IASB has published a project on this theme, suggesting a single model to present the financial position performance. The project is based on the objective of financial statements, as it is presented in the Framework of the IASB to provide information on company performance and financial position, and the elements that characterize the performance, costs and revenues.

The main proposals of the project are:

- The financial performance should be reported in a single statement and not in two or more;
- The single statement of financial performance should be divided into three components:

=> The results of operational activities (or commercial);

=> The results of financial activities and other treasury activities;

=> Other gains and losses.

- The category of extraordinary items should be eliminated and abnormal or extraordinary items should not be reported as a separate category of incomes and expenditures;
- The continuing operations results should be separated from the staple ones;
- The changes in the accounting policy should be reported and retroactively apply the new policy.

Many of these proposals were adopted after the 2004 revision of IAS 1 "The presentation of financial statements", but it was avoided the exposure of a global model for the presentation of the performance. Thus, the IAS 1 revised in 2004 kept the profit and loss account as a separate situation, which reports the results of all transactions that generate changes in economic benefits during the period, but completes "The gain or loss situation" which affect other elements of own capital, either in "The situation of changes in equity", or in "The explanatory notes".

At the same time, to join the convergence process, the International Accounting Standards Board IASB and the U.S. FASB began a project to find a joint solution for the reporting of comprehensive performance.

A short step in achieving this common project meant the 2007 revision of IAS 1, which came into force from 1 January 2009. Thus, the revised standard require that all items of incomes and expenses including those directly which affect the equity to be presented, preferably in a single financial situation called "The statement of comprehensive income." This situation will present two distinct components: "The profit or loss account" and "Other elements of the comprehensive income."

Now, following a review of IAS, "The statement of changes in equity "becomes mandatory, in which the "Other elements of the comprehensive income" which does not arise from transactions with owners are presented on a single line, as these other elements of comprehensive income are presented in detail in "The statement of comprehensive income."

3. Conclusions

In conclusion, in order to answer to all the demands of today's global information regarding the result, but also to the information about nature and destinations of expenses, it is necessary a situation of the integrated performance of the enterprise.

This situation must satisfy many requirements of the necessity of information on performance, namely:

- A detailed reporting on the outcome of ongoing operations and operations staple feature vision requirement of FASB and IASB taken in the IAS 1 'Presentation of financial statements";
- The presentation of cost classification by function, as well as by nature. In this regard in the model is included a main presentation of expenses by function and a secondary one by nature;
- The report of all changes in the results generated by the transactions and events relating to the business;
- The calculation and presentation of the indicator "Earnings per share".

4. References

[1] Bunget, O., "*Contabilitatea romaneasca intre reforma si convergenta",* Economica Publishing, Buc, 2005.

[2] Colasse, B., "*Fundamentele contabilitatii", translation* TipoMoldova Publishing , Iasi, 2009.

[3] Feleaga, N., Malciu, L., "*Recunoastere, evaluare, estimare in contabilitatea international*" CECCAR Publishing, Buc, 2004.

[4] Feleaga, N., Malciu, L., "*Contabilitatea financiara. O abordare europeana si international",* 2nd edition, Economica Publishing, Buc, 2007.
[5] Ionascu, I.,"*Tendinte internationale privind (de)reglementarea contabilitatii firmelor. Invataminte pt.Romania"* CECCAR Publishing , Buc, 2003.
[6] IASB, "*Standardele Internationale de Raportare Financiara ",* CECCAR Publishing, Buc, 2009.
[7] Jianu, I., "*Evaluarea, prezentarea si analiza performantei intreprinderii. O abordare prin prisma IFRSurilor"*, Ed. CECCAR, Buc, 2007.
[8] Nobes, Ch., Parker, R., "*Comparative International Accounting"*, FT Prentice Hall, 2008.
[9] Revsine L., Collins, D.W., Johnson, W.B., "*Financial Reporting and Analysis"*, third edition, Pearson Prentice Hall., 2005.
[10] Ristea M., Dumitru, G., *Contabilitatea societatilor comerciale*, Vol.I and Vol.II, Universitara Publishing, Buc, 2009.
[11] Ristea M., Olimid, L., Calu, D., "*Sisteme contabile comparate"*, CECCAR Publishing, Buc, 2006.
[12] Stefanescu, A., "*Performanta financiara a intreprinderii intre realitate si creativitate"*, Economica Publishing. Buc, 2005.
[13] Tabara, N., Horomnea E., "*Contabilitate international"*, TipoMoldova Publishing, Iasi, 2010.

Trends of Accounting Information Use for Managerial Decisions Making

Georgescu Cristina Elena
"Ovidius" University of Constanta, Faculty of Economic Sciences
cristina_georgescu95@yahoo.com

Abstract

This writing is proposing to study the way and degree the accounting information is understood, analysed and used by managers of the companies located in Constantza County in their decisions-making.

Presently due to the latest years economic development cumulated with the globalisation phenomena it is noticed a conspicuous growth of information necessities. Managers are using a large volume of accounting data and information in order to substantiate their decisions-making.

Key words: accounting information, managerial decisions.
J.E.L. classification: M41

1. Introduction

In our era the entities are continuously confronting with some changes generated by globalisation, technical progress, access to information.

Management of the entity and settlement of the multiple matters occurred within the production and economic-financial activity permanently imply advanced scientific decisions making.

Within the economic activity in order to make a decision it is necessary a thorough knowledge of some data and deeds that should substantiate it and conferring this one a justification and a sense. In present conditions characterised by a large volume of information and growth of complexity of the economic problems it is imposed the separation of the information from decision, the two ones reciprocally conditioning each other viewing to achieve efficient actions of the management and organisation of the economy.

2. Information and accounting decision

Information represents the most valuable product of the activity carried out in the financial accounting field and, considering the primordial role in decisions-making, this one is the element of which quality makes that success of an entity in the market to depend on.

Information gets value if it is used in the decisions-making process and elaboration. This one is a raw material involved in all activities of the entity and, concomitantly, an inevitable product of any labour process. Within the informational system, information is considered a necessary condition for economic phenomena knowledge viewing to substantiate the current, managements and strategic decisions.

Elaboration of a correct decision is depending on quantity and quality of information supplied by the accounting informational system. Value of information is depending on its impact on future decisions.

Generally managers follow a certain decisional model in order to choose between different directions of action. A ***decisional model*** is a formal method used for making a choice and often presumes quantitative and qualitative analysis, too. Management accountants collaborate with the managers analysing and presenting relevant data that will guide their decisions.

3. The research regarding the opinions and attitudes of the managers regarding accounting information collecting, analysis and utilisation in decisions making

This writing is proposing to study the way and degree the accounting information is understood, analysed and used by managers of the companies located in Constantza County in their decisions-making.

During the research the opinion survey has been chosen as a method of obtaining the primary data. This involves the existence of a

questionnaire and consideration of a representative sample of population.

Performance of this survey involved mailing of the questionnaire forms to a sample of short-listed respondents. They filled in the forms and mailed them back. There were selected 400 managers of limited liabilities companies, stock companies, collective companies avoiding authorized individuals and family associations due to the premise that the latter ones are not basing their activity on accounting information and reports. The questionnaire is including 29 closed questions with pre established answers alternatives.

We randomly selected 400 entities with the headquarters in Constantza, we wrote them letters regarding this research and mailed to the respondents together with the questionnaire. 352 managers of selected ones answered to us this meaning a percentage of about 88%.

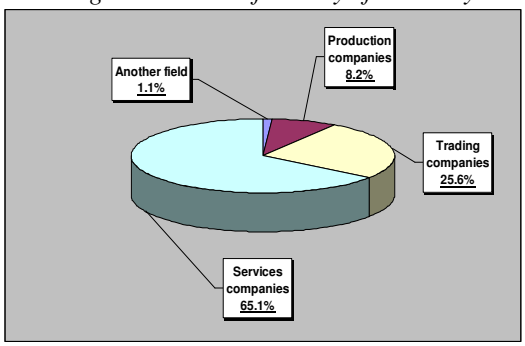
This study is a pilot one. By this empirical research I was going to collect information from managers acting in small, middle and large companies covering all large fields of activity (production, trading and services). Due to the fact that answers rate was not of 100% - this being one of the limits of the opinion surveys performed on mailing basis - collected information mainly refer to the managers of the small and middle entities.

In order to analyse and process the statistical data I used the statistic analysis program SPSS.

3.1. General information about respondents

The first question was referring to ***the field of the activity of the company*** of which manager was interviewed.

Figure 1: Field of activity of the entity

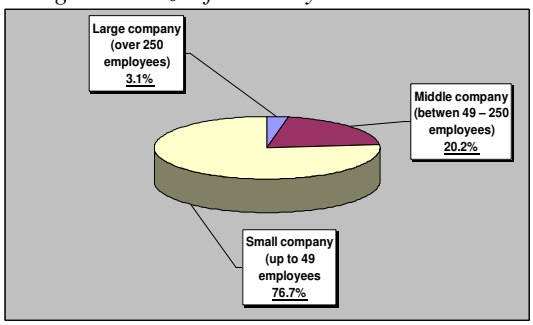


Out of the 352 received answers it can be noticed that services companies prevail this meaning 65.1% and then trading companies follow with 25.6%. The companies performing their activity in the production area represents about 1/10 of total.

Structurally approach of the size categories of the companies was achieved by considering the criteria of the number of employees.

The answers were grouped as follows: small company (up to 49 employees), middle company (between 49-250 employees), and large company (over 250 employees).

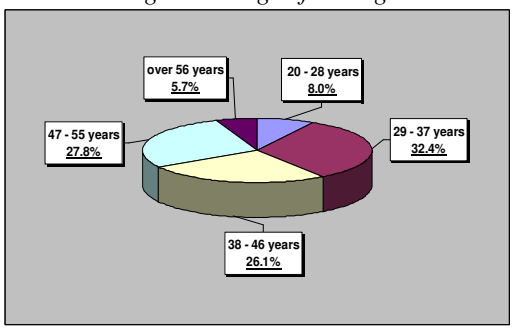
Figure 2: Size of the entity



Analysing the information from the above chart it results that great part of the interviewed managers are carrying out their activity in small and middle companies.

The last aspect concerning general information about respondents referred to the appraisement of ***the average age*** of the interviewed participants .In this respect we issued age intervals (between 20 and 28 years; 29-37 years; 38-46 years; 47-55 years and over 56 years) asking the respondents to choose one of the five possibilities. Conclusions are presented in the following graph:

Figure 3: Age of managers



Majority of the managers of the sample (86%) are between 30 and 55 years. Thus if we group the intervals we may state that 40.4% of these have the average age between 20 and 27 years, 53.9% between 38 and 55 years and only 5.7% over 56 years.

We can conclude that managers are concentrated around the age of 30 years and over, professional experience being one of the main qualities of a manager.

3.2. Accounting information

We intended to find out ***if the accounting information is used or not for decisions substantiation.*** All 352 interviewed subjects stated that they are using the accounting information in their activity. We have to specify that respondents were selected thus to avoid small traders, stalls managers, family associations or authorised individuals as these considerably do not base their activity on accounting information.

The answers to this question were thus codified: 0-not at all, 1- little, 2-much, 3-very much and cases of non answer/ I do not know were expelled of the analyses. The average value for the sample is 2.08(standard deviation: 0.83), possible maxim value being 3. Data show that ***managers are much using the accounting information*** in their activity.

Contingency tables show that ***frequency of accounting information use is influenced by the age of the managers*** (χ^2 = 20,794; p <0,001). Whilst the majority of very young managers (with ages between 20 and 28 years) rarely use the accounting information, the greatest part of elder managers and probably with more managerial experience are using much and very much the accounting information. All interviewed managers over 55 years declared that they use (very) much the accounting information.

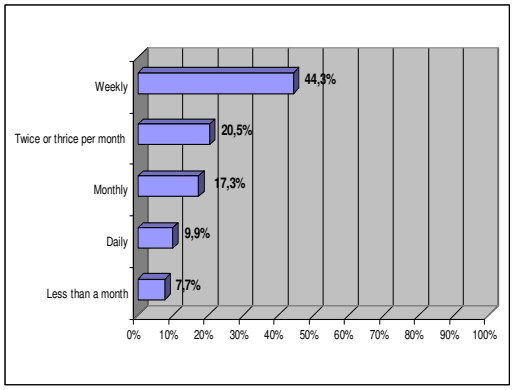
Table 1: Frequency of accounting information use

Frequency of accounting information use	***The age of the manager***				
	20-28 (n=28)	29-37 (n=114)	38-46 (n=92)	47-55 (n=98)	56+ n=20
Little	52,9%	20,0%	11,1%	14,3%	
Much	23,5%	56,7%	66,7%	42,9%	50%
Very much	23,5%	23,3%	22,2%	42,9%	50%
	100%	100%	100%	100%	100
χ^2 = 20,794; df = 8; p <0,001					

Thus it is found that ***frequency of accounting information use varies according to the age of the manager***.

Then we questioned the respondents regarding ***the frequency of utilisation of the accounting information in management activity.*** Managers are using the accounting information more or less depending on the purpose they are considering: information, planning, budgeting, control, assessment, current administration, forecasting, analysis or decision-making.

Figure 4: Frequency of accounting information use



A percent of 44.3% of the interviewed subjects are using the accounting information weekly, 20.5% of these twice or thrice per month and only 9.9% daily. It may state that ***accounting information use frequency is high***.

We wanted to find out which of the ***information contained in the accounting reports are considered by respondents as being useful and which of them are used more frequently***. Answers to this question depend on the objectives of the entity and the profile of the activity carried out by the entity in which the manager is acting. Although the question addressed to the managers is strictly referring to financial information, managers specified that they are using too non financial information .It was found that they do not distinguish very well the financial information from the non financial ones.

Figure 5: Accounting information frequently used

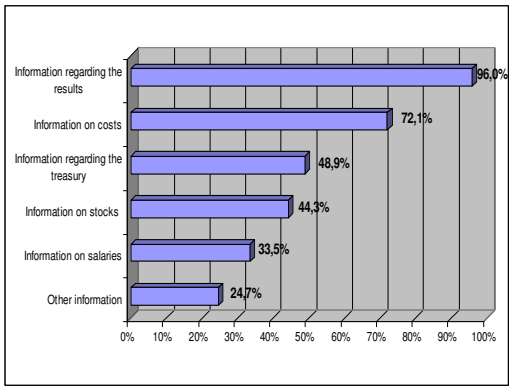
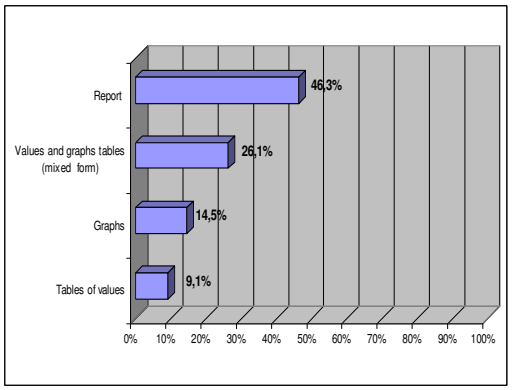


Figure 6: Form of presentation of the accounting information



It is noted that the majority of the managers frequently use the information regarding the results (96%) and only 1/3 those concerning salaries. Also information on costs is the most specified by a great part of the managers (72.1%).

This question offered to respondents the possibility of specifying other types of information frequently used in the managerial activity. A quarter of these mentioned that they are using, too other information than those specified as pre established answers.

In conclusion managers are using in their activity the following types of financial and non financial information:

a) information regarding the results;
b) information on costs;
c) information on stocks;
d) information regarding the treasury;
e) information on salaries;
f) other information regarding taxes and duties; suppliers and customers; entity gains and losses; suppliers and competition; customers and turnover; daily report of sales, inventory, utilisation of production capacity.

There are certain categories of managers who do not distinct well the financial information from the non financial ones, these claiming to their accountants to provide reports that contain information that can not be expressed in monetary units.

3.3. Accounting information used for management decision making

Firstly we wanted ***to identify preferences of managers for a certain presentation form of the accounting information in order to make decisions.*** Answers to this questions generated the following results:

Analysing the information it results that managers prefer that accounting information to be presented under the form of a report (46.3%) this one offering additional information in comparison with other presentation forms including comments and detailed descriptions of the figures presented in tables and graphs.

We asked respondents to express the ***appraisement degree of importance paid to reports updating with the inflation index.*** In this respect we made up a scale with five levels from 1 –completely not important up to 5-very important. Reports updating represents a very important action for 14.5% of the respondents and important for 58.2% of these. 10% of the respondents do not have a clear opinion regarding reports updating. High average value (3.75; standard deviation = 0.76) proves that generally ***managers perceive importance of the accounting reports updating with the index of inflation.***

We asked the respondents to express their opinion regarding ***importance of accounting information in forecasts issuance***. Answers were codified from 1(useless) to 5 (very useful) and the " I do not know" answers were expelled of the analysis. Possibility of issuing forecasts on basis of the information supplied by the accounting reports is considered a very useful action by 19.0 % of the respondents, useful enough by 25.3% and useful by 47.7% of these.

The average value for the total sample is 3.58 (standard deviation: 0.83), maxim possible value being 5. Data prove that managers consider that accounting information is generally useful and very useful.

Table 2: Age of managers and appraisement of importance of the accounting information for forecasts

Perception of importance of the accounting information for forecasting	***Age***				
	20-28 (n=28)	29-37 (n=114)	38-46 (n=92)	47-55 (n=98)	56+ (n=20)
Very useful	11,8%	33,3%	44,4%	50,0%	58,3%
Useful enough	76,4%	26,7%	29,6%	35,7%	41,7%
Useful	11,8%	36,7%	18,5%	14,3%	
Not very useful		3,3%	7,4%		
	100%	100%	100%	100%	100%
χ^2 = 23,792; df = 12; p <0,05					

Contingency tables show that ***perception of importance of the accounting information for forecasting is influenced by age of managers*** (χ^2 = 23,792; p <0,05).Whilst majority of very young managers (with ages between 20 and 28 years) considers that accounting information are useful enough for forecasts ,majority of elder managers considers the accounting information very useful for forecasts issuance. It is found out that percentage of those who consider the usefulness of the accounting information for forecasts increases in accordance with the age.

4. Conclusions

In order to have as result a well substantiated and timely decision every decisional process has to collect, process and interpret a bigger information volume in a time increasingly short. Role of the manager is that of knowing when and how to use information offered by the financial accounting, marketing and human resources departments and guide the resources and actions of the entity towards favourable occasions purposing to achieve significant economic results.

Majority of interviewed managers are carrying out their activity in small and middle entities of which the predominant field of activity is that of services followed by trade and production.

Most of the respondents are focused around the age of 30 years and over, professional experience being one of the main qualities of a manager.

The final conclusion is that although managers use the accounting information in their activity and consider it useful, the fiscal and accounting system is rather heavy, rigid and that is why they analyse and consult only the accounting reports that prove to be useful for them and have a more accessible, concise and clear language. The opinion is that information presented in the standardized accounting reports is numerous and it is difficult to select the necessary ones. There are requested distinct reports with selected information just for their own needs.

5. References

[1] Atkinson, A.; Kaplan,R.; Young, M., *Management accounting*, Fourth Edition, Pearson Prentice Hall, 2004

[2] Cătoiu, I. and collective of authors, *Marketing researches,* Uranus, Bucharest, 2002

[3] Collier, P., *Accounting for Managers – Interpreting Accounting Information for Decision-making*, 2nd Edition, John Wiley & Sons, London, 2006

[4] Diaconu, P., *Management Accounting & Business Plans*, Economic, Bucharest, 2006

[5] Doyle, P., *Marketing Management and Strategy*, 2nd Edition, Prentince Hall Europe, London, 1998

[6] Horngren, C.; Datar, S.; Foster, G., *Cost Accounting: A Managerial Emphasis*, 11th Edition, Pearson Prentince Hall, 2003

[7] Turban, E.; Aronson, J., *Decision support systems and intelligent systems*, Prentice Hall International Edition, 2000

Necessity of Risk Management Systems Implementation in Air Transport

Gheorghe Camelia Monica
Sebea Mihai
Romanian-American University of Bucharest
gheorghe.camelia.monica@profesor.rau.ro
sebea.mihai@profesor.rau.ro

Abstract

In a time when business uncertainty is highest in the airline industry, risk management strategies have become vital to the executive committee of the airline and airport managers. Risk management process involves the fact that organizations overcome unforeseen situations and achieve the maintenance performance and customer growth, profits, benefits etc. In other words, it's competitiveness by prioritizing risk management strategies. Currently, risk management strategies deviating significantly from traditional ones in terms of both major elements and as one of the objectives, scope, focus and application.

Key words: tourism, air transport, risk management
J.E.L. classification: L 83

Air transport is the sector with one of the fastest growing global rate, this situation being illustrated by tripling of demand in the period 1980-2000 and also being estimated of doubling it by 2020 compared to 2000. This highlights the importance of air transport industry in the context of modern life; no one could imagine a world without air travel today, especially considering that the benefits of links with all regions of the globe through its network of air routes have increased significantly, both in terms of access and economy of time, and of economic perspective, security and safety.

From an economic perspective, air transport is essential for business and tourism. It creates jobs and facilitates international trade by allowing expansion to new market opportunities. Also, it attracts investment to locations, from developed areas, thus satisfying the mobility requirements of a growing segment of the population. At the same time, it facilitates the transport of goods and services quickly over long distances, providing economic opportunity and social participation by outlying communities.

From a social perspective, air transport form an unique, global transportation network, connecting in a safe and effective way individuals, countries and cultures. It is now becoming more accessible to a large number of people who can afford to travel by air as the holiday or for business reasons.

In terms of relationship with the environment, air transport has made great strides in reducing the negative impact by improving fuel consumption, by reducing noise and introducing new technologies.

For strategic and operational objectives, the airline industry (both airlines and airports) needs a proper management, which must consider a variety of subareas and working techniques. Obviously, in this structure, risk management should occupy a central place, given the vulnerability of air transport and diversity of risks, and, last but not least, their impact. Thus, in developing a risk management system, must take into account the financial criteria, the criteria for environmental and social issues as sustainable development indicators.

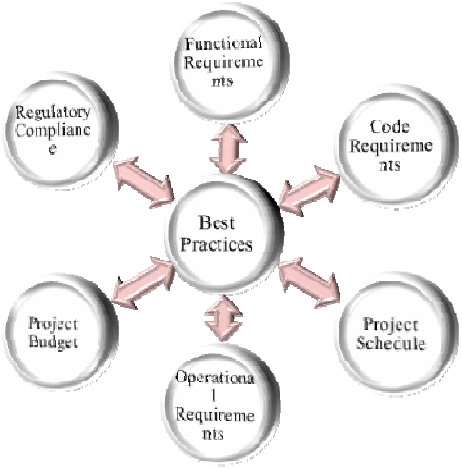
The economic environment in which airlines and airports operate, and related operations within the industry experienced structural changes in recent years. At present, both airlines and airports, acting in a highly competitive environment, facing many risks, operating on the basis of safety and security standards very well defined, in cooperation with the authorities, are characterized by low profit margins and high fixed costs and are highly sensitive to cyclical changes in economic and political area, as well as those caused by seasonality.

However, competition in the sector is very intense, and lowering the average tariff of travel tickets became significant as a result of increased transmission capacity and market changes.

In terms of airport activity, to meet new requirements, it must develop and implement models, codes of practice to capitalize the existing opportunities in the activities of the airport. Such a model, aimed at risk management, was implemented by the Dallas Forth Worth International Airport - USA and is based on the interdependence between the functional and operational requirements, airport code compliance and regulations and the establishment of a program and a project budget (see fig. no. 1.1.). In turn, all those requirements are converging towards the use of best practices of environmental risk management, of strategy and the community involved and are set according to a set of values to develop the airport, profit management, energy management, fleet management, information technology, public safety, customer service, airport operations, financial service and marketing, human resources, procurement.

The model highlights the best practical solutions and it is a dynamic balance between environmental issues, social and economic. Moreover, it contains an important section devoted to environmental sustainability, considering that the success of the action taken depends on the strengthening and preservation of the airport, but also those of employees and the entire community participates in the conduct of business.

Fig. 1.1. The risk management practices for operations in the DFW airport



Source: Adapted after A. Kucuk Yilmaz, *The Best Enterprise risk management Practice for Airline and Airport Business*, VDM Verlag, Saarbrucken 2008, p. 96.

Among the most important initiatives that the management team of the Dallas Forth Worth airport has adopted through the risk management practices on the environment include: passive lighting, reducing emissions, increasing indoor air quality, LEED (Leadership in Energy Design and Environment), etc.

Airline industry is now in a position to experience adverse financial results due to the evolution of the international economy, and they generate, in turn, essential changes in the whole area. The terrorist attacks of 2001 had an overwhelming impact on the operations of the industry and increased the risks of future attacks; military involvement in Iraq, the Middle East or other regions of conflict has had negative effects on transport; rising oil prices also reflects negatively on airlines activity; factors which cannot be controlled (such as natural conditions), congestion at airports and increased security measures may affect operating results and financial terms of changes in government regulations (which impose requirements and additional restrictions) and increases operating costs and hence may result in delays and disruptions of service.

In these circumstances, many airlines are unable to compete with those with upper financial power and respectively with lower operational costs. As a consequence of these developments, insurance costs have increased substantially, and the emergence of other adverse events is an additional reason to increase them.

After the terrorist attacks that struck the United States of America in 2001, many airlines have adopted preventive measures. Thus, Delta Air Lines has launched a risk management strategy. The team that has dealt with this project has made a map of the fundamental risks that may affect the operations of the major business segments: financial, operational, quality, legal, security, human capital, technology, politics and reputation. According to the team, risk management system (RMS) created reflect the culture and behavior and was able to lead to decisions to achieve measurable results.

Moreover, the new RMS was a prerequisite for the survival of the company.

Aon Company and publication Airline Business has developed a risk management study on air transport at the end of 2006. Taking into account 60% of the best 200 international airlines (the main criterion is income), this study provides an overview of developments in risk management over time. Companies involved in the study were the proportion of two thirds of major national operators ("major carrier" and "flag carrier"); it also were widespread geographically in the entire world, almost one third were from Europe and about ¼ from the Asia-Pacific Area and North America.

Regarding the results of the study, the proportion of organizations that have recognized the need to have a risk management strategy has increased from 67% in 2005/2006 to 86% in 2006/2007. Also, the period should run strategy decreased from 3.3 years in the first period to 2.5 years in 2006/2007, which showed a rapidly evolving industry and at the same time recognizing the need of flexibility to take advantage of opportunities on the extent of their occurrence. Similarly, the number of organizations with risk-based strategies to run for longer than 4 years decreased from 39% in 2005/2006 to 14% in the next period, almost three quarters of operations taking advantage of the interim strategy. Following the development of market profile, risk management budget for the same period fell from 2.1% to 1.6% of total revenues in 2006/2007.

Table 1.1. Evolution of airlines perception about RMS

The need of RMS	67 %	86 %
Length of RMS	3,3 ani	2,5 ani
Percent of companies with a RMS >4 years	39 %	14 %
RMS budget share	2,1 %	1,6 %
Perception about increasing costs of RMS	44 %	31 %
Perception about decreasing costs of RMS	21 %	35 %
Expenses covered by insurance risks	70 %	60 %
Maintaining the level of risk	68 %	74 %
Maintaining a high level of risk	8 %	4 %

Source: Made by the author after www.aon.com, www.flightglobal.com.

At the same time, the survey revealed a lower dose of pessimism of respondent companies in the direction of risk management systems. Thus, if in the range 2005/2006, 44% of subjects said they expect a cost increase of RMS in the next period, their share fell to 31%. Similarly, in the first period, only 21% of respondents expressed the view that these costs will fall, one year later, their share stood at 35% level. This shows that in the second study were involved a larger number of major and national carriers, given the insurance market trend for airlines to establish a scale of rewards. It is interesting that the proportion of total expenditure on the risks covered by insurance dropped from 70% to 60% between 2006/2007, representing nearly 40% of the compulsory insurance. The study revealed the fact that the attitude towards risk is generally unchanged from one year to another. If the first time 68% of respondents said they are satisfied with maintaining the level of risk in the following year, their share reached 74%. However, the percentage of respondents that can withstand a higher degree of risk decreased from 8% to 4% between the two studies.

In addition to matters relating to the need to implement a risk management system and its related issues - costs, benefits, etc. - study also revealed a hierarchy of types of risks. Thus, environmental pollution has become one of the most important factors regarding the requirements of future risks (6th place in 2005/2006 study). Also, virtual crime was positioned in second place and in third place - business failures. Priority risks changed slightly from one period to another, next year the first three places are occupied by aircraft accidents and damage caused by war or terrorism, but also on the property. The level of charges kept busy place during the first trial, while transparency has declined in importance as the financial strength and quality.

The results demonstrate the value of performing in-depth survey of consultants and reveal the importance of risk management issues and insurance brokers who adapted their offer to the requirements of air transport market, providing a range of services that only a few years earlier did not exist.

Risk prevention remains on a top position in the development strategy of airlines. As

the latest research in the field shows, airlines spent more than U.S. $ 8.36 billion annually for risk management, 70% of this amount (or 5.86 billion) heading towards insurance companies. At the same time, the additional security has been considerably reduced in spite of expectations generated by the tendency of growth and risk diversification. As a result, experts link this risk to the financial fragility of the air transport sector, along with terrorism and the risks that directly affect the operational framework.

It may say so, that increasingly complex economic environment, growing care for the natural environment, amplifying the negative events and not least economic and financial crisis we are going through today, highlights concerns prevention and mitigation of risk and hence the adoption of risk management systems as integral elements of corporate management strategies that evolve in air transport.

References

[1] Gheorghe, C.; Ciuchete, S. (2010). Risk characteristics and their impact on tourism industry, *Ovidius University Annals*, Economic Sciences Series, Volume X, Issue 1, May 2010, pp. 67-71, ISSN 1582-9383;
[2] Gheorghe, C.; Sebea, M. (2010). The Economic and Social Benefits of Air Transport, *Ovidius University Annals*, Economic Sciences Series, Volume X, Issue 1, May 2010, pp. 60-66, ISSN 1582-9383;
[3] Kucuk Yilmaz, A., The Best Enterprise risk management Practice for Airline and Airport Business, VDM Verlag, Saarbrucken 2008;
[4] Laws, E.; Prideaux, B.; Chon, C.S. (2007). *Crisis Management in Tourism*, CAB International, London, Great Britain;
[5] www.aon.com;
[6] www.flightglobal.com;
[7] www.iata.org;
[8] www.icao.int.

Succinct Study on the Effects of the Global Crisis over the World's Social, Environmental and Business Prospects

Gheorghiu Anda
Gheorghiu Anca
"Hyperion" University of Bucharest
anda.gheorghiu@gmail.com
anca.gheorghiu@gmail.com

Abstract

The global financial crisis which emerged in developed countries has spread to the developing world. Forecasts of growth in developing countries have been downgraded a lot and questions remain as to how profound, for how long these problems will broaden which countries will be affected more than others, and what are the means through which this might work?

In these times of global depression, most countries and companies are affected, some more than others. The financial crisis is turning out to be much deeper and broader than expected. This paper underlines what is the outcome of the financial crisis on the global economy and synthesises the main opportunities for companies in these unstable years.

Key words: crisis, unemployment, developing countries, bailouts
J.E.L. classification: E20, E24, E27, O11

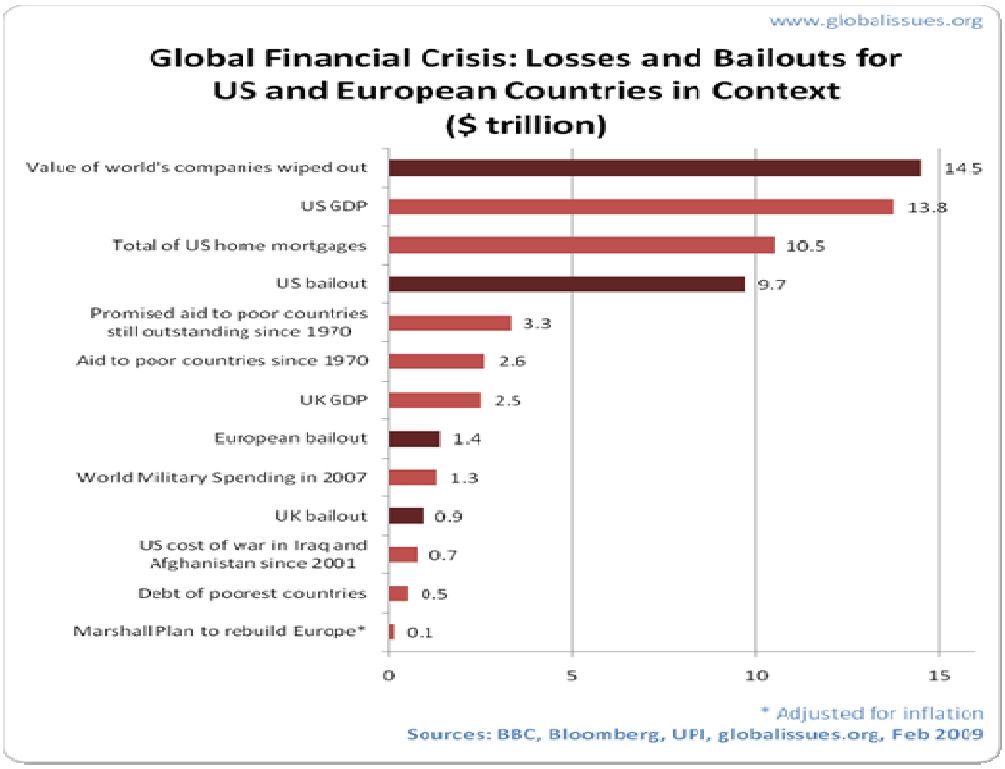
The global financial crisis which emerged in developed countries has spread to the developing world. Forecasts of growth in developing countries have been downgraded a lot and enquiry remain as to how profound, for how long these problems will broaden which countries will be affected more than others, and what are the means through which this might work?

The current financial crisis which started in 2007 and is still in progress in 2010, was generated by a liquidity shortfall in the United States banking system and has been considered the worst financial crisis since the Great Depression of the 1930s, since it affected drastically most countries in the world, big corporations and contributed to declines in consumer wealth and a noteworthy downward spiral in economic activity.

A significant number of the world's largest financial institutions have collapsed, while others have been bought out by their rivals at bargain prices and in other cases, the governments of the wealthiest nations in the world have come up with rescue packages for banks and financial institutions. The total amounts that governments have spent on bailouts have skyrocketed. From a world credit loss of $2.8 trillion in October 2009, US taxpayers alone will spend some $9.7 trillion in bailout packages and plans, $14.5 trillion, or 33%, of the value of the world's companies has been wiped out by this crisis. The UK and other European countries have also spent some $2 trillion on rescues and bailout packages.

Countless people eulogized, not long before the benefits of the globalization phenomenon: growth of the living standards express thanks to the specialization, pursuit of comparative advantage, intense trade between countries or advance of the technology. Nevertheless, even before this crisis, globalization was already being challenged-critics argued that globalization favoured capital rather than labour and the wealthy rather than the poor. The crisis has accentuated the differences between have and have-nots. For example, tiny Iceland is emerging as the biggest casualty of the global financial crisis. [1]

Figure 1



Relative to the size of its economy and population (only 304.000 people), Iceland's banking collapse, which involved all the three major banks is the largest suffered by any country in history.

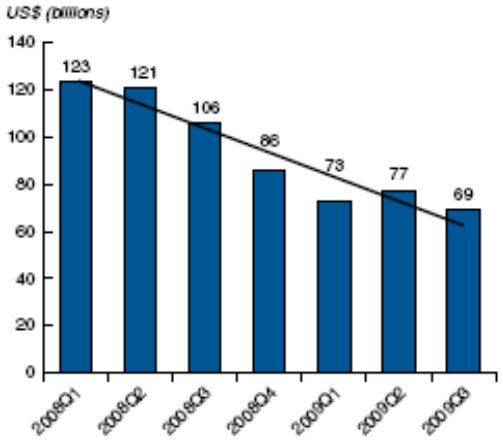
Immediately after the outrageous avalanche of bankruptcies from September 2008, the world governments started to inject capitals in their economies, while banks cut their interest rates in order to help borrowers and remain profitable. The U.S. alone executed two stimulus packages, totalling nearly $1 trillion during 2008 and 2009. Many people have criticised these measures, considering them as a waste of money, while others have applauded the intervention of the states in the economy.

The rich industrialized countries entered in 2008 a recessionary period; export-dependent nations such as Japan, Germany, South Korea and China are suffering from the contraction in global demand and have turned to their domestic markets. The European economy has been in the midst of the deepest recession since the 1930s, with real GDP shrinking by 4% in 2009, the sharpest contraction in the history of the European Union. Even the Arab world, once a flourishing group of states, reported losses in 2009, as a result of failed investments in foreign markets and the drop in oil prices.

Some developing countries that had seen strong economic growth saw significant slowdowns. The emerging countries, which grew on average 7 to 8% during the past few years, slow to an average of 3% in 2009. The most vulnerable remain the countries that depend on foreign capital (such as Greece, Hungary, the Baltic states, Turkey, Central Asia) and those that have big current account deficits.

No wonder that the foreign investments flows to the developing countries have sharply declined during the years of crisis, as shown in figure 1. Overall, net private capital flows to developing countries in 2009 are estimated to have fallen by $795 billion (relative to their high in 2007), or by almost 70 percent. Even with recovery on the horizon, projected flows in 2010 are only $517 billion, or 3.2 percent of GDP.

Figure 2 - FDI flows to developing countries



Source: International Bank for Reconstruction and Development / The World Bank, Global Economic Prospects/Crisis, Finance, and Growth-2010, pag.38

An indicator that clearly shows of how much the crisis really hurts is the unemployment rate. It has increased significantly over the past 18 months, across all sectors. Unemployment among OECD member countries alone has increased by 25.5 million since the start of the crisis and some estimates suggest that globally the increase could total over 50 million in 2010. Jobs are not created as fast as they are lost and any prolonged period of high unemployment will have undesirable effect on consumption.

Only a small number of countries succeeded to maintain a decent level of unemployment rate. In Germany, for instance, unemployment has so far increased only marginally (by 0.3%, from 7.2% in October 2007 to 7.5 in October 2009), compared to an increase of 4.4 percentage points over the same time period in the US (from 5.8% to 10.2 %) or over 8 percentage points in Spain (from 11.4% to 19.3%). Germany has also taken steps to shorten working hours, rather than cutting jobs and to maintain people in employment, if only part-time.

One aspect, common to both the developed and developing world, is that unemployment has an excessively large impact on youth and the effects of poor job opportunities early on in the working life have, usually, negative effects for earning power and development over the rest of an individual's career and life. Moreover, people are forced now to accept part-time jobs or under their level of skills.

To worsen things, according to the International Labour Organization only 20% of the world has adequate social protection, 50% of the world has any coverage at all, while in developing countries that figure falls to less than 10% of their population.

Latest developments of the crisis show that the US economy shed another 95,000 jobs in September 2010, the fourth in a row that jobs have been lost, according to figures from the Labor Department. [2]

Optimistically, the progress of 2009 gives hope to international business people, since the speed of economic contraction is slowing and the financial markets are recovering from turn down. On the other hand, household spending remains constrained by job losses, lower housing wealth and tight credit.

Many companies are rethinking the way they address social issues, especially in emerging markets. An online survey of McKinsey, May 21, 2009-June 3, 2009, received responses from 2,245 senior executives from around the world. [3] The results demonstrate that for managers the most important drivers of economic growth in developing and emerging economies over the next 10 years are:

1. education (21%)
2. trade and economic integration (18%)
3. private-sector development (16%).

An other aspect that should be taken into consideration when approaching a complex analysis of a financial crisis is the effect over the ecosystem. Unquestionably, current economic crisis determine companies to produce and trade less, people to drive or fly less, consume less energy, hence lowering expectations for greenhouse-gas emissions, which is the bright side of the crisis.

Unfortunately, less consumption undeniably leads to a serious decrease of worldwide production, but also to a decrease of using raw materials. As oil consumption declines, the price of oil is also dropping, thus discouraging investment in expensive "green" projects.

It will not worth to poor money into expensive eco-friendly technologies, since alternative energy costs will be much higher than those related to classical sources of energy. If the prices for oil and gas keep

falling, the incentive for utilities and consumers to buy expensive renewable energy will shrink. That is what happened in the 1980s when a decade of advances for alternative energy collapsed amid falling prices for conventional fuels.

Well-capitalized companies, with robust financial positions and with liquidities to invest, have now a unique chance to make strategic acquisitions and to buy previously unaffordable assets. Of course, it takes audacity to act in a risky climate, but as more and more targets become available, taking advantage of this occasion will help daring companies to have success in the years of boost after the crisis. But the crises do not bring out only losers; there are opportunities for savvy companies able to involve the entire staff in supporting new market entry strategies, guidelines for increased efficiency, by minimizing risks and cutting costs in key areas.

The forecasts of IMF suggest that a positive trend will follow the major economic indexes. The world trade volume is expected to rise in 2010 at 5.8 per cent in 2009 compared with a dramatic -12.3 per cent in 2009. The oil prices is predicted to get much higher in 2010 (22.6 per cent in 2010 compared to a sharp drop of -36.1 in 2009). Projections are good for 2011 as well.

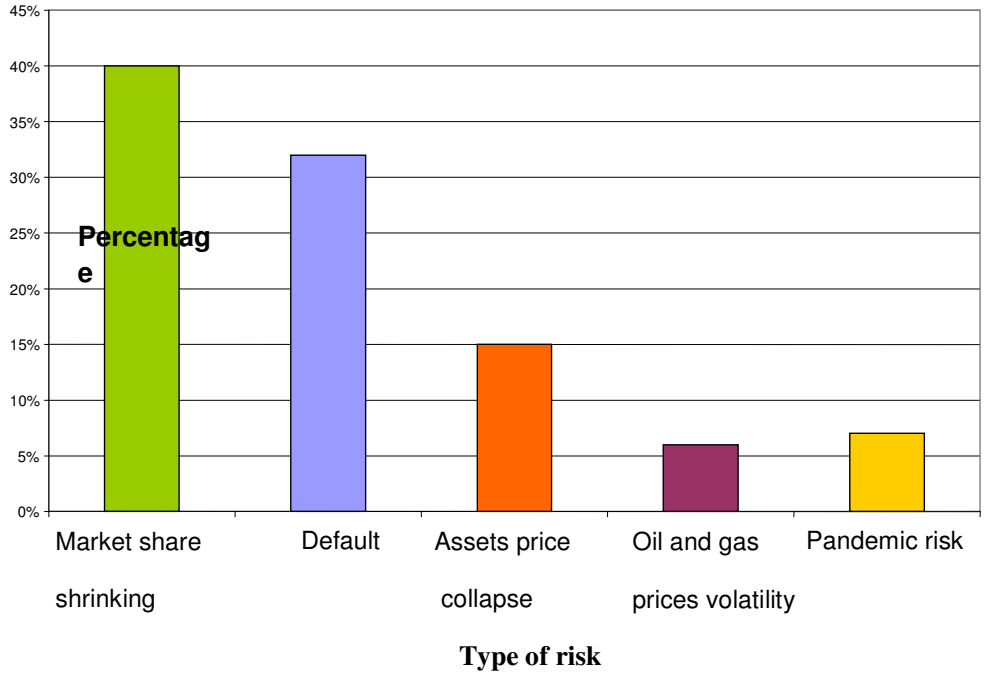
Table 1 - Overview of the World Economic Outlook Projections

Indicators	**Projections (%)**			
	2008	**2009**	**2010**	**2011**
World trade volume (goods and services)	2.8	-12.3	5.8	6.3
Imports				
Advanced economies	0.5	-12.2	5.5	5.5
Emerging and developing economies	8.9	-13.5	6.5	7.7
Exports				
Advanced economies	1.8	-12.1	5.9	5.6
Emerging and developing economies	4.4	-11.7	5.4	7.8
Commodity prices (U.S. dollars)				
Oil	36.4	-36.1	22.6	7.9
Nonfuel (average based on world				
commodity export weights)	7.5	-18.9	5.8	1.6
Consumer prices				
Advanced economies	3.4	0.1	1.3	1.5
Emerging and developing economies	9.2	5.2	6.2	4.6

Source: International Monetary Fund, Overview of the World Economic Outlook Projections, 2009

Coming out of the crisis, the world has a historical chance to reshape its policies, architecture and institutions and support balanced global growth and financial stability. People seem to fail to remember about the probability of crisis outbreak in times of prosperity and fail to take quick crisis management actions. Especially the emerging economies should avoid macroeconomic imbalances and to follow a sustainable growth trend backed by structural reforms. The current financial crisis has highlighted the need for up-to-date and transparent information by type of instrument, currency, creditors, and debtors.

Figure 3 - Managers viewpoint on the highest risks most likely to affect their companies (December 2009 survey)



Source: Anda Gheorghiu, a survey realised between September 15-December 31, 2009

In a survey realised by us between September15-December 31, 2009, we scrutinized the greatest risks taken into account by 40 managers, economists and analysts, which could have affected the prospective for development of the companies they were working for. The results showed that most of them feared a shrinking in the market share (40%), followed by default or incapacity to pay debts (32%) and other risks with lesser significance: asset price collapse (15%), oil and gas prices volatility (6%) and pandemic risk (7%).

Many analysts come out with new ideas and models for the so called "new economy" and the "new financial order". For instance, a new world order for a stable society would entail, among others, that the current practice of crediting both the production and the consumption, in other words facilitating at the same time the initiative of both "making and taking", and financing companies and individuals at the same or comparable amount should fade away.

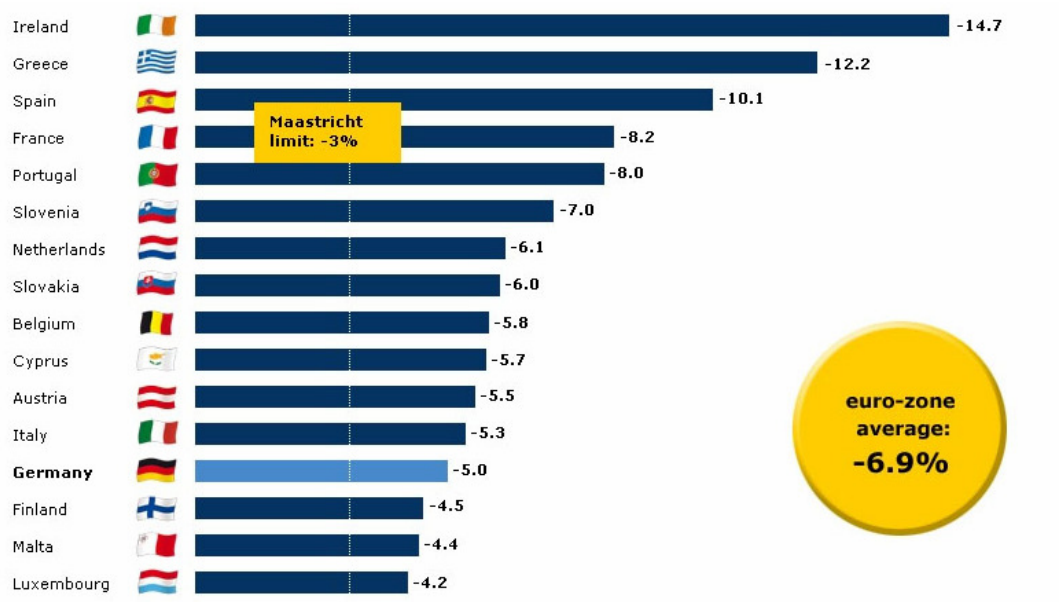
A producer could develop its business 100% on credit whereas an end user may do the same thing, but the burden is actually over the people who had the power to spare and hence had financed the banking system. This model, in which consumers unable to spare even a cent hope and even succeed to finance a living standard far beyond their possibilities and development is based exclusively on other people's money, well, this model should disappear.[4]

States should finally learn that the must drastically reduce their public expenditure to a bearable and sustainable level.

It will be no longer possible for a country like Greece, for instance, with a public debt of 115% of GDP to continue with such a high level of liabilities. In fact the European Union as a whole has a predicament due to big budget deficits; a recent forecast shows a worrying average level of the budget deficit-6.9%, almost 4% over the limit established by the Maastricht Treaty (3%). Worst positions

in statistics hold Ireland, Greece and Spain. The recent situation of several European countries that have enormous budget deficits should come to an end.

Figure 4 - Budget deficits of euro-zone countries in 2010 as percentage of Gross domestic product (forecast)



Source: European Commission

References:

[1] Capell Kerry, The Stunning Collapse of Iceland, Businessweek, October 9, 2008
[2] BBC News: US sees 95,000 jobs lost in September, 8 October 2010
[3] McKinsey & Company-Rethinking how companies address social issues: McKinsey Global Survey results, 2009
[4] Mihail Brînzea-"Noua ordine financiară şi redefinirea puterii în funcție de capacitatea de economisire. Criza deschide perspective catre noi modele", http://mihailbrinzea.finantare.ro, 9 February 2009

The Upside and Downside of the Economic Crisis over the Environment

Gheorghiu Anda
"Hyperion" University of Bucharest
anda.gheorghiu@gmail.com

Abstract

The ongoing financial crisis turns out to be bad not only for worldwide companies' budgets but also for the environment. It has become unexpectedly inexpensive to pollute. For instance, in E.U., prices for carbon dioxide emissions permits have dropped below 12 euro per ton in 2009 and many companies are selling them to generate cash.

At a global scale, there is an urgent need of a coordinated set of actions designed to diminish the negative impact of pollution over the natural environment. Scientists clearly emphasize that natural disasters are about to happen; climatic changes are imminent, as a direct effect of the ozone layer depletion, caused by gases emissions in the atmosphere and by various disasters provoked by humans.

The paper is an attempt to make a brief analysis of both the the upside and downside of the economic crisis over the environment.

Key words: pollution, CO_2 concentration, carbon dioxide emissions permits
J.E.L. classification: Q32, Q43, E20, O11

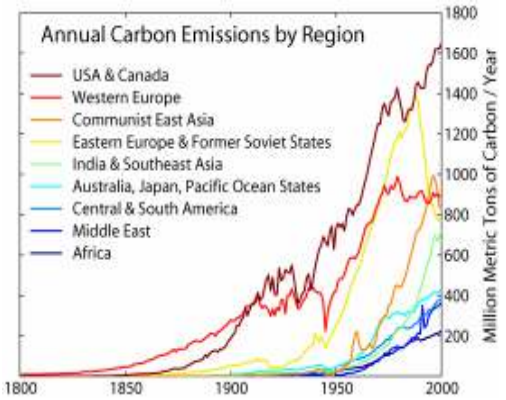
In today's world, having a eco-friendly approach to business and life is a must. People cannot neglect anymore the cry for help of the nature; ecological disasters may lead to the destruction of fauna and flora, pollution of air, soil, oceans, rivers, outer space, affecting the quality of life in general.

For a business, environmental risks are related to: damages which the company may be required to pay if the activity affects the environment, costs to neutralize the effects of pollution or, at least, a damaged reputation.

Throughout the years, many countries pledged to reduce their emissions of greenhouse gases, especially following the Kyoto Protocol back in 1992. The European Union is a pioneer in this field, by introducing the first international trading system of CO2 emissions certificates in the world. However, the recent economic crisis put in danger these achievements, because some political leaders and many businessmen do not pay attention anymore to ecological aspects and are reluctant in investing furthermore in eco-friendly technologies. On long run, investing in companies that threaten the health of ecosystems might prove to be a very bad business, and not just because of reputation risks. Companies both impact and depend upon healthy ecosystems and the services they provide. In modern history, we have constantly put economy before ecology, but it should be the reverse.

Recent researches reveal a cruel truth: the average annual increase of CO_2 concentration is now 2.1 ppm/annum, with 40% more than ten years ago. Decreasing the level of CO_2 at an acceptable level of 350 ppm is the crusade essential for sustainable development, in an era of irrational climate and economic crisis. The most dramatic annual carbon emission in the past decades happened in America, as shown in Figure 1.

Fig.1 Annual Carbon Emissions by Region



Source: Carbon Dioxide Information Analysis Center (CDIAC) http://cdiac.ornl.gov/

Ecological disasters may lead to the destruction of fauna and flora, pollution of air, soil, oceans, rivers, outer space, affecting the quality of life in general. If, in the past, trends in world economy have been dominated by economic policies, in the future decades a great influence will have the limits imposed by the natural environment, in interaction with population growth. Strategies should take into account the sustainable economic development, which is the balance between the needs of today's generation and the needs of the future generations. Moreover, one of the principles of corporate governance is that of corporate responsibility (CSR), which require at active role in the life of the community.

The notion of environment is broadly defined by the Convention on civil liability for damages resulting from activities dangerous to the environment (Lugano, 21 June 1993, art.2.10), which stipulates that the environment "includes the abiotic and biotic natural resources, such as the air, water, soil, fauna and flora and the interaction between these factors, the goods constituting the cultural aspects and features of the landscape." [1]

The United Nations Conference on Environment and Development, also known as the Rio Summit, Earth Summit (or, in Portuguese, Eco '92) was a major United Nations conference held in Rio de Janeiro from June 3 to June 14, 1992. Following the Rio Summit, the Rio Declaration on Environment and Development was adopted. It affirms that states shall cooperate in a spirit of global partnership to conserve, protect and restore the health and integrity of the Earth's ecosystem. The developed countries have acknowledged the responsibility that they bear in the international pursuit of sustainable development in view of the pressures their societies place on the global environment and of the technologies and financial resources they command. An important achievement was an agreement on the Climate Change Convention which in turn led to the Kyoto Protocol. Another agreement was to "not carry out any activities on the lands of indigenous peoples that would cause environmental degradation or that would be culturally inappropriate".

For a business, environmental risks are related to:

a) Any damage which the company may be required to pay if the activity affects the environment;

b) Costs to neutralize the effects of pollution;

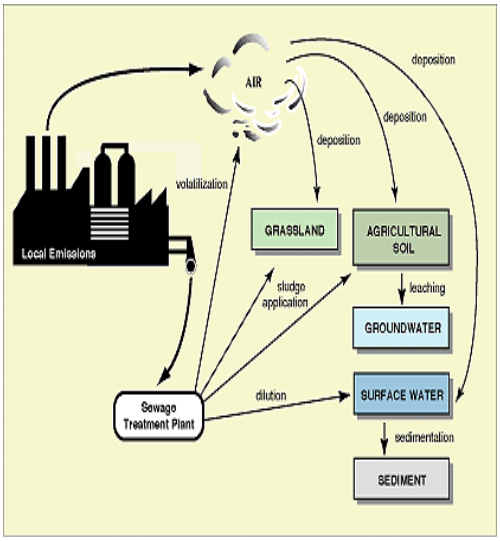
c) Prohibiting the use or embezzle radioactive polluted land;

d) Negative image, what is the connection made between the company logo and issues such as serious effects on consumer health, environmental pollution, products tested on animals.

Traditional industries put in danger not only the air quality, but they usually pollute grassland, agricultural soil, groundwater, surface water and even sediment, as picture nr.2 suggestively illustrates.

The Kyoto U.N. Conference, held in Japan (1997), produced an international environmental treaty (known as the Kyoto Protocol) intended to achieve stabilization of greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system.

Fig.2 Effects of toxic waste



Source: European Environment Agency

Back in October 2003, the European Union passed a guideline that led to the first phase of emission rights trading in 2005, thus making the EU a global pioneer in this area (according to the Kyoto Protocol agreement of 1997, in which many countries pledged to reduce their emissions of greenhouse gases by at least 5 % by 2008 to 2012, compared

with 1990 levels, international emission-certificate trading was not due to begin until 2008). Since E.U. has introduced the first international trading system of CO2 emissions certificates in the world, the EU ETS (European Union's CO2 permit system) verifies 11,500 large energy-consuming plants located in the European Union, which emit about half the CO2 emissions in Europe, including combustion installations, ceramic, steel and ferrous materials producers, paper, glass factories and petroleum refineries.

The EU ETS is currently in its second trading period, the first having ended at the end of 2007. Factories are given emissions allowances for several years at a time for free the current period runs until 2012. Should they emit more than their allotted permits allow, they have to buy more permits on the open market. Should they pollute less, factories can sell their unneeded permits. The plan foresees a gradual elimination of free permit handouts toward a system in which all permits are auctioned off.

The market entry decision on a certain market should take into account also the taxes and royalties charged in each country, such as:

- discharge taxes paid in proportion to the quantity or quality of pollutants which affect the atmosphere, air or soil;
- noise charges applied in developed countries; the collected funds are used to pay allowances for the segment of the population working or living near airports;
- charges applied on packages and products that are environmentally unfriendly (carbon, fat oils, fertilizers, pesticides, batteries, fuel).

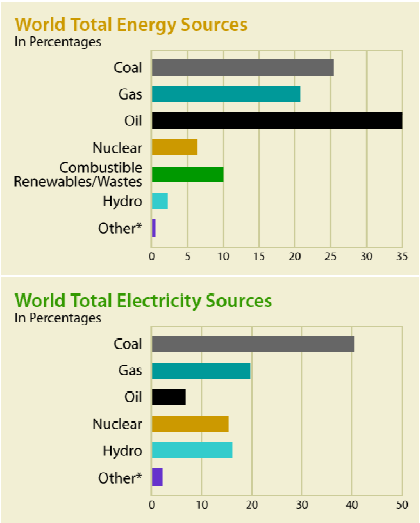
Since these taxes and royalties increase the cost of products, manufacturers and consumers are encouraged to replace harmful products with others, less dangerous. Therefore, the companies are striving to tap alternative forms of energy from solar, wind and water, to nuclear, biomass, geothermal and even new forms of fossil fuels.

At present, hydroelectric energy is the world's largest source of renewable energy (over 80 % of the world's renewable energy is hydroelectric). Unfortunately, according to the International Energy Agency (IEA), fossil fuels currently provide 81 % of the world's primary energy supplies. Total world electricity still depends primarily on fossil fuels but to a somewhat lesser extent. Hydro and other renewable energy sources account for 18.2 % of the world's total electricity needs. Fossil fuels still account for well over half of the world's electricity supplies – 66.6 %, while nuclear energy supplies 15.2 % of the world's electricity.

Definitely, current economic crisis determine companies to produce and trade less, people to drive or fly less, consume less energy, hence lowering expectations for greenhouse-gas emissions, which is the bright side of the crisis.

Unfortunately, less consumption undeniably leads to a serious decrease of worldwide production, but also to a decrease of using raw materials. As oil consumption declines, the price of oil is also dropping, thus discouraging investment in expensive "green" projects. It will not worth to poor money into expensive eco-friendly technologies, since alternative energy costs will be much higher than those related to classical sources of energy.

Fig.3 World total energy sources



*** Includes geothermal, solar, wind, etc.**

Source: IEA World Energy Statistics, 2007 Edition

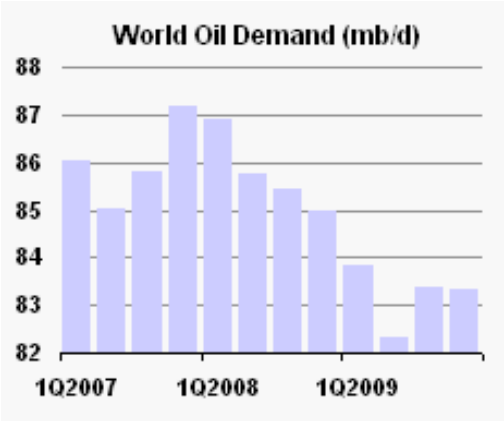
If the prices for oil and gas keep falling, the incentive for utilities and consumers to buy expensive renewable energy will shrink. That is what happened in the 1980s when a decade of advances for alternative energy

collapsed amid falling prices for conventional fuels.

The world oil demand has dropped significantly in the second half of the year 2008 and in the first half of the year 2009. The price of oil has plunged dramatically, from $147.50 in July 2008 to $40 a barrel in January 2009.

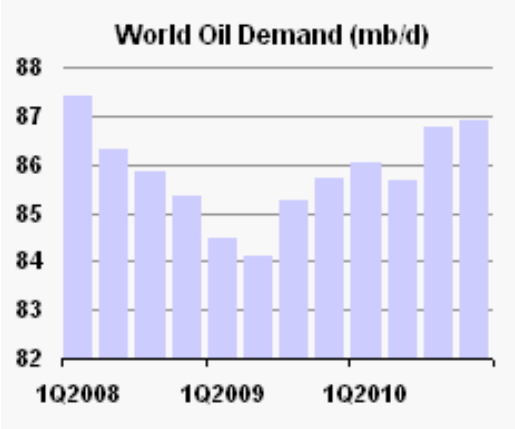
As the International Energy Agency makes public in its Oil Market Report-Highlights of the latest OMR, dated 15 January 2010, the forecast global oil demand remains virtually unchanged-86.3 mb/d in 2010 (+1.7% or +1.4 mb/d versus the previous year). Growth is driven by non-OECD countries, most notably in Asia. In the last months of 2009, the world oil demand rose, but still remained under the levels of 2008.

Figure 4 Oil Market Report-Highlights of the latest OMR, dated 14 May 2009



Source: International Energy Agency

Figure 5 Oil Market Report-Highlights of the latest OMR, dated 15 January 2010



Source: International Energy Agency

The economic crisis has scared the politicians. Leaders of some European Union countries are calling for a slowdown in efforts to curb emissions of greenhouse gases due to the growing economic crisis. Under huge pressure to shield German industry from the cost of going green, however, Angela Merkel, the German Chancellor, fights to reverse key goals that she once championed. Under a plan adopted by the EU in 2007, member countries pledged to reduce such emissions by 20% below 1990 levels by 2020, which is far more ambitious than the Kyoto Protocol. Merkel was then the "Iron Lady" who pushed through tough climate change targets to show that Europe could lead the world in beating global warming. However, in December 2008, she demanded free carbon credits for 90 to 100 per cent of German factories until 2020 - blowing a hole in a key climate change scheme. [2]

Prime Minister Silvio Berlusconi of Italy and the leaders of some Eastern European countries, like Poland, pointed out as well that due to the crisis, they were no longer able to finance the high costs of attaining the 2020 goal and so weren't prepared to adopt a detailed plan.

Unfortunately, as the financial crisis deepens, it has become unexpectedly inexpensive to pollute. Prices for carbon dioxide emissions permits have dropped below 12 euro per ton in 2009 and many companies are selling them to generate cash. The result has been an oversupply of emissions certificates that has driven the price down below €12 ($15.58) for every ton of CO2 emitted, while in the summer of 2008, the price was close to €30 ($38.94) per ton.

The idea behind the European Union Emission Trading Scheme was to create a financial disincentive to pollute. A price per ton of emissions of at least €20 is necessary before it becomes cost effective for companies to install environmentally friendly technology and to switch from coal to natural gas for their energy needs.[3]

Even more worrying is that many mid-sized companies in Germany are selling CO2 emissions permits to obtain the much needed liquidities. For example, the factory Scheufelen in south-western Germany managed to avoid bankruptcy by selling the majority of its pollution permits in December 2008.

Researchers measured an additional 16.2 billion tons of carbon dioxide (CO2)—a byproduct of fossil fuel burning—and 12.2 million tons of methane in the atmosphere at the end of December 2008.[4]

This increase is despite the global economic downturn, with its decrease in a wide range of activities that depend on fossil fuel use.

If no action will be taken, the world is heading for an ecological disaster far more destructive than the current financial crisis for the reason that people are over-using the natural resources of the Earth.

The Living Planet report in 2008 estimates that humans are using 30% more resources than the Earth can replenish each year, which is leading to deforestation, degraded soils, polluted air and water, and dramatic declines in numbers of fish and other species. Consequently, we are running up an ecological debt of $4tr (£2.5tr) to $4.5tr every year - double the estimated losses made by the world's financial institutions as a result of the credit crisis. [5] The figure is based on a UN report which calculated the economic value of services provided by ecosystems destroyed annually, such as diminished rainfall for crops or reduced flood protection.

The problem is extremely severe as world population and consumption keep growing faster than technology finds new ways of expanding what can be produced from the natural world. That is the reason for what the report forecasts that by 2030, if nothing changes, mankind would need two planets to sustain its lifestyle.

James Leape, WWF International's director general, asserted clear and loudly that "The recent downturn in the global economy is a stark reminder of the consequences of living beyond our means and that "the possibility of financial recession pales in comparison to the looming ecological credit crunch."

References

[1] Duțu Mircea, Dreptul internațional al mediului, Editura Economică, 2004, pag.91

[2] The Times-December 11, 2008, Angela Merkel turns her back on green dream of EU

[3] Der Spiegel, Financial Crisis Drives Down Price of Pollution , 26 January 2009

[4] Environmental Resource Center, EPA to Review Three New Source Review Rules, May 2009

[5] World Wildlife Fund, The Living Planet report in 2008

Consumer Protection in Romania – Between Necessity and Obligativity

Gheorghiu Gabriela
Popovici Veronica
Bundă Ramona Nicoleta
„Ovidius" University of Constanta, Faculty of Economic Sciences
gabi_eforiesud@yahoo.com

Abstract

Given that, from January 1st, 2007 Romania became a full member of the European Union, this paper contains an objective analysis of Romanian consumer protection system, organized around two axes: on one hand is considered the need to protect the consumer in the process of transition from centrally-planned to market economy, and on the other hand is taken into account the obligation to harmonize the relevant national system with the European one in the EU accession process.

Key words: consumer protection, national system, European integration, harmonization
J.E.L. classification: D18, H50

1. Introduction

The increasing complexity of the Romanian society and the economy liberalization that took place in post-revolutionary period, had put the Romanian consumer in wider contact with the social and economic realities of Western civilizations, so that his requirements in terms of meeting the needs began to grow, to diversify, but also to express themselves more freely. However, the mentality of most consumers, as well as is the one of many local business had needed to take major steps towards achieving a modern and civilized trade.

Therefore, the economic and institutional reform started in Romania during the transition period from centrally-planned to market economy has incorporated *as a necessity*, consumer protection too, as a coherent process, designed to promote both consumer's direct and especially the indirect protection in the evolving national free market.

Also, the aim of Romania's integration into European structures has set new parameters within which economic and social development of our country were to fall, and providing adequate protection for consumers *became obligatory* for fullmembership of the European Union.

Against this double determination - that of necessity, but also of obligativity, developing an effective system to protect the Romanian consumer is not a fully completed process, both in terms of practical instruments, and especially in terms of an active and conscious consumer mentality that is in full training among Romanian citizens.

2. Particularities of the Romanian consumer protection system

An objective analysis of consumer protection process developed in Romania in recent years allows us to identify and interpret the peculiarities of the national system of consumer protection, as follows:

In terms of legislation, Romania has generally fulfilled its obligations as European Union member; this has helped create an adequate environment for the development of the Romanian consumer confidence in the conduct of transactions both nationally, as anywhere within the perimeter of the single market.

In terms of institutional development, the specialized body of the central public administration in this field - the National Authority for Consumer Protection (NACP), focuses excessively on the objective of national market surveillance, by carrying out control operations to identify and punish deviations from the legal requirements, and pays to little attention to supporting consumers associations and stimulating individual capacity of the Romanian

consumer to self-protection.

With two exceptions (as Consumer Protection Association and the National Association for Consumer Protection and Programs and Strategies Promotion from Romania), most independent consumer associations that operate in Romania have reduced human and financial resources, so their possibilities of action remain confined to few cities and surrounding areas, rarely expanding to the regional level, especially to cover rural areas.

Being given these main coordinates of the consumer protection national system, does not appear surprising that, in general, the Romanian consumer is not satisfied with the protection he receives in the domestic market, no matter at what level and by whom it is provided, attitude that justifies, in fact, his reluctance to participate in the single market as a European citizen. This dissatisfaction can be placed both on the lack of adequate information on the consumer rights guaranteed by law, and that consumer is afraid to claim them as often as he would be entitled to do, and also on the lack of an adequate education, to enable the development of a consumer behavior aware of his rights and actively involved in the society of which he belongs.

3. Alternatives for improving Romanian consumer status

Identifying the causes and explaining the low level of the Romanian consumer protection allows us to formulate few possible alternatives to improve his political, legal, economic, social and moral status, both nationally and at European level.

First of all, it is necessary *to complete the harmonization of Romanian legislation with European law* by promptly incorporating into the national legal system all the European provisions agreed in the field of consumer protection, in order to ensure their uniformity anywhere within the European single market Romanian consumer decides to act.

Secondly, it is important *the proper sizing, in terms of financial and human resources, of market surveillance activity* conducted by public authorities through the National Authority for Consumer Protection, to facilitate prompt intervention to punish and correct deviations from the statutory provisions for consumer protection.

In addition, it is necessary a more stringent involvement of the National Authority for Consumer Protection in adoption of preventive measures such as: promoting both among consumers and traders the mentality embodied in the slogan "Our customer, our master!"; consumer awareness of its legal rights; consumer education to know the specific laws and how to defend his interests in the market.

In this context, we speak in favor of *strengthening cooperation between the National Authority for Consumer Protection and independent consumer associations* and developing it on several levels for: the effective sharing of material, technical, financial and human resources; the development of a viable strategy for the Romanian consumer protection; improving legislation; applying the most effective measures in order to inform and educate both traders and consumers.

Also, *independent consumer associations have the special task of expanding their work,* both horizontally through the establishment of new associations in all local communities, but also vertically through the establishment of unions, federations at administrative-territorial units level and also at national level. They must strive to create a positive image and attract consumer interest, but especially for prompt identification of any funding sources and their more efficient use. In addition, special emphasis should be placed on recruiting qualified staff, able to identify the problems faced by consumers and to find timely and readily viable solutions for overcoming them.

Finally, especially for real integration of the Romanian consumer within the European single market, the key-element is *his education*, since adolescence, as consumer aware of his rights and active in their exercise in practice. Also, given the share of youth and children, but also the consideration that they are the future of any nation, their education should become an important dimension of the education process by including in the subjects studied since the primary school the consumer issues that can be deepened in the upper grades of the high school, but also in the future, during the bachelor and master programs as a special discipline included in the curriculum.

4. Conclusions

Romania is just at the beginning in terms of consumer protection, therefore, it is natural that there will not be possible to do in a short time what in the old European Union Member States has naturally been done in decades, as a result of the action of market economy objective laws. However, unlike other fields of action, in this one, any of us has an important word to say, as the evolution of national consumer protection system depends on each Romanian, because we are all consumers !

5. References

[1] Anghel (căs. Gheorghiu) Gabriela (2010), *Protecția consumatorului în Uniunea Europeană lărgită,* Teză de doctorat

[2] Autoritatea Națională pentru Protecția Consumatorilor (2004), *Raport asupra activității A.N.P.C. în anul 2003, publicat conform art. 5 alin. (3) din Legea nr. 544/2001 privind liberul acces la informațiile de interes public*, Monitorul Oficial al României, Partea a III-a, nr. 308/10 mai 2004, pg. 1-10

[3] Autoritatea Națională pentru Protecția Consumatorilor (2005), *Raport asupra activității A.N.P.C. în anul 2004, publicat în conformitate cu art. 5 alin. (3) din Legea nr. 544/2001 privind liberul acces la informațiile de interes public*, Monitorul Oficial al României, Partea a III-a, nr. 271/19 aprilie 2005, pg. 1-14

[4] Autoritatea Națională pentru Protecția Consumatorilor (2006), *Raport asupra activității A.N.P.C. în anul 2005, publicat în conformitate cu art. 5 alin. (3) din Legea nr. 544/2001 privind liberul acces la informațiile de interes public*, Monitorul Oficial al României, Partea a III-a, nr. 363/28 aprilie 2006, pg. 1-15

[5] Autoritatea Națională pentru Protecția Consumatorilor (2007), *Raport asupra activității A.N.P.C. în anul 2006, publicat în conformitate cu art. 5 alin. (3) din Legea nr. 544/2001 privind liberul acces la informațiile de interes public*, Monitorul Oficial al României, Partea a III-a, nr. 285/27 aprilie 2007, pg. 1-15

[6] Autoritatea Națională pentru Protecția Consumatorilor (2008), *Raport asupra activității A.N.P.C. în anul 2007, publicat în conformitate cu prevederile art. 5 alin. (3) din Legea nr. 544/2001 privind liberul acces la informațiile de interes public*, Monitorul Oficial al României, Partea a III-a, nr. 341/6 iunie 2008, pg. 1-17

[7] Autoritatea Națională pentru Protecția Consumatorilor, *Raport asupra activității desfăşurate de A.N.P.C. în anul 2008, publicat în conformitate cu prevederile art. 5 alin. (3) din Legea nr. 544/2001 privind liberul acces la informațiile de interes public*, Monitorul Oficial al României, Partea a III-a, nr. 207/3 iunie 2009, pg. 1-14

[8] Civic Consulting of the Consumer Policy Evaluation Consortium (CPEC) (2008), *Study regarding the problems faced by the consumers in obtaining redress for infrigements of consumer protection legislation, and the economic consequences of such problems. Final Report. Part I: Main Report*, Framework Contract Lot 2 – DG SANCO, Bruxelles

[9] Sârbulescu I., Petre V., Constantinescu D. (2003), *Protecția consumatorilor şi concurența pe piață. Radiografie. Analiză. Diagnostic,* Ed. TipoRadical, Drobeta Turnu Severin

[10] Schulte-Nolke H., Twigg-Flesner C., Ebers M. (2007), *EC Consumer Law Compendium. Comparative Analysis*, Universitat Bielefeld

[11] http://www.anpc.gov.ro/anpc/

[12] http://www.apc-romania.ro/

[13] http://www.anpcppsr.ro/

A Comparative Analysis of the Options trading on the Romanian Capital Market and Central and Eastern Europe Emerging Capital Markets during the Global Financial Crisis

Ghiţă-Mitrescu Silvia
Duhnea Cristina
Vancea Diane Paula Corina
"Ovidius" University of Constanta, Faculty of Economic Sciences
silviamitrescu@yahoo.com
cristinaduhnea@gmail.com
dianevancea@gmail.com

Abstract

One of the main culprits for the international financial crisis started in late 2007 and still in progress, it is, in the opinion of many experts, the creation and trading in excess of the derivatives. This theory developed in close relationship with the mature capital markets where the derivatives segment reached significant volumes and values. But in the emerging capital markets of Central and Eastern Europe is no large volume of derivatives and rather we can discuss only about the start of trading these instruments a few years ago. Therefore this paper aims to realize a comparative analysis of the evolution of option contracts on capital markets in Romania and other emerging capital markets within the region as well as on the evolved capital markets in Europe. Quantitative (in terms of volume of contracts traded) and qualitative (value of contracts traded) aspects will allow us to drop some conclusions regarding the use of options in emerging capital markets in times of crisis.

The analysis carried out in this work will be detailed in the direction of some comparisons by type of underlying instrument and their spread in the markets considered. We will give careful consideration to options transactions on the Romanian capital market.

Since its creation to date the evolution of the volume and the value of the derivatives transactions was in constant growing, the beginning of the global financial crisis fund Sibiu Stock Exchange in a consolidated position on the capital market in Romania and even in South East Europe.

Key words: option contracts, emerging capital markets, financial crisis
J.E.L. classification: G17, G21

1. Introduction

Options are conditional term agreements that grant the holder the right, but not also the obligation, to buy or sell, at a previously set (exercise) price, a certain quantity of underlying assets, in exchange for a premium. Options are standardized contracts, and can be underlain by shares, bonds, exchange indexes, interest rate, currencies, goodsetc. (Anghelache, G., 2000 p. 257).

Initially, options weren't negotiable, as the right they conferred their holder was non-transmissible. However, in the last decades negotiable options dominated on the international stock markets.

Since the options' price is dependent on the underlying assets, they are classified as financial derivatives. Among derivatives, options are superior to other instruments, due to their reversibility and flexibility, as they allow the possibility to exercise the option, without the obligation (Dobre, E., 2005 p. 272).

Considered by many specialists „time bombs for the parties" (Buffet, 2002), the derivative contracts took the blame for the recent global financial crisis and it was expected that the regulators and the market participants to give up the trading of such financial instruments. Other general accepted opinion regarding the trading of the derivative instruments points in the direction of the regulation of these instruments that needs to be reconsidered in terms of

transparency, standardization and homogeneity of the support assets less synthetic and more close to that support assets which prices can be insured by derivative trading. The Romanian derivative market, which is far from the development of a mature market like the American derivative market, wasn't affected by the crisis in terms of negative opinion regarding the use of derivative financial instruments but more likely by the lack of liquidity and investors on the capital market in generally as other emergingderivative market in South East of Europe.

The analysis carried out further will show that investors are still interested in these instruments both for insurance use and speculation.

2. Comparative analysis of the European capital markets regarding options trading

The options contracts have met a more "shy" evolution since their introduction at BMFMS (Sibiu Monetary Financial and Commodities Exchange) in November 1998 and up until present, compared to futures products. The Sibiu Stock Exchange offers the investors the possibility to close up option contracts, with futures contracts as support assets on 19 shares traded at the Bucharest Stock Exchange, on currency (RON/EURO, RON/USD, USD/EURO), on the interest rate (BUBOR3[1]) and the stock indexes (SIBEX9 şi SIBEX18[2]). The options traded at BMFMS are an American type of options, which gives investors a higher level of flexibility, having the possibility to recede from the contract. Considering the typology of the options traded, if we look at the options' support assets as well as the moment when these options contract can be exercise, we can say that the Sibiu Stock Exchange is enclosed in the characteristics or European stock markets.

According to the statistics of the World Federation of Exchanges, in 2008 the options market recorded a volume of transactions of well over 9 million contracts, whose value amounts up to more than 645, 000 billion dollars. On an international level, the most liquid and active stock in 2008 was the Chicago Board Options Exchange where 60 million transactions were made with over 1 billion contracts. On the European level, the most active stocks were EUREX, NASDAQ OMX Nordic Exchange (including the stock exchanges in Copenhagen, Helsinki, Stockholm, Tallinn, Riga, Vilnius and Reykjavik), and NYSE LIFFE (including the stock exchanges in Lisbon, Amsterdam, Brussels and Paris). In 2008 al of the stock exchanges reached a total of more than 10 million options transactions. The volume of the transactions made by the 3 stock exchanges between 2005 and 2008 knew a continuous growth, from 948 million in 2005 to over 1,400 million in 2008 (see figure no.1 in Annex 1).

Concerning the structure of the contracts, based on the support instrument of the 3 analyzed stock exchanges, in 2008 most of the transactions were with options based on stock indexes and shares. Altogether, the options on stock indexes summed up a number of 601.480.935 contracts, representing approximately 41,9% of the total transacted option, followed by the shares options with 40.1%, interest rate contracts with 17.8% and currency options with 0.2% of the total(see figure no.2 in Annex 1).

The other European capital markets that recorded significant data concerning options trading were the Oslo and the Milan stock exchanges. The emerging European capital markets have also had an upward evolution of options transactions in 2005-2006, followed by a drop starting 2007 based on the global crisis of the financial system.

The most active capital market in the region is the Austrian market which recorded a number of 493.511 options contracts in 2009, with a value of 905,79 million Euros, followed by the Hungarian market with 399.595 contracts. Yet, compared to the previous year we can observe a drop in the number of contracts realized on the 2 , by half even representing a third of the contracts realized in 2007. If the Sibiu Stock Exchange was amongst the first 10 European markets in 2008, regarding futures contracts, we cannot

[1] The medium interest rate for deposits made to banks on the cross-banking market on a 3 month limit.

[2] SIBEX 9 is the financial sector index that adds up the results of some financial certificates listed in the Bucharest SE (SIFs,Transilvania Bank, BRD, Carpatica Commercial Bank, SSIFBroker). SIBEX 18 is the composite index that includes the most representative 18 certificates listed in the Bucharest SE.

say the same about the options market, whose volume only reached 2.1% out of the total of the derivatives market in Sibiu. Compared to the Budapest Stock Exchange, the volume of the options transacted in Sibiu in 2009 only represent 13%, and in relation to the Vienna Stock Exchange only 10%. Contrary to the previous year though, the downward trend does not hold, which allows us to say that the options market in Romania is currently in the process of developing (see figure no.3 in the Annex 1).

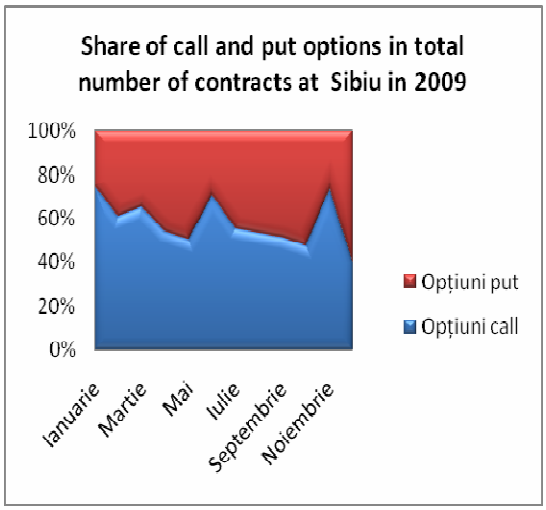
There has been an upward trend in the number of finalized options contracts in the last 10 years in Sibiu, starting from 133 contracts in 1998 (this value is not relevant though, because options transactions were introduced in November) and reaching 52.079 contracts in 2009. The maximum of finalized contracts was recorded in 2002 when 67.300 options were traded. There followed a downturn period for the trade volume due to the same reasons as the downturn in the futures market, and a new ascending trend in 2005, which still continues today (see figure no. 4 in the Annex 1).

Compared to the previous year, and unlike the futures market, in 2009 the total number of contracts grew by 30%, the highest different, of 8.5 times more; being recorded in November, as shown in the figure no 5 (see Annex 2).

If the year 2009 constituted a growth opposed to 2008 transaction wise, the total value of the contracts dropped down to 94.5% of the value of the previous year. The lowest drop, of 80%, was recorded in January, while the biggest difference was noted in November, when the value of the transactions was 257% higher than in the same month of the previous year. As is the case with futures contracts, the large volume of the trades was not materialized into a high value, for the same reason as previously invoked, which is the low value of the support assets(see figure no.6 in the Annex 2).

Relatively, the Budapest Stock Exchange materializes the volume of the trades into an equally large value, while the Vienna SE recorded a similar situation to that in Sibiu in the first half of the year, and in the second half of 2009 the decreasing volume led to a high value(see figure no. 7 and 8 in the Annex two).. Concerning the types of contract, in 2009 the investors in Sibiu preferred call options, a similar situation to that in 2008. 30.549 call contracts were finalized and 21.530 put options (see the figure below).

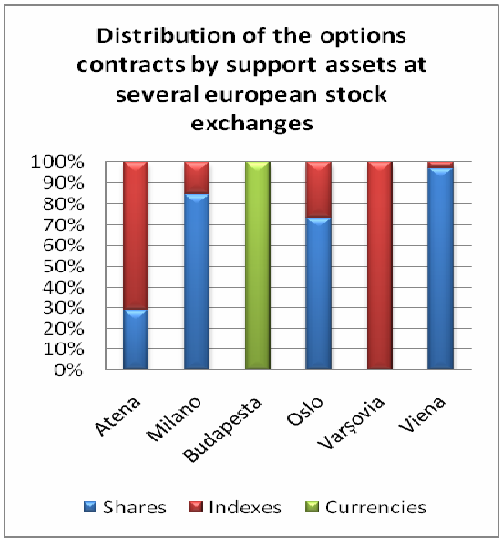
Figure no. 1



Source: www.sibex.ro

Regarding the support assets, we can observe the same preference for the products of the financial sector as in the case of futures contracts. The most liquid options were those based on futures contracts on SIF 5 shares, 49,300 finalized contracts, representing 94% of the total, followed by the options on futures contracts with the euro/lei pair, 2,766 contracts, a growth in relation to the previous year. Unlike the Sibiu market, in Budapest, currency options are most sought for. A similar situation to that in Sibiu can be found in the Vienna SE, as the most traded contracts are the ones on shares that hold a weight of 96% of the total. The investors in the Warsaw SE as those in the Athens SE are mostly oriented towards stock indexes options.(see the figure below).

Figure no.2



Source: www.fese.be, www.world-exchanges.org

3. Conclusions

For the future the Sibiu Stock Exchange set itself to grow liquidities and raise the number of intermediaries by launching new derived products. The mainly aimed segment is the futures products', due to the inclination manifested by investors toward this instrument. This all being said, we believe that options should not be neglected, mainly due to the superior advantages that are offered in relation to the futures products, concerning the lack of the obligation to exert. Even if, compared to the other markets in the region, the level reached by the options market in Sibiu is extremely low; the upward trend of the volume in the last few years could be a sign of its maturing and of a possible future expansion.

4. Bibliography

[1] Anghelache, G. 2000.*Bursa si piata extrabursiera.* Bucuresti : Editura Economica, 2000. p. 257.
[2] Buffet, Warren. 2002.*Berkshire Hathaway Annual Report.* 2002.
[3] Dobre, E. 2005.*Noi dimensiuni in contabilitatea si gestiunea titlurilor de valoare.* Bucuresti : Editura InfoMega, 2005. p. 272.
[4] www.fese.be. [Online]
[5] www.sibex.ro. [Online]
[6] www.world-exchanges.org. [Online]

Annex 1

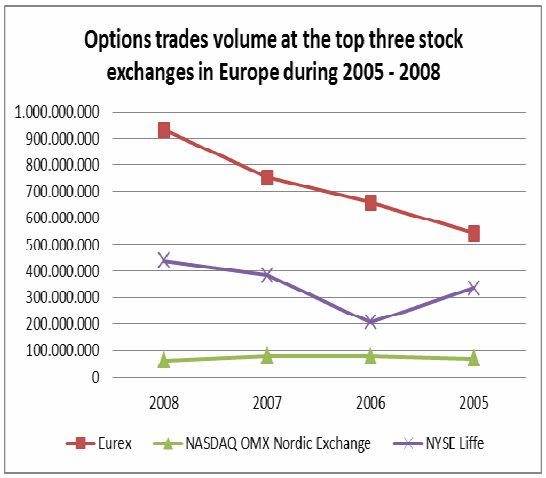


Figure no. 1 Source: data from www.fese.be

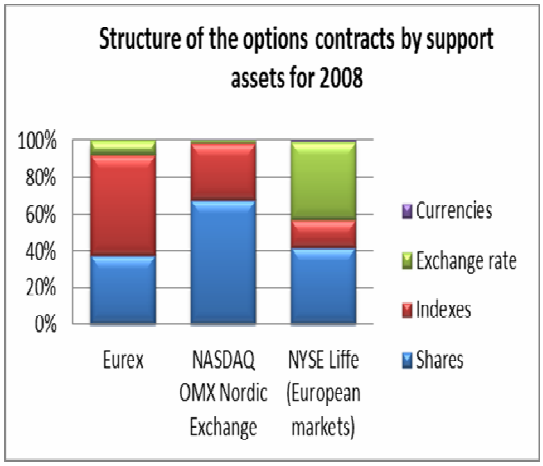


Figure no. 2 Source: data from www.fese.be

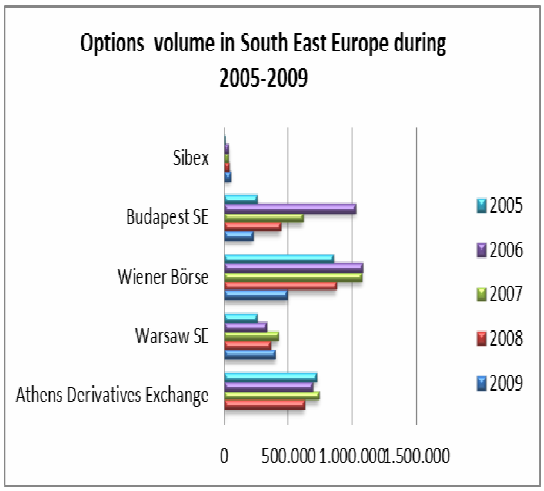


Figure no. 3 Source: data from www.fese.be

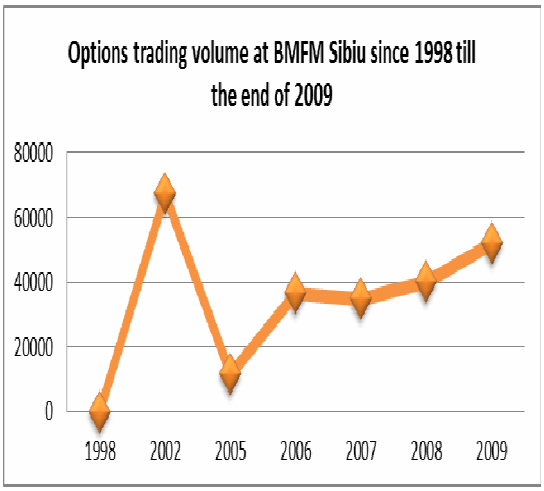


Figure no. 4 Source: data from www.sibex.ro

Annex 2

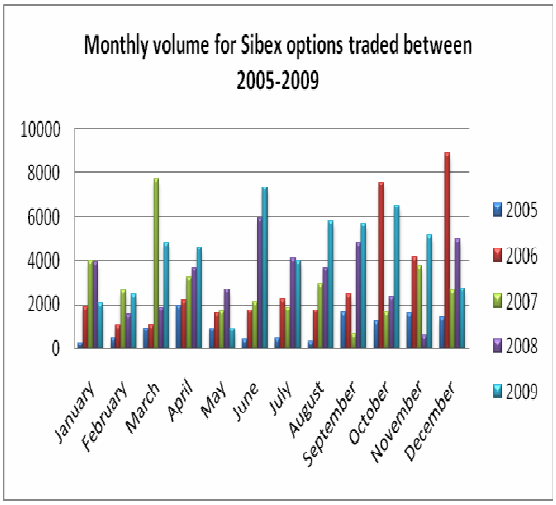


Figure no. 5 Source: data from www.sibex.ro

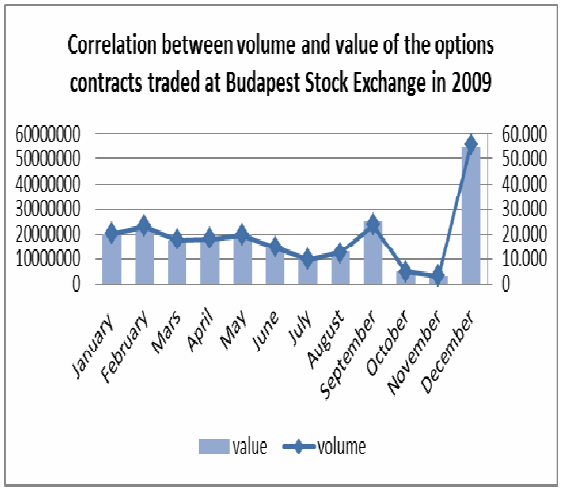


Figure no. 6 Source: data from www.sibex.ro

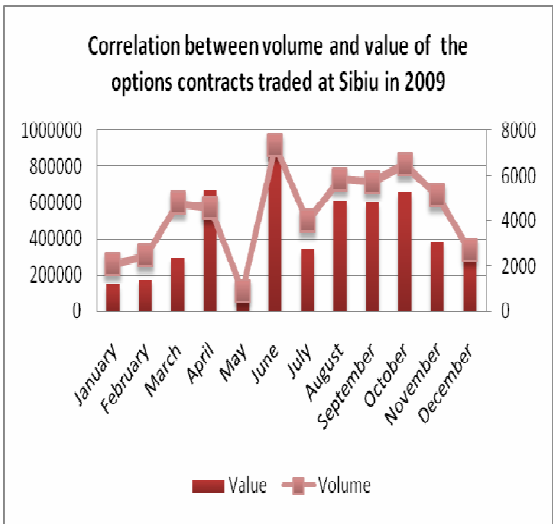


Figure no. 7 Source: data from www.fese.be

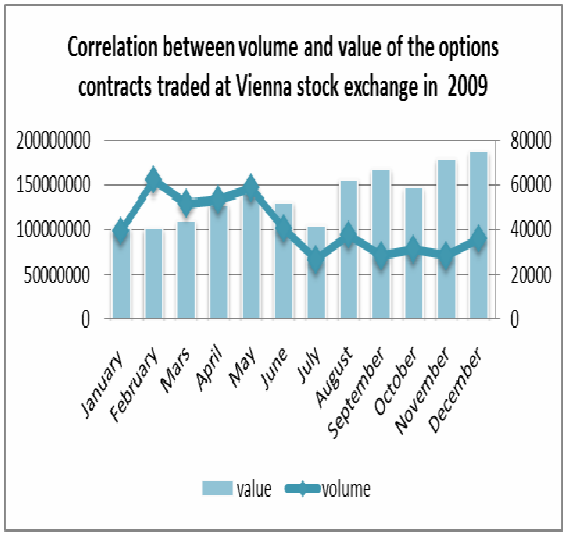


Figure no. 8 Source: data from www.fese.be

Heuristic Approach to Some European Rail Companies Activity

Ghițuleasa Anca-Andreea
Academy of Economic Studies Bucharest
in_culori@yahoo.com
Ghițuleasa Liviu Gabriel
"Ion Mincu" University of Architecture and Urbanism, Bucharest
liviu.ghituleasa@yahoo.com

Abstract

Rail transport has long played an important role in the economic development for any country. However, many rail companies in the world have been losing the passenger and/or freight market shares to other modes, such as highway and air carriers over the past few decades.

Improvement of their technical efficiency and service effectiveness or enhancement of the productivity and sales force is essential for the rails to maintain competitive and sustainable in the transport market. Understanding the causes of inefficiency and ineffectiveness is perhaps even more useful if one attempts to propose the improvement strategies.

Our objective is simple. We are analyzing fourteen companies, operating within the railway industry. We want to see the evolution of their activity, which is affordable for the Member States they operate. Also, this paper mainly addresses passengers, but recognizes the importance of freight. Generally, the aforementioned companies usually encounter more barriers and face more constraints when planning and implementing their activity behavior.

Transportation should be provided for all the people, to support their participation in various activities, such as work, education, leisure and recreational activities by clearing away all sorts of physical and mental barriers.

The railway is a major contributor to the modern European economy. A modern economy requires increasingly specialist skills and the ability to pull them together to focus on a business endeavor. Good railway transport allows this to happen.

Key words: efficiency, European policy, passenger transport, railway.
J.E.L. classification: F23, J21, K23, M38.

1. Introduction

Considering past and actual traffic condition in European countries, this study investigates travel demand and supply for Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Luxemburg, Great Britain, Netherlands, Portugal, Spain and Sweden rail companies. Accordingly, principal objectives of this study can be stated as follows:

- The features of the rail companies from the European countries mentioned above;
- Analyzing the evolution in the aforementioned companies by comparison of their activity trends between 1965-1998 and 1999-2008 period;
- Emphasize a few conclusions about the efficiency of the European rail firms, towards a sustainable transport system.

Jovanovic (1982) shows, both theoretically and empirically, that efficient firms grow and survive, while inefficient firms decline and fail. Transport planners, researchers and practitioners [1] are searching reasonable solutions for ever-growing travel supply and demand, and its related adverse effects on local and global environments. Travel activity for rail transport services is extremely qualitative due to its dependence on time of day, day of week, speed and route of travel, [3].

2. European rail companies features

By considering the mobility crisis in Europe, this study aim to investigate travel supply and demand, and transport policies for fourteen European companies. At first, rail companies features were developed to analyze the travel evolution in the countries concerned. Then, the estimation results of the developed travel trend were successfully used in computing accessibility information for future proposals. The analysis will be based on a description of what constitutes vital elements in rail companies' activity.

As shown in E.S.P.O.N. 2013 Programme (the European Observation Network for Territorial Development and Cohesion), the need for flexibility and continuous resource reconfiguration and the management of a collaborative network of big and small players, with valuable but fragmented contributions to overall customer experience, can lead to a new level of complexity.

The nature of resources – human and technological – has transcended the companies and their legal boundaries. Today, resources are global and the focus should be on access and influence, not ownership and control. The present situation concerning the development of the European rail companies and the diversity of trends and impacts in their activity will be addressed in following analysis, which begins by identifying some main territorial structures and characteristics. The analysis highlights strengths, weaknesses, opportunities and threats.

For larger companies, such as cross-border and transnational companies, a modern paradigm to an efficient regional policy should respond to ongoing mega trends and impact of policies, and, in particular, take into account that:

- potential for development need stronger focus and investment in the areas of high growth potential;
- disparities between regions rapidly are changing profile and new challenges are emerging, which change the scope for policies and increase the need for coherent strategies in the medium to longer term;
- an integrated approach to companies' activity development and cohesion is helping to create sustainable communities, which has become inevitable, in order to ensure synergy and complementarity from all relevant sectors.

Understanding the position of each rail company in comparison with other firms plays an important role in identifying new potentials for development. Key options have to be explored from a European perspective, providing the larger territorial context and making it possible to see new opportunities and under-used potential.

All countries of the European Union (E.U.) Member States have their part to play in making Europe a competitive, attractive and livable place in the world. Diversity represents positive assets that can be capitalized and which can contribute to making Europe the most competitive territory in the world. Diversity also takes the form of disparities which challenge, and in some case put at risk, European cohesion and integration.

Mega trends often of a global nature are having impact on the activity of European rail companies. This influences the disparities between European countries' companies, which are changing in magnitude and in character, and this also changes the scope for policies. Particularly, the accelerating globalization and climate change will create new challenges for many companies, calling for stronger competitiveness and preventive measures. In addition, the immediate neighborhood to the E.U. presents economic opportunities.

Three features, common to all rail companies, influence the analytical framework used in the above material. First, the multi-output production obtained since passenger and freight services are provided simultaneously. Second, all the fourteen rail companies benefit from some degree of (natural) monopoly. Third, rail passenger transportation is public services, which is often strongly regulated.

The three characteristics described above are common to all fourteen European rail companies considered in this study. Our research spans 1965 to 1998 and 1999 to 2008, and over this timeframe several important events in the environmental conditions where these companies operate have occurred. The research's aim is to analyze what consequences those events had on the efficiency of our sample European rail companies.

All of the companies analyzed in this paper provide passenger services and all were publicly-owned (or transitional, in the last years) during our sample period. All companies held a natural monopolistic position on railway transportation, although in return their activity was constrained to varying degrees by public authorities.

The initiative to change the environment within which railway firms operate is part of the overall framework set by the European Union on transportation. Thus, Directive 91/440/CEE enables a certain freedom of access for third parties to the infrastructure of some services like groups of rail companies interested in providing international services involving third countries.

Also, the above directive defines as an objective the split of the operation of the transportation business from the operation of the railway infrastructure (at least at the accounting level). In this regard, some railway companies have accomplished restructuring processes with the aim of trusting the planning and/or operation of the infrastructure to other "entities" different from the ones realizing the operation of the transportation services.

To create realistic economic conditions to develop the services, Directive 2007/58/EC includes the right for international trains to perform cabotage, which is picking up and setting down passengers at stations located in the same Member State. Those countries were required to transpose Directive 2007/58/EC before 4th of June 2009, after which they had to inform the Commission of the laws, regulations and administrative provisions enacted at a national level in order to comply with the European rules, (information available online at http://ec.europa.eu/transport/infringements /index_en.htm). Also, under the Rail Passengers Regulation 1371/2007, common minimum rules will apply throughout Europe, for instance in case of delays or cancellation of trains. In addition, since rights are meaningless unless passengers are aware of them and know how to pursue them, the railway companies are obliged to inform passengers of their rights and obligations and to establish complaint boards, (information available online at: http://ec.europa.eu/ transport/passengers/rail/rail_en.htm).

Sweden was the first company that take the initiative, and in 1988 a new public organization was created (the Banverket) completely different from the Swedish railways, whose decisions on investments and prices are set based on criteria of cost and social advantages.

Great Britain was second in following this role model: in April 1994, Railtrack was created as a government firm, independent of British Railways. The Great Britain example, though, is completely opposite to the Swedish, since Railtrack is a service company, receiving no government subsidies, and privately-owned (the public sell-out of all the shares of Railtrack took place in May 1996). Simultaneously, the services offer was privatized by simply selling out the freight and mail transportation, and licensing the passenger transportation. It is to these service activities that all government subsidies are addressed.

German railways, with the creation of DBAG after Germany's reunification, have been in this process since 1994.

In Spain, RENFE company changed in 1990 to a more decentralized organization consisting of some strategic business units.

In the Netherlands, since 1994, two groups have been created, one accounting for the infrastructure, and the other aiming for the commercial business.

Other relevant facts, like the impact of technological evolution, have been felt in this last decade with the introduction of high-speed trains. This means the arrival in the transportation market of a "product" which transforms the traditional railway into a strong competitor with the other means of transportation. This newcomer also requires a significant investment in infrastructures - countries like France, Germany or Spain are good examples of the effect of this technological evolution.

1997 was noted in the history of French railway through the restructuring of rail activity. The rail service in Denmark was split into five bodies in 1999. Also in Austria, this division was made as a consequence of European legislation narrowly since 2003.

In 2005, the Belgian rail company was divided into three companies: Infrabel, which manages the railway infrastructure, NMBS –

on freight and passenger services, and NMBS/SNCB-Holding, which oversee cooperation between them. In the same year, there were restructured the railways in Luxembourg.

So, this split was made to facilitate the management and further liberalization of freight and passenger rail services, in line with European regulations.

Results

Therefore, further in Table 1 there are presented the main companies observed in different periods between 1965-1998. These rail companies were selected on two grounds: availability of data and comparability.

Toward period of 1965-1998, in recent years, rail passenger business market has changed, see Table 2.

Table 1 – Representative variables of the European rail companies between 1965 and 1998

Country	Company	Labor (thousand)	Passenger (thousand)	Lines (thousand km)	Electrification (%)	Double line (%)
Austria	ÖBB	67,05	69,61	5,77	50,40	28,10
Belgium	SNCB/NMBS	49,70	67,58	4,03	45,40	65,10
Denmark	DSB	17,98	40,94	2,26	8,00	36,00
Finland	VR	22,00	24,99	5,89	16,60	8,10
France	SNCF	239,37	286,30	35,01	31,70	44,80
Germany	DB AG	314,55	433,20	30,16	37,70	43,10
Ireland	CIÉ	7,21	8,40	2,07	0,80	24,30
Italy	FS	189,94	224,37	16,25	54,60	33,00
Luxembourg	CFL	3,65	3,51	279,00	62,50	56,70
Great Britain	BR/ATOC	195,79	343,58	18,01	21,70	72,00
Netherlands	NS	26,61	94,04	2,90	62,20	57,40
Portugal	CP	22,12	27,29	3,39	14,20	12,70
Spain	RENFE	65,25	99,75	12,98	40,40	18,80
Sweden	SJ	30,08	60,09	11,30	63,20	11,60

Source: U.I.C. database.

Table 2 – Representative variables of the European rail companies between 1999 and 2008

Country	Company	Labor (thousand)	Passenger (thousand)	Lines (thousand km)	Electrification (%)	Double line (%)
Austria	ÖBB	46,78	190,00	5,67	60,95	34,17
Belgium	SNCB/NMBS	39,49	178,05	3,49	82,64	77,30
Denmark	DSB	8,80	153,70	2,17	28,66	41,87
Finland	VR	11,24	60,49	5,84	44,82	9,00
France	SNCF	169,90	934,59	29,67	48,99	55,46
Germany	DB AG	215,82	1.752,44	35,28	54,98	50,81
Ireland	CIÉ	5,44	37,54	1,92	2,60	25,93
Italy	FS	102,84	510,99	16,16	68,99	40,64
Luxembourg	CFL	2,80	14,26	0,27	95,27	50,98
Great Britain	BR/ATOC	21,55	190,00	16,21	36,54	73,80
Netherlands	NS	17,87	317,48	2,82	73,30	66,76
Portugal	CP	5,83	140,17	2,83	42,79	19,53
Spain	RENFE	25,26	481,31	12,74	58,22	30,14
Sweden	SJ	4,17	49,91	9,88	78,17	17,67

Source: U.I.C. database

The analysis for the period of 1999-2008 show that companies activity in achieved according to:

- the number of employees,
- the total passengers carried, and
- some characteristics of railway lines, namely their length, their degree of electrification and the percentage of the total kilometers of double line.

Therefore, analyzing the corresponding average for the labor, concludes that companies have made staff reductions at a rate of 46.27%. This went as a result of the E.U. Commission decision no. 91/440/CEE, to separate railway networks from train operations.

Comparing data on railway lines (km), most companies have reduced their length, focusing more on electrification and doubling of the existing and widely used lines, but regarding the evolution of average number of passengers carried, is recorded a positive trend

.

Table 3 – Percentage change of the estimated parameters between 1965-1998 and 1999-2008

Country	Company	Labor (thousand)	Passenger (thousand)	Lines (thousand km)	Electrification (%)	Double line (%)
Austria	ÖBB	⇓ 30,23	⇑ 172,97	⇓ 1,64	⇑ 10,55	⇑ 6,07
Belgium	SNCB/NMBS	⇓ 20,54	⇑ 163,49	⇓13,44	⇑ 37,24	⇑ 12,20
Denmark	DSB	⇓ 51,04	⇑ 275,46	⇓ 3,98	⇑ 20,66	⇑ 5,87
Finland	VR	⇓ 48,88	⇑ 142,05	⇓ 0,72	⇑ 28,22	⇑ 0,90
France	SNCF	⇓ 29,02	⇑ 226,44	⇓15,23	⇑ 17,29	⇑ 10,66
Germany	DB AG	⇓ 31,39	⇑ 304,53	⇑ 16,98	⇑ 17,28	⇑ 7,71
Ireland	CIÉ	⇓ 24,58	⇑ 347,13	⇓ 7,45	⇑ 1,80	⇑ 1,63
Italy	FS	⇓ 45,86	⇑ 127,75	⇓ 0,61	⇑ 14,39	⇑ 7,64
Luxembourg	CFL	⇓ 23,36	⇑ 306,43	⇓99,90	⇑ 32,77	⇓ 5,72
Great Britain	BR/ATOC	⇓ 88,99	⇓ 44,70	⇓10,00	⇑ 14,84	⇑ 1,80
Netherlands	NS	⇓ 32,84	⇑ 237,58	⇓ 2,70	⇑ 11,10	⇑ 9,36
Portugal	CP	⇓ 73,63	⇑ 413,73	⇓16,28	⇑ 28,59	⇑ 6,83
Spain	RENFE	⇓ 61,29	⇑ 382,54	⇓ 1,81	⇑ 17,82	⇑ 11,34
Sweden	SJ	⇓ 86,13	⇓ 16,94	⇓12,57	⇑ 14,97	⇑ 6,07

Source: made by authors.

Overall, private and state-owned Community of European Railway (C.E.R.) rail passenger operators developed well in 2008: the total number of passengers carried went up by 3%, from 7.7 billion passengers in 2007 to 7.9 billion in 2008.

Likewise, passenger-km increased by 2.2%, from 541 billion passenger-km in 2007 to 553 billion in 2008. However, latest figures, which C.E.R. has collected from its members in spring 2009, show a fall in numbers related to the current economic crisis: for countries in Central and Eastern Europe passenger-km fell by 5% in January 2009 compared to January 2008, while for the E.U.15 countries it was around 2% less.

The transport diversity in Europe offers a wide range of unique combinations of development potentials, basically every European mode of transport possess a different set of potentials that can be exploited.

Also, the transportation, communication and energy infrastructure and networks are well developed in Europe and form good preconditions for development and comparative advantages of European Member States.

European Member States diversity provides each country with a unique combination of assets and development potential, some of which are being explored while others are under-used.

3. Concluding remarks

For almost two centuries railways have played a key role in the European economy in providing valuable transport backbones across the continent and facilitating, if not stimulating, great industrial revolutions.

However, the last three decades have witnessed a continued loss in market share for rail passenger.

At the end of the 1980s and in the 1990s some Member States of the European Union started to restructure the railway sector and to reform the regulatory framework in order to open up rail markets. At the European Community level, the White Paper in 1996 on rail transport (European Commission 1996) laid down the strategic principles aimed at revitalizing the railway sector in order to increase its competitiveness and attractiveness with customers. Ideally, the railway sector must be able to participate in transport growth by allowing railway firms to act as commercial entities at a European level, [4].

The economic crisis severely affects the financial situation of European passenger railways: the growth which operators in western E.U. Member States experienced in past years stopped, and turned into stagnation in the first four months of 2009. Passenger-kilometers of eastern European railways even declined by nearly 10% compared to the previous year, as figures from recent CER surveys show.

While some European railways are progressing along ambitious growth plans despite the crisis, others – mostly in the new Member States – are struggling for survival due to inadequate financing of public services that make up most of their activities. So, the efficiency of the European railway companies has been affected, first of all, by the reduction in their enrolment occurring over the period, the most representative cases being those of BR (UK), and SJ (Sweden) with almost 80 percent of their employees dismissed, and SNCB (Belgium) and CFL (Luxembourg) to a lesser degree, second by the degree of improving the features of rail, best results were obtained also in those of SNCB (Belgium) and CFL (Luxembourg) to a higher degree, thirdly by the increasing number of passenger.

4. References

[1] Gathon H.-J.; Perelman S., (1992), "Measuring Technical Efficiency in European Railways: A Panel Data Approach", in *Journal of Productivity Analysis*, No. 3, 135-151.

[2] Jovanovic B., (1982). "Selection and Evolution of Industry", in *Econometrica*, vol.50, 649-670.

[3] Nash, C. (2008)," Passenger railway reform in the last 20 years - European experience reconsidered", in *Research in Transportation Economics*, Volume 22, Issue 1, 61-70.

[4] Scherp J., (2005), "Railway (De-)Regulation in E.U. Member States and the future of European rail", in *CESifo DICE Report*, 4/2005, 26.

[5] E.S.P.O.N. 2013 Programme. European observation network on territorial development and cohesion adopted by European Commission Decision C(2007)5313 of 7.11.2007. in *Structural Funds 2007-2013*, Objective 3. Interregional Cooperation Networks, 7. Available online at www.espon.eu

[6] Entry into force of Regulation 1371/2007 on rail passengers' rights, 2009. Railway passengers in the EU have new rights as from today, *Summary of E.U. legal provisions on rail passenger rights*. Available online: http://ec.europa.eu/transport/passengers/rail/rail_en.htm

[7] *Infringements proceedings*. European Comission, Mobility and Transport. Available online: http://ec.europa.eu/transport/infringements/index_en.htm

[8] European Union, European Comission Directorate General for Energy and Transport in co-operation with Eurostat. *Energy and Transport in Figures 2010, Part 3: Transport*. Available online:
http://ec.europa.eu/transport/publications/statistics/doc/pb_2010_33_tkm.xls

The Pension System in Romania Where To?

Golea Pompiliu
Balogh Petru
"Dimitrie Cantemir" Christian University
golea_p@yahoo.com
petru_balogh@yahoo.com

Abstract

The paper aims to synthesize aspects of development the systems the pensions in Romania to emphasize the threats at address the system of state social insurance. On this basis pleads for implementation of the system private optional pension which together with other measures in opinion of authors will reform this system insurance state a important step for solve the issues critical determined by demographic and economic developments.

Key words: Von Bismarck, von Taffe, Pillar I, Pillar II, Pillar III
J.E.L. classification: E00

1. Introduction

Public pension system held supremacy over a century was born of an altruistic conception of man - social protection at the end of its working life. It should be noted that by the time the state does not assume any responsibility for the social protection of citizens. Therefore they were solely responsible for the risk: old age, illness or workplace accidents.

Insurance premiums have a relatively short history of the human evolutionary scale. The first legislation on this issue have been attributed to conservative reformers von Bismarck von Taffe. Although their initiative to have political motivations (emphasizing the social division between different categories / classes of employees through the establishment of laws and privileges that differ from group to group of employees, increase loyalty to the monarchy) however it is a first of the modern state involvement social protection of individuals on a contributory.

Were covered only civil servants and employees in the industry with a small share in the German population and the retirement age was 70 years.

The German was later followed by other countries (U.S., Canada and Australia) [2].

With regard to our country we can be proud that we have a long tradition in the social insurance. Romania is among the top four European countries having introduced a system of compulsory insurance.

Area not only allows us to capture some general trends coordinated social security system in our country.

We will briefly present:

• In the old kingdom, Nenitescu Act of 1912 introduces for the first time, the principle of insurance against accidents, sickness, maternity, old age, invalidity benefits for corporate employees. Old age pension contributions were paid equally by the worker, employer and state. The age limit was 65 and the minimum period of contribution for 23 years;

• Unify system took place in 1933 by Law Ioanitescu. Management lies with the state insurance system and employers. It is worth mentioning that the system was not introduced farmers and old age pension. Only in 1938 the old age pension is reinstated. In the early fourth decade of the last century can be appreciated that the urban working population was covered by a high degree of social security [3].

State insurance system in Romania in postwar PAYG type ("step by step") - current pension expenditures are covered by active generation, as they will be supported by future generations.

• With the coming of the communist regime in power, all public and private funds

have been included in the budget by Law 10/1949. Social security after 1949 begin to basic pillar of social protection in Romania, being recognized for unemployment benefits and social assistance. Fund is allocated a high percentage of welfare costs, expenses of the fund is focused in particular on the provision of pension (old age, invalidity, survivors) is granted, however, other benefits (sickness, death, maternity). The law of 1949, old age pension amount was 50-80% of salary.

Contributions are paid by employers, all units of government. In 1959 the laws are introduced housewives and agricultural workers who can now contribute to the system. Employment requirement before 1990 and compulsory employer contribution period led to very high population coverage with social insurance. The high rate of collection of contributions made to the system to operate without financial imbalances. Because of high costs, the fund required a rebalancing in the period 1968-1972, by reducing the amount of pension [1];

• Law of 1977 establishes a few changes of substance: it is necessary to increase the age of five years, reaching 25 years for women and 30 men, severely reduced benefits for disability pensions, pensions for members to reintroduce collective farms and individual farmers. Farmers are seriously disadvantaged compared to workers on retirement age and years of service (workers had a lower age limit for others).

Separate security devices and systems for craft cooperatives, churches, lawyers, creative, army. Contributions to the system after 1977 are: 14% of the employer; employees contribute only 2% supplementary pension fund (from 1986 to 1999 the percentage is 3%).

Agricultural Insurance Fund is financed by contributions from agricultural cooperatives (8% of global production), retirement age in agriculture was 65 for men and 60 for women. Eligibility conditions for farmers have changed their benefits after the revolution but still stood at a very low level. For full pension, the statutory retirement age was 57 (55 years on request) and 62 women (60 years on request) for men. These criteria were retained until the new law in 2000;

• Law 19/2000 published amid adverse developments on which we will refer in the next chapter, was meant to be the beginning of reform. The new law has restricted access to benefits by increasing the retirement age theory 60 years women and 65 men; introduced a more drastic control on the granting of disability pensions, restrictions on early retirement (early retirement without penalty is allowed for an increased contribution period of 40 years for women and 45 men.

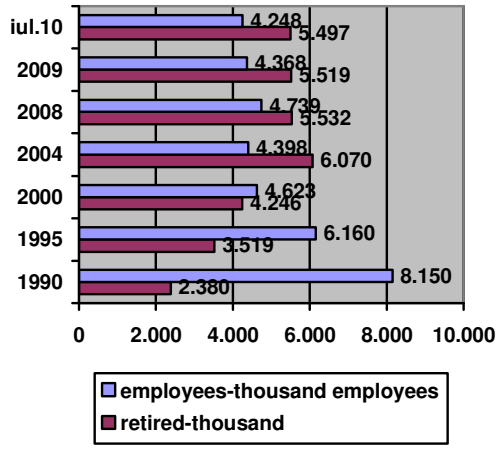
The restricted definition of the job in dangerous conditions, thus limiting the privileges gained in the past by some groups.

Since 1990 they have taken steps to increase contributions to meet the financial needs of the country as a result of rapid increase in the number of retirees. The economic, demographic and ensuing political, social insurance systems have resulted in a critical situation.

2. Analysis of the financial balance of pension system

With the current pensions are paid mostly PAYG system is not easy to maintain a financial balance, in so critical a situation where the number of beneficiaries is so large and so small number of taxpayers. This observation is based on the following statistics:

Fig. no. 1. Evolution of state social insurance pensioners



Source: Statistics Ministry of Labour, Family and Social Protection

Increasing the number of pensioners has been recorded in the following ways:

• Inclusion in the general system of pensions of retirees from agriculture which in 2004 led to a peak of over 6 million people further reduced;

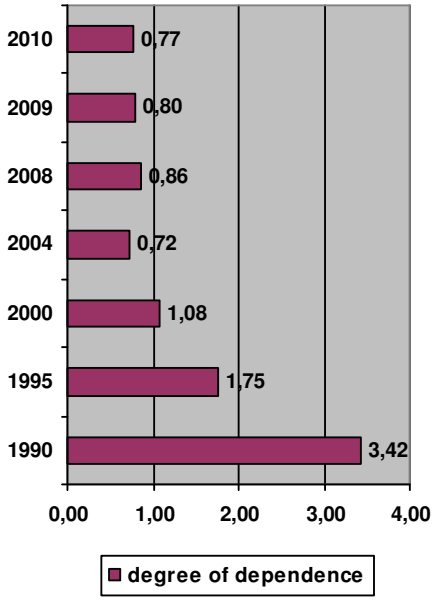
• With many retirements which have led to their continuous growth. It should be noted that after reaching the retirement age limit, people retiring early retirement out of this category.

Average number of taxpayers has declined dramatically from 8 million in 1990 to slightly over 4 million taxpayers from the social security system within Pillar I.

In some areas there are few contributors to the pension system as employed persons in agriculture.

The analysis of the graph in Fig. no. 1 can see a permanent reduction in the number of employees and the gradual increase in the number of retirees, a trend which can be evidenced by monitoring indicator "the degree of dependence"; as the ratio between the average number of employees and average number of retirees (see Fig. No. 2).

Fig. no. 2 Development of "the degree of dependence"



Source: Author calculation based on statistical data

Governments that have succeeded at the helm of the country have implemented a set of measures:

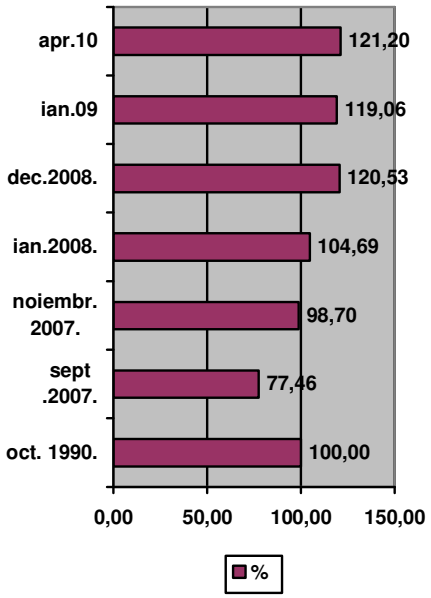
• the application of higher taxes on taxpayers; • changing the real value of pensions to social economic and political context;

• supplementing pension fund to subsidies in some stages the state social insurance budget.

a) The fiscal pressure. Deterioration dependency ratio led to the evolution of social security contributions. Since the beginning of the decade in September from a contribution of 20% has come from a contribution by Law 12/2010 differentiated: 31.3% for normal work of which 20.8% and 10.5% committed employer, 36.3% for the particular working conditions of which 25.8% 10.5% employer and employee, 41.3% for special working conditions which 10.5% 30.8% employer and employee.

b) Change in fair value of pensions main variables that determined the actual retirement developments were mainly inflation and the economic, social and political.

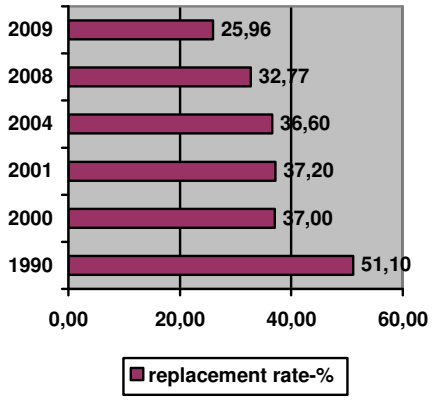
Fig. no. 3 Evolution of the real pension public pension system (excluding the average pension for farmers) in the period 2001-2010



Source: Calculated by author based on INSEE data

Let us consider the ratio between average pension and average wage rate indicator known as the replacement.

Fig. no. 4. Evolution of the replacement rate



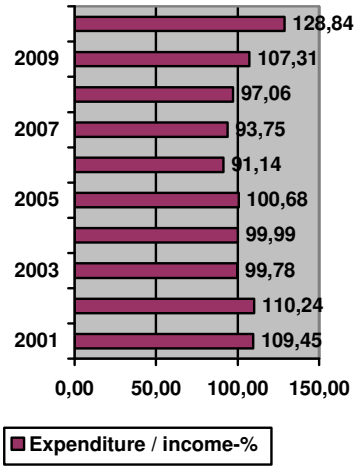
Source: Author calculation based on statistical data

The graph analysis shows that the value of the replacement rate has a downward trend which tends below 30%. The process can be explained by the fact that the indexation of pensions mainly followed the rate of inflation, while salaries have increased in market logic consistent with other macroeconomic variables and political nature.

c) Subsidy amounts in certain phases of state social insurance budget.

Let see the implementation of social insurance budget in the period 2001-2009 using the ratio between revenues and expenditures within it:

Fig. no. 5 The report Social security budget revenue expenditure



Source: Author calculation based on statistical data

It finds that the deficit period in 2001, 2002, 2009 and 31 July 2010. To balance its grants have been used in some periods: 2001, 2002, 2003, 2004, 2005 and 2007 and 2010. Statistics according to budget execution July 31, 2010 reveal that the public budget to date record of CAS receipts worth 19.09 billion lei, expenditures of 24.53 billion lei pension payments. We have a deficit of 5.44 billion lei.

Ultimately not one of the major sources of problems in the pension budget was repeated postponement of the payment by the major agents of social insurance obligations to the budget. One of the major sources of problems in the pension budget has been repeatedly deferred payment obligations to the great staff of insurance budget social.

For example in March 2010 only CAS accumulated debt without penalty of three of the major state businesses CNH Petrosani, CFR, CFR Freight exceeded one billion lei [5].

Demographic trends are not favorable for a natural balance in the future. Most pessimistic version of demographers show dramatic population decline and aging. Given that fertility is maintained at now, while the number of elderly continues to rise with increasing life expectancy, Romania population will reach 16 million.

But looming on the horizon is an issue with major impact around 2030. As we recall, Nicolae Ceausescu in 1966 signed his famous decree that abortion was banned to stop the natural decline of fertility rate in our country. Serious problem is that this will hit Romania in this period when millions of people will come out simultaneously and pension system will pose serious problems for pension liability artificially kept in air [5].

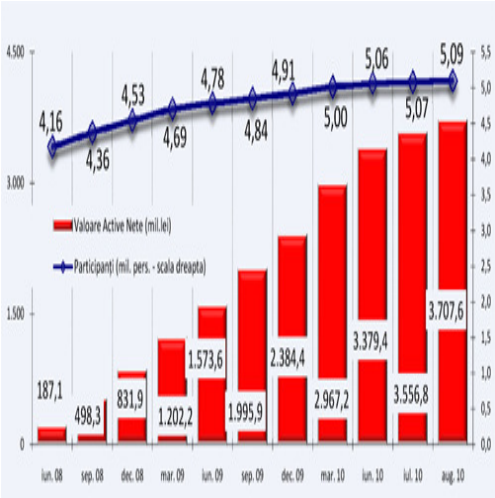
3. Pillar III an alternative future

The pension system in Romania is composed of three pillars:

- Pillar I - PAYG system that we have discussed;
- Pillar II - privately managed pension governed by law no. and supplemented by Law no. 411/2004. 23/2007;
- Pillar III - privately managed pension governed by law no. 204/2006

With regard to Pillar II should make some clarifications: State practice collected money transfers a part of everyone's contribution (2.5% in the first year of -2008 will be increased to 6% in 2016). It is mandatory for persons under 35 years old and optional for those between 35 and 45 years.

Fig. no. 6 Evolutions the number of participants and net assets management system mandatory private pension funds



Source: CSSPP

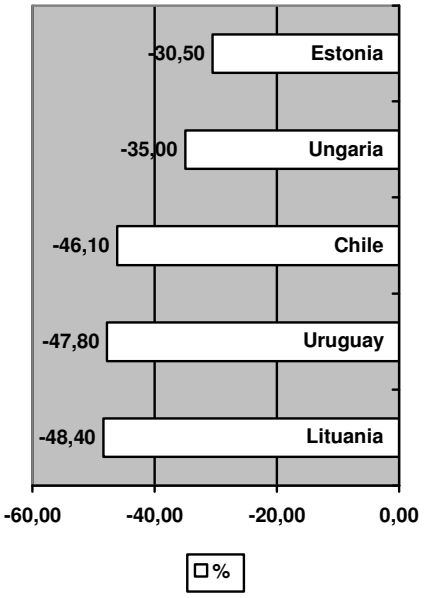
The data highlight the existence of performance. But we believe this brings pillar introduces some potential risks. As shown in paragraph 2 (2) Article 1 of Law 411/2004 on privately managed pension funds for this pillar is "providing a separate pension supplement paid by the public system" [6].

In our definition this means that the state pension is determined by the first pillar reduces the occurrence of mandatory private pension. Mandatory private pension is not guaranteed to inflation.

Therefore should have higher returns than assets for noble purposes set out in accordance with the law of the state pension amount that is lost. So the state would be guaranteed and therefore it should intervene if there are failures of managers of such funds.

The chart below shows net assets decreased in some countries that have implemented this system.

Fig. no. 7. Change the private pension fund assets in the first three quarters of 2008



Source: Impavido and Tower (2009) [1]

This system is based on the belief that the person responsible investment that pays 30-40 years will get to receive an early retirement at the end of the period.

In cases of bankruptcy or reductions in state assets will have to intervene and bring money to ensure the maintenance of the system. This money actually come from taxpayers.

For this reason some experts say that Pillar II should be abolished and the money to return to Pillar I and Pillar III should be paid to act as Slovakia in 2009 [4].

Pillar III is actually privately managed pensions Occupational Pensions. Participation in these funds is optional. More than one person can participate in more such funds. Participant in a pension fund also owns the active personal assets can not be pledged or assigned.

Private pension funds must provide a minimum rate of return set by the board of supervisors.

Developments private pension funds are shown in the graph below:

Fig. no. 7 Evolutions of number of participants and net assets in system optional pension private

Source: CSSPP

4. Conclusions

Classic pension system envisioned by von Bismarck von Taffe originally commenced to show its limits. Demographic behavior of the population and economic cycles are two fundamental reasons causing rethinking of social pension schemes other economic principles.

This puts the pressure on government officials and both Pillar I and Pillar II systems are designed for those alternatives. We have expressed doubts about the Pillar II of the arguments shown in the paper. We believe that Pillar I to Pillar III must be combined so that the first to provide a guaranteed minimum pension and the second a multiplier effect of investment. In this way it creates and sources of investment for our economy which is suffering right now.

5. References

[1] Impavido G and Tower I "How the Financial Crisis Affects Pensions and Insurance and Why the Impacts Matter", IMF Working Paper, no. 151
[2] Marian Preda and collectively, 'The pension insurance system in Romania during the transition, major problems and solutions"; European Institute of Romania, Bucharest, 2004 pp 1-16
[3] Mărginean John, the article "Social policy and welfare system";in E Zamfie, I. Badescu, C. Zamfir (coordinator), "Status of Romanian society after 10 years of transition ", Expert Publishing House, Bucharest, pp 1-38
[4] Liviu Voinea, "Economy End of Illusion, Public House", Bucharest 2009
[5] *** Financial Week, August 30. 2010
[6] ***The Collection " Monitorul Oficial"

Romanian Migrants' Remittances: Past Trends and Short-term Prospects

Goschin Zizi
Popa Aura
Roman Monica
The Academy of Economic Studies, Bucharest
zizigoschin@yahoo.com
auratheodora@yahoo.com
monicaroman70ro@yahoo.com

Abstract

This study addresses the past trends of Romanian migrants' remittances and the extent to which remittances inflows were affected by the economic crisis. Specificaly, we examine the sign examine the significance of selected macro-economic factors associated with remittance inflows in Romania by means of an econometric model. Among the main findings is that the evolution of the Gross Domestic Product is positively related to the growth of the remittances and that the total amount of remittances positively impacts upon the living standard of house-holds left behind.

Key words: migration, remmitances, GDP, Romania.
J.E.L. classification: C70, F22, F24.

1. Theory and empirical evidence on remittances

The growing volume of emigration has called for increased attention both from academic and practitioners. The existing literature dealing with migration issues is usually adopting either the perspective of receiving countries (Sassen, 1988), or the causality and impacts for migrant-sending countries, with remittances playing a major role in this context. Migration and remittances do undoubtedly relieve pressure on the sending countries, compensating for underemployment and generating new opportunities to capture resources through remittances (Gammage, 2006), help alleviate poverty and improve quality of life in poor countries (Ratha, 2004; Skeldon, 2007). On the other hand remittances stimulate imported goods consumption, favor price increases (especially real estate) and land speculation, finally increasing inequality (Aizenman, 2006).

The impact of remittances on migrant origins is a subject that was considerably debated over time. Research all over the world tried to analyse this matter, some of them find that remittances tend to increase income inequailties, whereas others find just the opposite. In the past few years, there has been a remarkable renaissance in the interest in remittances. This interest has undoubtedly been triggered by a striking increase in remittance flows: after years of relative neglect, they have been rediscovered as a potential source of development finance. In the current world economy, remittances from international labor migration contribute not only to the well-being of their households of origin but also have an impact at macro-economic level. From a macro-perspective, remittances contribute to the equalization of the income distribution among households having out-migrants.

The increase of total remittances from labour migration in the world triggered the debates on their broader economic impacts on the remittance-receiving countries. One common measure employed in empirical work attempting to capture the income distribution effects of remittances is the Gini inequality index (Stark et al., 1988), but the results of such empirical analysis are contradictory. Ahlburg (1996) and Taylor (1999) reported that remittances had an

equalizing effect on income distribution in Tonga and Mexico. On the contrary, Adams (1991), using the same Gini index formula, discovered that remittances contribute to the increase in inequality, mainly because better-off families are more able to pay for the costs of migration (Straubhaar and Vadean, 2006). Similar results were reported, in the Philippines, where as much as 7.5 % rise in rural income inequality in the 1980s was produced by remittances, although their share in the households' income was rather low (Rodriguez, 1998), as well as in Peru (Takenaka and Pren, 2010) and in Yugoslavia, where the remittances generally fueled income divergence, the effects varying according to the periods and social categories (Milanovic, 1987).

Straubhaar and Vadean (2006) found two potential explanations for this lack of conclusive evidence on the remittances impact on income inequality in home countries: the diversity in the environments researched in terms of initial inequality and the differences in the methodology as well. The impact of remittances, finally depends on the nature of emigration, as well as on the socioeconomic structure, of the home country (World Bank, 2006, 2008; Beine, Docquier, and Rapoport, 2002).

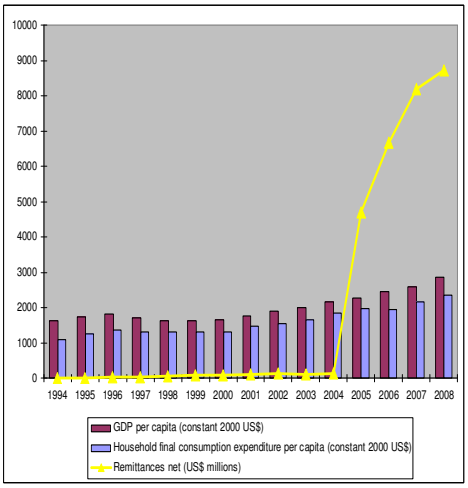
A more sophisticated approach based on a dynamic model of migration and income distribution (Stark et al., 1986, 1988) revealed that the income distribution effect of remittances depends critically on the migration history and on the distribution of migration opportunities across households. They found an inverse U-shape relationship between migration and income distribution: in the first stage wealthy families benefit from the migration, therefore income inequality upsurges, while in the second stage poor families also acquire information, start migrating and take advantage from remittances, inducing a decrease in inequality.

The extent of the migrant remittances' influence in the home countries is expressed through their multiplier effects. For instance the multiplier effect from the expenditure on remittances in Mexico was 3.25 in 1988 (Durand et al, 1996), but seem to have had very limited impact on productive activities in El Salvador (Gammage, 2006), where remittances have increased the trade deficit, determining higher dependency on imports.

2. Romanian migrants' remittances trends

Remittances represent an important growth factor, lowering external imbalances and releving pressure on currencies. Romania has long benefited from increasing remittance inflows (Figure 1) that sustained domestic consumption and economic growth, while reducing the current account deficits.

Figure 1. Main economic variables, 1994-2008



Source: authors

According to some experts, the current account deficits in Poland and Romania would have been over 50% higher in 2009 were in not for migrants remittances. Unfortunately since 2009 Romanian migrants' remittances sink amid economic crisis. Romania has been severely affected by the remittances drop, with remittance inflows down more than 2 billion euros in 2009 to an estimated 3 billion euros.

According to Eurostat, the negative trend in overall remittances that began at the end of 2007 was already over by the second half of 2009 in most EU countries. However, the weak recovery in the euro zone in 2010 continued to impact remittances to Romania folling by a third in the first quarter of 2010. Despite the decline induced by the current economic crisis, remittances remain relatively high, given that many migrants, even when faced with economic difficulties

continue to send money to support their families. The share of remittances in GDP is lower in Romania compared to smaller countries (approximately over 10%), yet the absolute volume is significant, and their use in household consumption is more than appropriate, especially in this period of economic crisis.

Now that the Western Europe is growing again (1.8% forecasted growth in 2010 for the whole European Union, 1.7% for the Eurozone) hopes are rising that recent declines may be starting to reverse and Romania will benefit once more from enlarged remittances inflows.

3. The econometric model and results

We address the significance of remittances as a factor of poverty lowering and households consumption increasing by means of an econometric model using datasets provided by World Bank. Due to restrictions on available statistical data we had to limit to the period from 1994 to 2008. Starting our model from a simple regression, in which the dependent variable is households final consumption on expediture per capita (HFC) (constant 2000 USD) and the independent one is remittances (REM), we try to compose a more complex equation, introducing one by one other variables, macro-economic indicators such as: deposit interest rate (DEP) (%), total unemployment (UNM) (percentage of total labor force), inflation (INF) (at consumer prices, annual %), patent applications by residents (PAT), consumer price index (CPI) (considered in 2005 equal to 100), household and imports (IMP) and exports (EXP) of goods and services (% of GDP).

We summarize the Pearson correlation between remittances and the main variables as follows:

Table 1. Pearson correlation

REM	1,000
GDP	0,932
UNM	-0,399
HFC	0,883
INF	-0,466
CPI	0,761

Source: authors

Only those variables that were validated from the statistical point of view and that are representative were considered for the econometric model. Eventhough our literature review indicated that remittances have a big influence over import, export and deposit interested rate, our empirical analysis indicated a very weak correlation and therefore we decided to not take these variables into consideration anymore. The final multiple regression model incorporating in the principal variables selected for the model is specified by the following general equation:

$$HFC_t = \beta_0 + \beta_1 GDP_t + \beta_2 IM_t + \beta_3 REM_t + \beta_4 UNM_t + \varepsilon_t \quad (1)$$

where the dependent variable HFC_t represents the household final consumption expenditure per capita and $\boldsymbol{\beta_j}$ are the parameters that summarize the *j* factor contribution to the dependent variable, *t* stands for the year and ε_{ti} is an independently and identically distributed error term for *t* with zero mean and variance σ^2.

The hypothesis to be tested is that territorial variation in the total value of the agriculture and rural development projects initiated during 2007-2009 period can be explained partly or wholly by the economic and social characteristics of the counties.

Table 2. Regression result

VARIABLE	COEFFICIENT	T-STATISTIC
GDP*	0.860	15.569
IM*	0.191	3.452
REM	0.152	1.072
UNM	- 0.051	- 1.127
R-square	0.864	
F-statistic and Prob (F)	274.667 (0.000)	

Source: authors' processing based on data issued by the World Bank
*significant at 1%

The results from running the regressions specified in the equation (1) using the data for 1994-2008 period are reported in Table 2. The main result of the empirical estimation of the model is that GDP and imports do exert a strong influence on the household final consumption expenditure per capita in Romania. An increase in the Romanian migrants' remittances also seems to have a positive effects on the household consumption, although the coefficient is not highly significant. The level of unemployment is negatively related to the household consumption, but the high standard errors do not allow for conclusive results.

4. Conclusions

In this paper a retrospective and forward-looking insight into Romanian migrants' remittances has been conducted. Specifically, it has mainly aimed to highlight their impact on household final consumption expenditure. We found that GDP and imports do exert a strong influence on the household final consumption expenditure per capita in Romania, as well as the Romanian migrants' remittances, as it was expected. Some other variables were also tested without reaching significance in the final specification of the model.

Despite the decline induced by the current economic crisis, remittances still remain high, given that many migrants, even when faced with economic difficulties continue to send money to support their families.

Acknowledgement. The development of some parts of this paper has been supported by the CNCSIS grant no 1829/2008: „The Effects of Labor Force Migration and of Demographical Structural Changes on the Dinamic of Economics", financed under the programme IDEI, PN.

5. References

[1] R. H. Adams, „The Effects of International Remittances on Poverty, Inequality and Development in Rural Egypt", Research Report No. 96, Washington, 1991, International Food Policy Research Institute

[2] D. A. Ahlburg, „Remittances and the Income Distribution in Tonga", Population Research and Policy Review, 15(4), 1996, pp. 391–400.

[3] N. Aizenman, *Money earned in U.S. pushes up prices in El Salvador*, Washington Post, May 14, 2006.

[4] M. Beine, F. Docquier, H. Rapoport, „Brain Drain and LDCs' Growth: Winners and Losers", Center for Research on Economic Development and Policy Reform Working Paper 129, 2002.

[5] S. Gammage, "Exporting People and Recruiting Remittances : A Development Strategy for El Salvador?", Latin American Perspectives, Issue 151, Vol. 33, No. 6, 2006.

[6] B. Milanovic, „Remittances and Income Distribution", Journal of Economic Studies, 14(5), 1987, pp. 24–37.

[7] D. Ratha, "Understanding the importance of remittances", Migration Information, 2004, www.migrationinformation.org.

[8] E. Rodriguez, „International Migration and Income Distribution in the Philippines", Economic Development and Cultural Change, 46(2), 1998, pp. 329–350.

[9] S. Sassen, *The Mobility of Labor and Capital: A Study in International Investment and Labor Flow*, Cambridge: Cambridge University Press, 1988, pp. 6.

[10] O. Stark, J. E. Taylor, S. Yitzhaki, „Remittances and Inequality", The Economic Journal, 96(383), 1986, pp. 722–740.

Turnover's Forecasting at Arabesque Company by Multiple Regression Method

Gradea Cristina Rodica
"Gheorghe Cristea" Romanian University of Sciences and Arts
Faculty of Economic, Legal and Administrative Studies, Bucharest
cristina_gradea@yahoo.com

Abstract

Multiple regression method is based on a numerical basis with "n" variables of the form $y = f(x_1, x_2 ..., x_n)$ *and on an analytical function that approximates the numerical function. In this research it was assumed that the turnover is dependent on "the number of employees" and "capital stock value." Conclusion of this study was that for an increase with 1000 in the number of employees, turnover will increase with 4.557 million lei, while an increase of 10 billion lei for fixed capital, turnover will increase with 5.16 million lei.*

Key words: regression, multiple regression, turnover, fixed capital
J.E.L. classification: D2; D22

1. Introduction

Many times, in financial management, increasing turnover is considered an objective in itself, because it is interpreted as generating growth as increasing market share and profit. From a financial standpoint, increasing turnover is not always a "blessing" because a rapidly growing negatively affects the company resources.[1]

Correct forecast of turnover is an important milestone in the evolution of the company's financial forecast.

Factors to be considered for estimating the volume of sales are:

- The effects of the economic crisis will occur in Romania in the next three years, at least;
- Romanian economy oriented on consumer is getting through recession in which suffers strong shrinkage;
- It is expected that after the economic downturn (which will take a minimum of three years), the Romanian economy will be oriented towards industry. It is estimated that there will be a period of slow economic growth amid economic globalization process and economic revival;
- Strategic measures planned by the company in 2010 (including: the initiation and development of a line for electronic commerce; the opening of service centers and technical advice to customers – economical agents; oriented from direct imports from China; Stopping, for 2010 of related investments horizontal development (enlargement) of the business and reduce direct and indirect costs to achieve a rate of return for 2010 of 11.23% and becoming on profit of economic activity).

2. Overview of Arabesque Company

ARABESQUE is a limited liability company with Romanian capital of 14.005 million lei. Company's headquarters is located in Galati, Timis street No.1, ORC: J17/666/1994, VAT: RO 5,340,801.

ARABESQUE company was founded in 1994 and is the object is trade in construction materials. During these years he gained the trust of customers and through a mix of its products and services.

ARABESQUE company's target is to be the most important distributor of building materials on the Romanian market. In this regard, efforts are being made to have the widest possible range of products offered, the largest available inventories, the lowest for order fulfillment and related services as well. The total area of the premises in which the ARABESQUE company operates its specific activity exceeds 165,000 square meters and

the number of working parts is now over 25,000.

3. Arabesque turnover forecasting by multiple regression

This regression relates to the functions of several variables. Considering a numerical function of n variables $y = f(x_1, x_2, \ldots, x_n)$ and a type of analytical function of n variables which is similar to the numerical one, we put the problem of determining the analytic function [2] so that it should best approximate the numerical function.

From the activity of ARABESQUE Company we known the following data for the period 2004-2004:

Table no 1. - Date of departure for the multiple regression model estimates

Year	Turnover	Personal number (persons number)	Intangible assets
2004	513.626.985,00	1.487	107.310.111
2005	734.484.100,00	1.940	213.547.571
2006	1.014.508.826,00	2.551	329.941.050
2007	1.362.083.765,00	3.416	532.686.426
2008	1.742.169.392,00	3.715	855.695.732
2009	1.303.311.899,00	3.510	834.492.436

Source: Data processing by accounts from Arabesque Company

We propose to estimate parameters of multiple regression model. [3]

We note with:

y = turnover;

x1 = number of employees;

x2 = value of fixed capital (fixed asset value).

Regression equation is:

$$\hat{y} = a_0 + a_1 x_1 + a_2 x_2$$

where $\hat{y}$ represents adjusted and theoretical values of variable y depending on two variables factorial x1 and x2. [4]

Regression model parameters determination is made by the method of least squares [5]:

$$\sum_i (y_i - \hat{y}_i)^2 \ \min \quad \Leftrightarrow$$

$$\Leftrightarrow \sum_i (y_i - a_0 - a_1 x_{i1} - a_2 x_{i2})^2 \min \Leftrightarrow \begin{cases} \dfrac{\partial}{\partial a_0} = 0 \\ \dfrac{\partial}{\partial a_1} = 0 \\ \dfrac{\partial}{\partial a_2} = 0 \end{cases}$$

$$\Leftrightarrow$$

$$\begin{cases} n a_0 + a_1 \sum_i x_{i1} + a_2 \sum_i x_{i2} = \sum_i y_i \\ a_0 \sum_i x_{i1} + a_1 \sum_i x_{i1}^2 + a_2 \sum_i x_{i1} x_{i2} = \sum_i x_{i1} y_i \\ a_0 \sum_i x_{i2} + a_1 \sum_i x_{i1} x_{i2} + a_2 \sum_i x_{i2}^2 = \sum_i x_{i2} y_i \end{cases}$$

The calculations, helpful for solving the system are represented in the following table:

Table no 2. - Supporting calculations for determining the parameters of the regression model

Year	y = T hundred of millions lei	x1 = personal no. thousands
2004	5,14	1,49
2005	7,34	1,94
2006	10,15	2,55
2007	13,62	3,42
2008	17,42	3,72
2009	13,03	3,51
Total	**66,70**	**16,62**

x2 = Fixed capital (intangible assets) hundred of millions lei	x1^2	x2^2
1,07	2,21	1,15
2,14	3,76	4,56
3,30	6,51	10,89
5,33	11,67	28,38
8,56	13,80	73,22
8,34	12,32	69,64
28,74	**50,27**	**187,83**

x1x2	x1y	x2y
1,60	7,64	5,51
4,14	14,25	15,68
8,42	25,88	33,47
18,20	46,53	72,56
31,79	64,72	149,08
29,29	45,75	108,76
93,43	**204,76**	**385,06**

Source: Own contribution

$$\begin{cases} 6a_0 + a_1 \cdot 16{,}62 + a_2 \cdot 28{,}74 = 66{,}70 \\ a_0 \cdot 16{,}62 + a_1 \cdot 50{,}27 + a_2 \cdot 93{,}43 = 204{,}76 \\ a_0 \cdot 28{,}74 + a_1 \cdot 93{,}43 + a_2 \cdot 187{,}83 = 385{,}06 \end{cases}$$

To solve this system of three equations with three unknowns we used the method of least squares [6], whose calculations are those in the table below:

Table no 3. - Determination of the regression model parameters

x		a0	a1	a2	
		6,0	16,6	28,7	66,7
		16,6	50,3	93,4	204,8
		28,7	93,4	187,8	385,1
		6,0	16,6	28,7	66,7
1,7	l2-x13=l2	0,0	-3,8	-15,2	-17,9
4,8	l1-x13=l3	0,0	-2,9	-10,5	-13,7
		6,0	16,6	28,7	66,7
		0,0	-3,8	-15,2	-17,9
1,3	l3-x12=l3	0,0	0,0	1,2	0,1
a2=	**0,0516**				
a1=	**4,5569**				
a0=	**-1,7533**				

Source: Own contribution

$$\begin{cases} a_0 = -1{,}7533 \\ a_1 = 4{,}5569 \\ a_2 = 0{,}0516 \end{cases}$$

So:

$$\hat{y} = -1{,}7533 + 4{,}5569x_1 + 0{,}0516x_2$$

4. Conclusions

It notes that for a 1000 increase in the number of employees, turnover will increase by 4.5569 hundreds of million lei, and an increase in fixed capital with hundreds of million lei, turnover will increase with 0.0516 hundred million lei.

5. References

[1] Vasile Ilie, *Gestiunea financiară a întreprinderii*, Didactică şi Pedagogică Publishing, Bucureşti, 2010

[2] G. Ciurariu, *Diagnosis and prognosis in profitability and risk analysis firm, Technology*, Teaching and Scientific Cermei Publishing, Iasi, 2004

[3] Dimitriu Mihail (eds.), "Financial decision and financial environment of business opportunities", Scientific research project, Centre for Financial and Monetary Union - Victor Slavescu, Romanian Academy, Bucharest, 2005

[4] Cristina Rodica Gradea, "A procedures of audit of performance". A Case study regarding Romania, Accounting and Management Information Systems, magazine B accredited CNCSIS addition, the magazine was published by the Department of Accounting and Management Information Systems under AFER, ASE Publishing, no. 23/2008

[5] Cristina Rodica, "Economic and financial diagnosis performance of SMEs in the period 2001-2006 "(co-authored chapter) in the research project: Foundation elements of development strategies and review of the competitiveness of Romanian economy, SMEs integration European economic space, Financial Ratings, Financial and Monetary Research Center "Victor Slavescu", Bucharest, 2007

[6] Vasile Ilie, *Financial management of company,* Teaching and Pedagogic Publishing, Bucharest, 2010

Discriminant Geometric Analysis Model of Risk of Bankruptcy for a Company with "n" Branches

Gradea Cristina Rodica
"Gheorghe Cristea" Romanian University of Sciences and Arts,
Faculty of Economic, Legal and Administrative Studies, Bucharest
cristina_gradea@yahoo.com

Abstract

The financial crisis which started in Romania in October 2008, led to the entrance of over 200,000 companies into insolvency or into restructuring by continuing activity. In these conditions have increased the concern to identify a model that will provide the bankruptcy risk of a company. In the literature several bankruptcy models are meeting from which the best known are: Altman's model and Conan-Holder for forecasting insolvency risk.

In this article I present a geometrical model based on discriminant analysis of the risk of bankruptcy for the company ARABESQUE Company, which has 14 branches in the country based on the indicators "proportion of financial expenditure in total turnover" and "overall liquidity." The conclusion of this research is that the company is facing an imminent risk and therefore recommended the adoption of the emergency conditions of a strategic plan of company recover.

Key words: risk, geometric analysis discriminated, bankruptcy
J.E.L. classification: C; C02

1. Introduction

Evolution of any business takes place in conditions of technological change. Making progress technique requires a massive infusion of capital, with a driving performance. The risk of bankruptcy has always been in the attention of management. They are interested in the smooth running of the production cycle, and investors in recovering loans and interest. Many researchers and financial institutions were concerned with developing methods for predicting the risk of bankruptcy. The method used is the statistical technique for analyzing the financial characteristics of companies with normal and impaired the economic and financial management.

The main problem is usually a risk anticipation, and for minimizing its occurrence and control.

2. Discriminated Geometric Analysis against bankrupt

Suppose we want to find a pattern of scoring when we have a working sample of 14 points on which there were two indicators, namely [1]:

$$I1 = \frac{\text{Financialexpenses}}{\text{Turnover}}$$

$$I2 = \frac{\text{Liquid assets}}{\text{Short - term debts}}$$

Data on these indicators level accountants and financial status [2] of each workstation are shown in the table below (we noted this point with B bankrupt and with B a working point in good condition).

Table 1.
Determination of accountants and financial indicators and of the status of each workstation

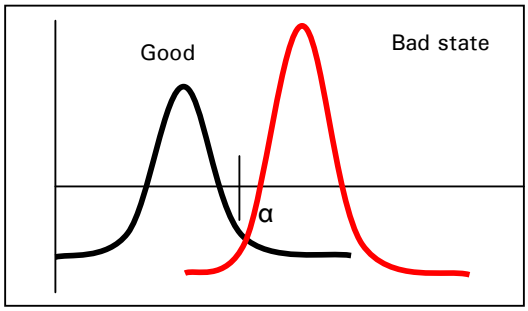
Workstation	2009 (lei)		
	Financial expenses	Turnover	I1
1	2	3	4(2/3)
BRASOV	4.186.904,83	43.802.968,21	0,10
CONSTANTA	4.579.564,04	58.557.801,48	0,08
TIMISOARA	4.684.641,85	59.901.406,64	0,08
PLOIESTI	3.428.147,14	60.694.485,45	0,06
CLUJ	4.690.187,01	79.375.117,86	0,06
GALATI	4.403.446,24	84.458.737,42	0,05
BUCURESTI	28.341.529,43	326.156.786,21	0,09
REP MOLDOVA	544.575,92	13.926.726,76	0,04
NEAMT	1.555.874,31	44.762.842,31	0,03
BACAU	2.594.441,32	52.380.800,70	0,05

BAIA MARE	2.034.837,43	58.542.715,39	0,03
CRAIOVA	4.462.997,71	85.600.943,23	0,05
ORADEA	3.045.811,37	116.838.207,42	0,03
IASI	4.742.585,82	218.312.360,57	0,02
TOTAL	**73.295.544,43**	**1.303.311.899,64**	**0,06**
Workstation	**2009 (lei)**		
	Liquid assets	**Short-term debts**	**I2**
1	**5**	**6**	**7(5/6)**
BRASOV	616.514,43	11.201.810,62	0,06
CONSTANTA	674.332,81	19.253.687,47	0,04
TIMISOARA	689.805,34	9.191.215,67	0,08
PLOIESTI	504.788,68	15.521.508,23	0,03
CLUJ	976.336,14	20.540.614,16	0,05
GALATI	648.399,77	64.796.347,38	0,01
BUCURESTI	2.173.240,75	108.588.919,89	0,02
REP MOLDOVA	365.902,14	4.353.046,76	0,08
NEAMT	514.814,06	9.799.383,82	0,05
BACAU	667.741,24	9.078.801,72	0,07
BAIA MARE	585.340,55	16.712.762,20	0,04
CRAIOVA	657.168,62	11.940.480,42	0,06
ORADEA	734.204,69	26.680.387,52	0,03
IASI	984.051,77	15.734.233,81	0,06
TOTAL	**10.792.641,00**	**340.295.671,00**	**0,03**
Workstation	**Initial situation SC Arabesque SRL**		
1	**8**		
BRASOV	*B*		
CONSTANTA	*B*		
TIMISOARA	*B*		
PLOIESTI	*B*		
CLUJ	*B*		
GALATI	*B*		
BUCURESTI	*B*		
REP MOLDOVA	*G*		
NEAMT	*G*		
BACAU	*G*		
BAIA MARE	*G*		
CRAIOVA	*G*		
ORADEA	*G*		
IASI	*G*		
TOTAL	***B***		

Source: Data processing by accounts from SC Arabesque SRL

Suppose that the two financial indicators are following for both the working population [3] of good condition and for working population in poor condition, normal distributions (see graphs in Figure 1 and Figure 2).
Let us first consider the indicator I1 (see Figure 1). For working points in "good condition" centering indicators (mean, median) are low, while on the premises "in poor condition" working points, the same indicators have high values. Obviously, there will be an indicator of the level of I1, either α, which has the property that whenever the indicator values less than α is very likely that this point be the class of "good condition" and when or indicator takes a value greater than α is very likely that this point be in class "in poor condition." There is also an area of uncertainty, next to the α level, which has the property that if the indicator I1 the values in that area can not decide on the status of the working point (it can be either bad or good).

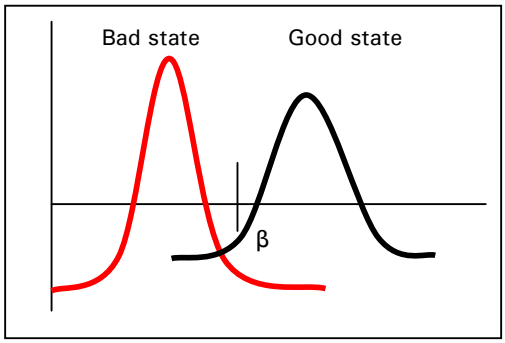
Figure 1.
The distribution of values of I1 indicator



Source: Own contribution

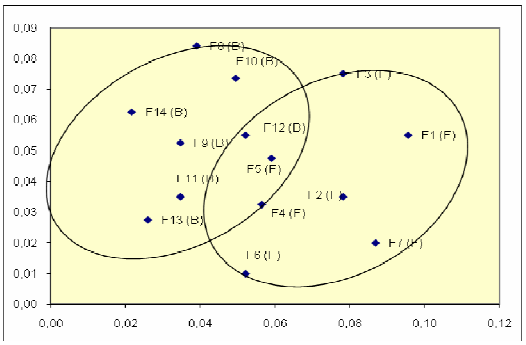
The same analysis can be done for I2 pointer (see Figure 3.8), with one difference: this time for working points in "good condition" indicator values are high while for working points "in poor condition "centering indicators are low. The level of separation occurs also in this case (I've noted with β), as same as appears the area of uncertainty in a neighborhood of β levels, for which we can not decide the status of the working point.

Figure 2.
The distribution of values of I2 indicator



Source: Own contribution

Figure 3. Work Items on plan indicators



Source: own contribution

We have described a possible one-dimensional analysis taking turns one financial accounting and behavior indicator points to the value of his work. This analysis, however, is not relevant enough.[4] Discrimination analysis techniques allow us to consider the indicators together, catching and their joint action. A first analysis of the two indicators as a whole may be pursuing Figure 3 in which the premises are presented in terms of financial and accounting indicators I1 and I2. In this figure the premises in good condition (marked with the code B) are quite clearly delineated from those in poor condition (marked with the code F), appearing two classes of non-empty intersection (intersection that we can assimilate a range of uncertainty classification of an office). For a full review follow the following results:

1) Averaged over the whole sample are grouped in the vector m = (0.054620, 0.047532) and the averages for the two classes are contained in vectors m^B = (0.036868, 0.055752) and m^F = (0.072371, 0.039312).

2) Standard deviations are s = (0.022906, 0.021901) for the entire sample and s^b = (0.011205, 0.020007) for class work points "in good shape" that s^F = (0.016614, 0.021939) for the "bad state".

3) variance-covariance matrix within classes is

$$W = \begin{bmatrix} 0.005514 & 0.000036 \\ 0.000036 & 0.023882 \end{bmatrix}$$

and variance-covariance matrix for all points is

$$W = \begin{bmatrix} 0.007042 & 0.000163 \\ 0.000163 & 0.013612 \end{bmatrix}$$

4) The correlation matrices for all classes and inside are:

$$\begin{bmatrix} 1 & 0.003112 \\ 0.003112 & 1 \end{bmatrix}$$

and

$$\begin{bmatrix} 1 & 0.016636 \\ 0.016636 & 1 \end{bmatrix}$$

5) standardized discrimination function

$z = -0.317 \cdot I_1 + 0.322 \cdot I_2$.

As centers of gravity of the two classes of workstations are designed to discriminate axis points 0.0125 respectively 0.0125 (first value is the centroid of the premises "in good shape" and the second value is the centroid of the premises " in poor condition) can consider cutting score zc = 0.

6) Scores obtained on the basis of work points discrimination [5] function (from point 5) are, in ascending order, the following:

Table 2. Scores points obtained from the discrimination function

No crt.	Working point	Initial class/ assigned class	Scor for the 'z" founded function
0	1	2	3
7	BUCURESTI	Bankruptcy/ Bankruptcy	-0,0211
2	CONSTANTA	Bankruptcy/ Bankruptcy	-0,0135
6	GALATI	Bankruptcy/ Bankruptcy	-0,0133
1	BRASOV	Bankruptcy/ Bankruptcy	-0,0126
4	PLOIESTI	Bankruptcy/ Bankruptcy	-0,0074
5	CLUJ	Bankruptcy/ Bankruptcy	-0,0034
3	TIMISOARA	Bankruptcy/ Bankruptcy	-0,0006
11	BAIA MARE	Good/Good	0,0003
13	ORADEA	Good/Good	0,0006
12	CRAIOVA	Good/Good	0,0012
9	NEAMT	Good/Good	0,0059
10	BACAU	Good/Good	0,0080
14	IASI	Good/Good	0,0133
8	REP MOLDOVA	Good/Good	0,0147

Source: Own contribution

7) The overall outcome (bankruptcy risk assessment throughout the company discriminated geometric analysis method) is presented in the following table:

Table 3.Bankruptcy risk assessment throughout the company discriminated geometric analysis method

Financial expenses	Turnover	I1
2	3	4(2/3)
73.295.544,43	1.303.311.899,64	0,06
Liquid assets	Short tern debts	I2
5	6	7(5/6)
10.792.641,00	340.295.671,00	0,03
Financial expenses	Turnover	I1
2	3	4(2/3)
73.295.544,43	1.303.311.899,64	0,06
Liquid assets	Short term debts	I2
5	6	7(5/6)
10.792.641,00	340.295.671,00	0,03
Initial state of Arabesque	Scor for "z" found function	Assigned Arabesque
8	9	10
F	-0,0076	*F*
Scor for "z" found function	Assigned state for Arabesque	
8	9	10
F	-0,0076	*F*

Source: own contribution

3. Conclusion

It follows from the calculations and geometric analysis method discriminated against bankruptcy risk that the company is facing an imminent risk of bankruptcy and therefore becomes imperative to develop a strategic plan to turnaround the company.

4. References

[1] G. Ciurariu., "Diagnosis and prognosis in profitability and risk analysis firm", Technology, Teaching and Scientific CERMI Publishing, Iasi, 2004

[2] Mihail Dimitriu (eds.), "Financial decision and financial environment of business opportunities, scientific research project, Centre for Financial and Monetary Union - Victor Slavescu", Romanian Academy, Bucharest, 2005

[3] Cristina Rodica Gradea, "Procedures of audit of performance. A Case study regarding Romania, Accounting and Management Information Systems", magazine B accredited CNCSIS addition, the magazine published by the Department of Accounting and Management Information Systems under AFER Editura ASE, no. 23/2008

[4] Cristina Rodica Gradea, "Diagnosis economic and financial performance of SMEs in the period 2001-2006" (co-authored chapter) in the research project: Foundation elements of development strategies and review of the competitiveness of Romanian economy, SMEs integration European economic space, Financial Ratings, Financial and Monetary Research Center "Victor Slavescu", Bucharest, 2007

[5] Ilie Vasile, *Financial management company*, Teaching and Pedagogic Publishing, Bucharest, 2010

The Importance of Internal Audit in Primary and Secondary Education

Grejdan Gabriela Elena
Joldoş Ana Maria
Pintilie Corneliu
„Valahia" University of Târgovişte
demianadrian71@yahoo.com
anajoldos232004@yahoo.com
ec_corneliu_pintilie@yahoo.com

Abstract

In Romania, internal audit has been adopted as a fashionable term in the field of financial control, but with time we managed settling internal control concepts and internal audit. Currently there is a problem with understanding the internal control system, which is the subject of internal audit, control includes all activities carried out within an entity and associated risks. Internal audit is considered as the last level of the entity's internal control system.

Key words: internal audit, public entity, value-added public funds.
J.E.L. classification: I 121, M4

Internal audit is the examination by an independent and competent person, the accounting and financial fidelity representations.This was and is the cornerstone for the integrity and credibility of economic transactions. Therefore, the magnitude and complexity of operations and transactions conducted by economic entities, as well as continuous development of economic environment in which they operate, have resulted in a decisive and evolution of the audit.

The term "audit" comes from Latin, the word audit- auditing that has significance to "listen."

The audit started with a specific correction of fraud in financial and accounting documents, the continued appreciation of the global loyalty statements (reports) issued by economic entities and critical analysis of their structures and procedures used in preparing the assessment and now is targeted largely to the assessment of the observance, by the management entities, the principles of economy, efficiency and effectiveness in using financial resources.

Use of the word audit in the sense used in the present, is relatively recent and place in the 1929 economic crisis in the U.S., where companies were affected by economic recession and had to pay significant sums for external auditors certification of accounts affecting all firms listed the stock market.

What is auditing? It is an overlay mechanism responsible relationships in which a person assigned, delegating responsibilities to any other person, required to be submitted to a situation, a management report on how it has downloaded responsibility. Audit is an independent assessment of the truthfulness and accuracy of that report management. If there is no audit, then chances are there are really weak responsibility, and, as you know, the responsibility is one of the pillars of good governance.

The audit process is conducted by individuals or legal entities legally authorized, appointed auditors, which analyzes and evaluates, in a professional manner, information related to a particular entity, using specific techniques and procedures in order to obtain evidence, known as audit evidence on which the auditors issued a document called the audit report, and a responsible and independent opinion, by using the evaluation criteria resulting from legal regulations or good practice widely recognized in the field in which the audited entity operates. The audit

objective consists in the possibility of expressing the auditor's opinion on:

- preparation of financial statements, in all material respects, in accordance with a general framework for financial reporting,
- compliance with legal regulations, the statutes and regulations, norms and managerial decisions,
- implementation of good practices and sound management principles in use of funds.

The opinion issued by the auditor, the audit report or, in some cases, "the audit certificate" increases the credibility of financial statements, certify compliance with applicable laws and recognize the principles of respecting and promoting economy, efficiency and effectiveness in business entities audited. However, users of audit reports should not consider that opinion is a guarantee of future viability and efficiency of business management perspective audited entities.

The overall goal of internal auditing is to assist in improving the control framework within the organization and its activities. This can be achieved by providing independent assurance bundled services and professional counseling. Internal audit is, in fact, an independent assessment of the appropriateness, method of implementation and effectiveness of control systems established by management in order to achieve the objectives and prosthetics against risks which are essential to the performance of audit activity and preserve credibility. There are also a key reason for the existence of internal audit. That auditors should not be influenced in any way, such leadership will not trust the results of their work.

At public institutions in our country, internal auditing is regulated in accordance with Law 672/2002, as amended and supplemented and the Order no. 38/2003, the General Norms for the exercise of the internal audit activity, as well as specific implementation rules for each officer. In public education, internal audit, to what was established by a general legislative framework, has several features resulting from the financing of the educational institution and the specific activity in this sector.

In the County School Inspectorates and the School Inspectorate of Bucharest, former financial control management structures are / will be absorbed by the internal audit.

In accordance with Education Law No. 84/1995, republished, with subsequent amendments, public school units are funded by several officers by respectively MECI mayors of municipalities, cities, municipalities, County Councils. Taking into account the specific, public school units, the entitlement to the internal audit activities they have internal audit departments of the MECI the halls and the county school inspectorates. The County School Inspectorates subordinate units that have not established internal audit department, will conduct audits of the department's audit officer ranking immediately above that the County School Inspectorate.

In pre-university educational units whose main budget are mayors, cities, municipalities, the internal auditors of the County School Inspectorate will carry out these activities, internal audit and control:

- evaluate business leaders of the schools,
- in terms of financial and human resources management,
- thematic tests on the complaints received from inspectorates \ school \ county or at the request MECI and other bodies empowered by law to require these checks,
- control objectives and activities financed from the state budget, in accordance with the provisions of the Education Law no. 84/1995, republished with subsequent completions and the GD 2192/2004 on approving methodological norms for financing pre-university educational units.

Internal audit departments established at the school performs audit duties for the entire financial-economic activity of the unit in which it operates and the subordinated units, as appropriate, regardless of funding source (state budget, local budget, income own). The internal auditors of these compartments can be made public internal audit activities or themed checks and other schools, at the request of the mayor's leadership, or CSI, for units whose chief officer is.

Audit departments within the school, the units included in the plan audits at least every three years, but not limited to, the following:

- budgetary and legal commitments which derive, directly or indirectly, payment obligations, including the Community funds,

- payments incurred by budget and laws, including EU funds,
- sale, pledge, lease or rental of goods from their property,
- public revenue, authorizing the way of debt securities,
- how is substantiation of revenue and expenses and how to allocate budget appropriations,
- the way it is organized accounting system and its reliability as the main instrument of knowledge, heritage and the management and control results,
- way system is organized decision making, planning, programming, organizing, coordinating, monitoring and control of its decisions,
- structure management and control systems and associated risks.

In the school, internal auditors will conduct the audit following activities:

- observance of the funds allocated by MECI on the progress of reform projects, co-financed by the Romanian Government and international financial institutions, foreign credit repayments, according to schedule projects, commissions and interest payments on loans, these foreign projects,
- legality of granting scholarships to students from Moldova, ethnic Romanians and foreign students from abroad, according to legal provisions in force,
- legality of expenditure to achieve the organization of exams, contests, national contests,
- legality of expenditure records and the reality of professional training activities for teachers,
- reporting the reality on the number of school units Levi, educational profiles, number of classes, setting indicative average cost per pupil kindergarten,
- approval of the draft budgets of schools, according to legal rules in force,
- legality finance textbooks, the methodology developed by MECI,
- fulfilling its obligations to transmit quarterly reports on budget execution and aunuala as Annexes 2 and 3 to the rules for financing public education, approved by GD no. 2192/2004 on the financing of the school.

Conclusions

Participation of society as a whole, to finance university education is achieved by allocating funds from the state budget for certain categories of expenditure. Volume allocate funds from the education budget is determined by:

- GDP per capita,
- state attaches importance to training and education activities of the younger generation,
- sectoral policies and prioritize current and future made by the Government, by parties who have legislative and executive power in the state,
- the legal system of financing education.

If we consider, however, the fact that personnel costs for textbooks for student scholarships and teacher training personnel are paid in VAT by mayors, which is exclusively a state budget income and not of the local becomes clear that those costs are borne by the state budget through the Village Hall, city, municipal districts of Bucharest, and not the MECI.

Knowing the distinction real cost factors, policy makers, CSI, MECI, county and local councils will take fundamental decisions on:

- need for funds to be allocated to the schools funding sources and destination charges,
- changes that are required in the organizational structure of schools,
- additional funding to develop programs of certain units or areas of activity,
- promoting draft legislation to ensure better functionality of the system of financing

Internal audit constituted educational institutions and / or the local authority with responsibility for state university educational facilities, is a function of the manager's assistance, to assure that a fund management in economically, efficiently and effective.

And internal auditors and managers should be seen as partners not as adversaries, with the same objectives, namely reducing or eliminating potential risks, effectiveness and efficiency of management. Managers must understand the recommendations of the auditors, to perceive the help you receive to

manage risks that arise and evolve continuously.

Internal Auditor role is to assist, advise, recommend, but not to decide, his obligation is to provide a means to help improve the control that each manager has on its activity in order to achieve the objectives of internal control .

It is believed that internal audit will achieve its objectives if there is an organized system of internal control, regular formalized, consisting of: standards and professional standards, procedural guidelines, codes of conduct etc..

Internal audit is considered as the last level of the organization's control system. Internal auditors are isolated and ineffectual, so they must work in teams, for their professional skills to produce benefits to the organization, through an evaluation system based audit standards and best practices, policies, procedures and operations conducted by the entity.

In conclusion, we said the internal audit function exists, or should work in all organizations, whatever their field of activity, manifesting independent consulting and giving assurance of fulfillment of objectives, and aims to add value and improve an organization's activities.

References

[1] A. Munteanu, Auditul sistemelor informatiei contabile, Polirom Publishing, Iasi, 2003.
[2] J. Becour, Audit operationnel, P.A.Q, Paris, 2008.
[3] M. Boulescu, M. Ghita, Fundamentele auditului, Didactica si Pedagogica Publishing, Bucharest 2001.
[4] M. Ghita, Auditul intern, Economica, Publishing, Bucharest, 2009.
[5] R. Jackues, Teoria si practica auditului intern, editia IV, french translation done by the Ministry of Public Finance in a project funded by Phare, Bucharest, 2002.
[6] W. Raven, Responsabilitatea sociala coorporativa: Coduri si standarde, Institutul Auditorilor Interni, London, 2003.

E-europe Development, States Implication and Role

Grigorescu Adriana
National School of Political Studies and Public Administration Bucharest
adrianag44@gmail.com
Grigorescu Adriana
Academy of Economic Studies, Bucharest
dangr31@hotmail.com

Abstract

New Economy is characterized by a strong IT development, leading to a knowledge society. The EU set out the basic rules and starts programs in order to support efforts to align the businesses, citizens and governments to the new era. eEurope program establishes priorities that the community supports them as forms of integration and intra-alignment.

Effects of participation (non) in this transformation, of entire economic and social, may reveal itself through the benefits and risks offered by eCommerce, eGovernment, eBusiness, etc. There are presented European policies, directions, actions and trends of public and private business. Union will act in favor of factors of globalization, increasing thus the degree of globalization of most industries.

The decision to participate in this program for a New Economy will also be the decision of inclusion or exclusion of a country (its citizens) to a better life, at the top of the development and expectations.

Key words: eEurope, IT, competition, development, inclusion
J.E.L. classification: F40, H11, M15

1. Introduction

In the context of connectivity features, interactivity, global dimension permits communications technologies (together with the related - media and information), there are concerns to ensure transparency, proportionality, clarity of rules and regulations issued by EU countries [Knieps 2007, 100-107]. Thus, the community agreed a set of measures aimed at targets and policy measures in the sphere of telecommunications, media and information technology[3]: implementation of technologies and actions regarding the use of pan-European data and information quality, the correct application of competition rules, the elimination of restrictive regulations imposed on the sectors of telecommunications and information technology as the use of market information becomes more competitive, the establishment of regulations in the sphere of public telecommunications, information technology and media, the definition of European regulation, related to the international information on vehicular (public) EU[4].

[3] Council of Europe, Brussels, December 1997, the Green Paper "Convention sectors of telecommunications, media and information technology"

[4] eEurope and eEurope +: programs (launched in 2001) for EU countries (eEurope) and countries (eEurope +). eEurope + was officially launched by Prime Ministers of the candidate at the European Summit in Göteborg (15-16 June 2001). Action plans are carried out in parallel, based on permanent cooperation between the European Commission, EU member states and candidate countries, thus contributing to accelerating the integration process. The objectives of eEurope aims to ensure the communication line for each household, school, company and institution of public administration and ensure that the transition to the digital era should be a process to include the whole of society. These targets relate to both the European Union member states and accession candidate countries. To achieve these objectives were more committed action plans (*eEurope2002*, *eEurope +*, *eEurope2005, i2010*) which include measures to ensure access to cheap, secure and fast Internet, and providing human resources able to develop and use new technologies. Compared to the objectives and actions for EU countries, the *eEurope +* contains an additional objective, which refers to accelerate fundamental elements to ensure the Information Society in the candidate countries, developing and ensuring the accessibility of communication and by adopting elements of the acquis Community specific information society. Achieving *eEurope +* and requires a sustained political commitment from the candidate countries.

2. European plans

Information trends towards Europe *(eEurope)* implies vectors of action as the global civil societies of member countries in the EU triggered by the information communication and processing complex information with a global interconnected with the specific national / regional development of a trust full citizen's complex features and global information; achievement in Europe, a level that citizens have knowledge of science, alongside an entrepreneurial culture, to increase general awareness training and cultural.

The "eEurope - an information society for all"[5] aims to specify the objective and the need for the citizens of Europe have, in their own interest - in the education, business, information or other directions - the facilities of the information society.

Against this background, the European Commission proposes to act - performed with the Member States, the industries concerned citizens - such as the priority directions[6] (Table 1):

- *E-Commerce*	* implementation techniques of e-procurement through the use of specific technologies and a pan-European legal framework;
- cheap Internet access to citizens	* ensuring real competition, likely to reduce rates of access, in parallel with increased facilities for processing information;
- quick and efficient access to the Internet for European students and researchers	* creating the conditions for scientific cooperation and the development of distance education; * adaptation processes of learning digital technology, fast access to multimedia facilities in the processes of intellectual and professional training;
- secure networks / use smart cards	* online access to global databases, such that implementation / strengthening European information infrastructure; * access to the trans-European communications, media and information technologies;
- public administration online	* implementation of automatic background level of government decisions; * facilities for access to Europe with specific administrative information;
- risk capital for SME's operating in the field of advanced technologies (high-tech)	* development of new features and ways to maximize the availability of venture capital for developing units and propagated on the European market, technology level

Development and diversification of industry information, regardless of the type of technology or technical support data, all in a vision and a context European, at least the following objectives: that the strategies and programs (national) to ensure the rapid approach of premises in all spheres of economic and social infrastructure to implement technical and operational information of the concept of Information Society, implementation of value added services, optimized to process complex information specific to European competitiveness, increase the role of information services to develop social, professional and cultural EU citizens [Muller, 2004, 2].

The European model of information society is based on specific characteristics (the intervention of government and social partners; interconnectivity and open standards, environmental sustainability, social sustainability, cultural and linguistic diversity, civil rights). Without denying the crucial role of market forces, the European model considers necessary governmental policies predictable and consistent, to develop and (mostly) correct "the" information society. Leading a consistent policy of liberalization of (tele) communications and related services

[5] European Council, Brussels, 1999; *eEurope* = Europe online

[6] *eEurope* Action Plan is focused on different segments: cheaper Internet, research *(e-research)*, communications security *(e-security)*, education *(e-education)*, (tele) work *(e-working)*; accessibility *(e-accessibility)*, electronic commerce *(e-commerce)*, electronic government *(e-government)*, health *(e-health)*, content information *(e-content)*, transport *(e-transport)*

information technology, to stimulate competition, the EU is consistent in supporting policies to ensure interconnectivity and open standards, enabling the creation of open infrastructure, accessible to all.

The European model of information society considers the direct relationship with the requirements of a sustainable economy and environment, approaching from a realistic possibility of reconciliation between economic growth and sustainable development. The European model of information society must provide, in addition to an "environmental sustainability" and "social sustainability", through appropriate policies balancing issues, sometimes divergent (conflict), the triangle of objectives - economic, social and environmental. Excluding certain segments of the chance to participate in the information society, through gaps between social classes, genders, generations / ages, countries and regions, fragmentation or engrossment market in information and communications technology are to be avoided [Capineri,2004, 645-663].

3. Companies requirements

In this context, policies and recommendations are community-oriented connection, priority, public institutions (large) social (schools, libraries, hospitals, etc.) enabling broader layers of the population to benefit from new technologies. The European model of information society is based on the cultural and linguistic diversity, having regard to a new culture of communication, democracy, business, which requires the use of new technologies.

In EU countries apply in increasingly good governance principles, namely: openness, participation, accountability, effectiveness and coherence. Each principle is important to establish a democratic governance. They bring the democracy and rule of law in Member States and applies to all levels of government - global, European, national, regional and local. Opening assumes that each institution should work in a more cooperative and transparent, to communicate actively about what is done in the European Union and the decisions to be taken. Participation provides a wider gearing the policy chain, from design to implementation. Improved participation is created in order to grant greater trust in the final result and the institutions that disseminate policies. Participation is crucial to how the central governments pursue a comprehensive approach when developing and implementing EU policies. Responsibility that marks each of the EU institutions should take responsibility for what you take in Europe. Effectiveness depends on implementing EU policies in proportion to the decisions at the appropriate level. Consistency concerns that the policies and actions must be coherent and understandable. Need for consistency in the European Union is increasing: the alignment of rules is increased, creating a widening diversity increased challenges as climate change and demographic boundaries meet sectoral policies, the Union was built. Since policies can be effective only when properly prepared and implemented, the information system plays a particularly important role in applying these principles, for all EU countries and especially the structure of their administrative systems

Respect of civil rights is done by ensuring freedom of communication and freedom of information. Union attaches great importance to the protection of personal data and privacy, in parallel with a constructive attitude on the requirements / regulations of encryption of information. There are taken into account the interests of individuals, but also creating new opportunities for business in the information technology / telecommunications.

The European Union is a main actor in promoting an international regulatory framework as a neutral and coordination efforts in technical plans, marketing, legislative, through dialogue as broad. The EU is not to create new international organizations, to facilitate market dominance of information technology and (tele) communications. Instead, they will be consolidated organizations representing the interests of users and consumers. *eEurope* initiative, action plans associated with developing these principles, and offering to guarantee citizens access to the benefits of Europe's information society, closer to urban and rural communities, create, electronically,

wealth, knowledge sharing, increased quality of life for all members of society . It is estimated that the changes that will occur in the coming years will create new jobs and increase productivity economy. Through programs and actions, progress towards the information society will strengthen cohesion (and not social division), integration (and not isolation of certain social categories or geographical areas).

New Economy refers to the permanent improvement products, marketed innovative agents, exploiting niches in emerging (or created by themselves) markets in the process of globalization [Carr, 2002, 293-304]. Active policies of the new savings incentives are offered focusing on creating and transmitting knowledge, and creative management. At EU level, implementation of New Economy corresponds to a stage translation of emphasis: from grants to applied financing scheme (in the industrial relations), from dividing the profit to sharing benefits and risks.

4. Government implication

Community officials have the specific drivers of consolidation: the development of the interface between industry and academics, the formation of *clusters* and networking, the creation/ development of *high-tech* companies. Infrastructure of modern information and communication form the basis of new savings. This infrastructure is a precondition for all other aspects of access to information, knowledge and development. Post-industrial transition (post-traditional) materializes in major phenomena and processes at the international level: globalization of material non-material (financial, information) trade flows, accompanied by member states interests for sustainable development and building a (information) knowledge society. An obvious aspect of the new society is the speed with which they are introduced, disseminated and used information technologies and communications. A key feature of the Information Society (computerized, post-industrial) is to use integrated, generalized means of information processing and communication in all areas of economic and social. In developed countries, generating competitive orientation, and new jobs is supported by free market forces, changing driver is represented by the private sector [Liddle, 2007, 20-30].

For countries in transition and developing countries, there are some difficulties: starting points to the information society (sensitive) delayed, economic resources and human differentiated, distinct levels of social organization and management. Consequently, science and technology policy in countries in transition must have an active role in the process boost the development of production and use of information and communication technologies [Horton, 2002, 237-252]. European path towards the information society can be a partnership between the public and private sectors. SME's are considered as the engine of the European economy, but they feel the need for better circulation of information. Small and medium-sized works by interconnecting with major companies and can not operate efficiently (and) without communication networks. Strengthening the European Information Society count on the technological field of broadband communications and multi-platform access, the synergy between the development of infrastructure, industry, information technology and digital content [Lieberman, 1988, 41-58]. A priority attention, both in the European and national strategies, is the use of new technologies in business, particularly in developing electronic commerce. To accelerate electronic commerce requires a series of assumptions: the use of secure payment systems, a good logistics of distribution, electronic signature application, increases the confidence of economic agents and consumers in this type of commerce. Countries that will not integrate "wave" computerization can remain on the periphery of the future European and global economies, moreover, lack of implication of small and medium enterprises in the IT programs will generate an atypical economy then the developed countries [Hubregtse, 2005, 164-172].

Information is the basis of new economic, rapid development. Become a resource to organizations and individuals as a source of wealth of the company and the individual. Development of information technology and

communications revolutionizing the fundamental segments of society: business, education, governance, enterprise management. In Europe there are millions of small and medium enterprises can benefit from information society development in terms of their ability to integrate, to use as soon as new technologies in various stages of activity: work organization, quality management, decentralization of non-strategic activities, distance work [Katz]. Information society offers new opportunities for small and medium enterprises and enters already in the traditional professions and activities. Companies can consolidate their positions in the market, offering products and services to customers and end users important. The internal administration becomes easier, less expensive, and the unit will increase competitiveness.

One of the objectives of the European Union is to ensure that businesses, governments and citizens continue to play a leading role in the global economy based on knowledge and information. This can be achieved by: stimulating research on the development / application of new technologies, regulations and standards generating competition, developing trans-European networks. Creating a Digital Europe, education and entrepreneurship, the Internet is a strategic program designed to maximize access to the Internet, to stimulate the development of quality content (which respects cultural and linguistic heritage of Europe), European firms to allocate a significant role in development of Internet applications [Cole, 2004, 89-101].

A significant part of the Community strategy on the Information Society is encouraging the development of new technologies and applications that support the citizens, and stimulate employment in context, electronic commerce, increase the use of multimedia content and tools, provide essential infrastructure. Funding mechanisms meet institutions / agencies, companies work in various relevant fields of technology and academic institutions, through applied research and technological development. One of the main goal is to ensure that the benefits of information society are consistently and uniformly distributed. In this respect, promoting a clear legislative framework that fosters access to the Internet and electronic commerce, defines standards for mobile telephony, digital TV, radio transmissions. The framework also includes provisions designed to examine progress in the field, which ensure the implementation, financing, regulation and technology development consistent and constant in all EU countries.

5. Conclusions

Enlargement of the European Union lead to the emergence of new economic powers, which could compete, for example, U.S., Japan, China, India. In the context of globalization, organizations are beginning to behave as global clients, distribution channels and marketing is being designed at the regional / global. At the same time, increased mobility encourages global consumers, while creating a convergence of lifestyles and tastes. Developing global strategic alliances and the emergence of global interdependence determines a state in certain industries. To survive, companies must also internationalize their activities. Moreover, due to the significant size of the European market, firms must act quickly possible routes have increased through acquisitions and mergers, in parallel with the intensive use of technology as a "compressor" in time and space.

National specific benefits, the reasons why a country is more successful than others in a given area is based on attributes that promote or hinder competitive advantage. At Community level, the prices are in Euro and there is no protection for local products. This causes increased competition in which only viable firms will survive. Community market is increasing. Harmonization of tax systems is an important issue. Companies will have to adopt new regulations. Meanwhile, the Union can facilitate the harmonization of PIB $_{medium}$ in the States, that helping companies in poorer countries. An important argument in favor of European integration is the substantial reduction of risk associated with international transactions.

Any company from an EU country will bear certain costs - introduce a new system of accounting, the acquisition of new financial instruments. On the other hand, the company earns the right to use these tools. Competition

increases, the increase is substantial. Companies will be able to sell their products at the same price anywhere in the Euro area (will not be hit by protectionist laws). The workforce will become more mobile, and companies will be able to choose between many candidates. On the other hand, companies will have to learn to cope with diversity.

A substantial advantage is the minimal risk related to currency exchange rates. If an organization only trade with countries within the EU, this risk becomes zero. The vulnerability of economically will not disappear. An American or Japanese competitor will gain stronger when the national damage will be compared to Euro. If a European company operating in an industry dominated by other foreign currency (eg U.S. dollar) will encounter difficulties in addition to the usual (competition). Can not be ignored any cultural dimension: low-risk environment will encourage companies in countries where risk aversion is an integral part of culture (as an asset)**.** In the EU, certain fees, regulations, degree of autonomy may be established for the community. Against this background, resources, markets, suppliers, infrastructure will be vital to the criteria of attractiveness of a country. Union will act in favor of factors of globalization, increasing thus the degree of globalization of most industries.

European debates on the environment increasingly influenced by technology held in consonance with the principle of subsidiary[7], taking into account levels of action at Community level: consultation-coordination between public administrations, through an organized exchange of best practice (in order to identify pertinent landmarks for solutions); coordination of policies which can have an impact on problem areas, Community Action, to the extent necessary to help solve problems. Elements have been applied successfully in the field of business, so can serve as a useful indication of reporting solutions to new technologies. In Europe, over 12 million small and medium enterprises to continuously improve the way businesses use information and understand the role of specialized institutions to present the image in an area that interested him. Small and medium enterprises will use as much as possible, telematic services (email, transfer files, exchange of computerized data), which will establish links between public authorities, professional associations, customers and suppliers can enter compete with large companies, in certain segments.

So, the decision of the states to support the actions that joint the priorities of the EU, will be the evolution direction that each nation has the right to choose.

[7] For a proper application of the subsidiary principle, the rule is delimit the powers of each Member of the Community and the European Union (as a whole). Thus, the Union can act only according to the limits of responsibility assigned, and in areas which do not fall strictly within the competence of the European will to choose the most appropriate action (either at national or Community). There are a number of powers of punctual European community, in areas such as research, environment, economic union, monetary union (Maastricht Treaty 1991). Meaning of the subsidiary principle is extended to other fields. From country to country, applying the principle of subsidiary is done differently depending on the specific problems arising in various fields.

6. References

[1] Arksey H, Knight P (1999): Interviewing for social scientists, London, Sage Publications;
[2] Capineri, C., Leinbach, T.R.(2004): Globalization, E-economy and trade; Transport Reviews ; Volume 24, Issue 6;
[3] Carr, A.S.; Smeltzer, L.R. (2002): The relationship between information technology use and buyer-seller relationships: An exploratory analysis of the buying firm's perspective; IEEE Transactions on Engineering Management, 49,3;
[4] Canning, Louis (2004): Relationship Marketing: Dialogue and Networks in the E-commerce Era; European Journal of Marketing; 38, 8; ABI/INFORM Global;
[5] Cole, T.(1999): Erfolgsfaktor INTERNET, Berlin;
[6] Gates Bill (2004): Electronic Commerce for Everyone, Microsoft;
[7] Hubregtse, S.(2005): The digital divide within the European Union; New Library World; Volume 106, Issue 3-4;
[8] Horton, K., Davenport, E., Hall, H., Rosenbaum, H.(2002): Internet simulations for teaching, learning and research: An investigation of e-commerce interactions and practice in the Virtual Economy; Education for Information; Volume 20, Issue 3-4;
[9] Katz, J.A., Safranski, S., Standardization in the midst of innovation: Structural implications of the Internet for SMEs;
[10] Knieps Günter, Vogelsang Ingo (2007): Digital economy and regulatory issues, International Economics and Economic Policy, Heidelberg, Vol.4, Iss.2

[11] Liddle, Stephen W.(2007): E-business and economic self-reliance, ESR Review; 9,1; ABI/INFORM Global;
[12] Lieberman, M.B., Montgomery, D.B.(1988): First-mover advantages; Strategic Management Journal, 9;
[13] Muller N.J.(2004): Enciclopedia Internet, Editura Tehnică, Bucharest
[14] Nelson F., Gupta Alok, Kauffman Robert J.(2006):The impact of IT on Market Information and Transparency: A Unified Theoretical Framework, Journal of the Association for Information Systems, Atlanta, Vol.7, Iss.3,
[15] O'Brien J.A.(1999): Management Information Systems. Managing Information Technology in the Internet-worked Enterprise, McGraw-Hill, Boston;
[16] Tassabehji R, Wallace J, Cornelius N (2007): E-technology and the emergent e-environment: Implications for organizational form and function, Journal of High Technology Management Research, Greenwich, vol.18, Iss.1

The Trademark: A Marketing Concept

Grigoruț Cornel
Anechitoae Constantin
„Ovidius" University of Constanta, Faculty of Law
cornel.grigorut@gmail.com, anechitoae@yahoo.com
Grigoruț Lavinia-Maria
"Costin Kirițescu" National Institute of Economic Research
lavinia_grigorut@yahoo.com

Abstract

Responding to market reality, one of the most relevant concepts encountered in the field of marketing is the "trademark", which became a key factor in the global economy. The market, with its harsh rules, marks the efforts of producers and traders to communicate with consumers.

In fact, the market has changed considerably, especially due to the explosion of trade. Over time, consumers (even children) have become incredibly sophisticated in selecting products and services, and the owners of trademarks have sought new ways, innovative ways, in order to distinguish their brands.

Key words: Community trademark, national trademark, intellectual property
J.E.L. classification: K11

1. Introduction

The community architecture of trademark law provides the coexistence of national trademark regimes with that of the Community trademark [1]. Intellectual property, and hence trademark law, is governed by a number of international conventions which do not set out "international" rights of intellectual property, but only establish the procedures for the recognition of the rights already enacted in one State, on the territory of another State.

European Union Member States have made efforts in light of the total unification of existing national laws in the field, setting up a protection mechanism at Community level, which the rights holders can use, as an alternative to national mechanisms.

Thus, if the Community trademark was refused in one or more Member States, the applicant would be able to request the conversion of the CTM application in national applications, in countries where the Community trademark has been denied registration [2].

Moreover, the CTM Regulation no. 40/94 provides in art. 108, par. 1 that "*the applicant for or proprietor of a Community trade mark may request the conversion of his Community trade mark application or Community trade mark into a national trade mark application, with effects in the Member States indicated in the conversion application, starting with the CTM application date or with the registered Community trademark application date, to the extent that the Community trade mark application is refused, withdrawn, or deemed to be withdrawn or to the extent that the Community trade mark ceases to have effect.*"

The coexistence principle still generates an opportunity for applicants. If one of them had, at one time, a national registered trademark, and then seeks the extension of the mark protection in the European Union, as a Community trademark, he/she may invoke this national trademark (the principle of seniority) to the Community trademark registration, giving up to the National trademark and, after the registration of the Community trademark, the trademark protection in that State is continued through the Community trademark. With this option, the applicant can save the required renewal fees for different national trademarks; he/she can simplify the procedure for tracking the file of the respective trademark.

2. The Matter Seat

The measures adopted in the Community trademark field sought to create a trademark that would be registered in all the European Union States, on one hand, and to harmonize the legal status of national marks and their protection, on the other hand.

The first step was the adoption of Directive no. 89/104 (entered into force on 03.15.1994), by means of which there were harmonized the registration conditions of the national trademark and the rights given by such trademarks [3]. The Directive lists the rights conferred by the mark and makes references to the substantive conditions relating to trademark registration, licensing and use.

This step was followed by the adoption of Regulation no. 40/94/CE of the Council on Community trademark registration (it was adopted on 20.12.1993 and entered into force on 15.03.1994), Regulation according to which the European unitary and autonomous trademark has the same effects throughout the Community and enjoys the protection provided by a single set of rules.

This regulation was supplemented by Regulation no. 2868/95/CE for the implementation of Commission Regulation no. 40/94, containing rules on the trademark registration, details on the trademark representation, the priority of filing the trademark registration application, the licenses. Subsequently, the Regulation no. 216/96/CEE of the Commission established the procedure before the Boards of Appeal of the Office for Harmonization on the Internal Market.

When Romania joined the European Union, contradictions appeared between the unitary character of the Community trademark and the principle of both systems. Thus, in order to respect the uniform nature, the Community trademarks registered before Romania's accession had to extend their effects in Romania.

Where national trademarks are identical or similar to Community trademarks registered for identical or similar products, although registered in good faith, they can not coexist without an agreement of the holders thereof.

2.1. The Community Trademark

The Community trademark does not replace the national mark, but is itself an independent system of protection.

The protection by a Community trademark is not binding or exclusive and companies are not interested in the simultaneous trademark protection throughout the EU, they can protect their products and services by national (Paris Convention) and international (Madrid System) means.

However, European consumers are given a single identification of the products or services, taking into account that the trademark is a great means of communication of the manufacturer/provider of public services.

The right to the Community trademark can only be obtained by registration, and its simple use does not offer a protection right. The main advantages of the Community trademark consist in the simplification of the CTM registration formalities:

- a single application;
- a single legislation;
- a single registration procedure;
- a single administrative body;
- a single language application – that of each Member State;
- a single tax system;
- the possibility of converting a community trademark application in a national trademark.

The establishment of the CTM is very important for all applicants, whether or not members of the European Union. Even if those outside the European Union look at this Community trademark system with some concern, thinking that they will be disadvantaged, they can use it if they consider it advantageous.

One of the advantages of CTM, in terms of an applicant who is not a member of the European Union, is that he/she can obtain such protection even if they are outside that territory. Not only applicants from EU Member States can submit applications for registration, but also those from countries which are members of the World Trade Organization are signatories to the Paris Convention.

2.2. The National Trademark

The most important legal regulation in the field of trademarks, that managed to resolve the conflicts provided by previous laws, is Law nr. 84 of 04.15.1998 on trademarks and geographical indications (published in the Official Gazette, Part I no. 161 of 23 April 1998.). By means of Government Decision no. 833 of 19.11.1998, under art. 94 par. 2 of Law no. 84/1998 on trademarks and geographical indications, it is approved the Regulation for the application of Law no. 84/1998 on trademarks and geographical indications (Published in the Official Gazette, Part I no. 455 of 27/11/1998) [].

Later, Law nr. 84/1998 was amended by the Emergency Ordinance nr. 190 of 21 November 2005, for European integration measures (Published in Official Gazette no. 1179 of 28 December 2005), and by Law no. 66 of 31 March 2010 (published in the Official Gazette, Part I no. 226 of 9.04.2010), republished (the texts were given a new numbering) in the Official Gazette no. 350 of 27.05.2010.

3. Trademark Importance in Marketing

In a market economy, the use of trademarks is subject to legal and financial constraints, which reflects the increasing importance that is assigned by the contemporaneous society. In essence, the trade policy aims at targets dictated by the need of individualizing and differentiating the products and services from those of competitors, depending on the specific of market segments, in relation to the technical benefits and qualities, of the performance whose valorization is sought.

Nowadays, trademarks play a very important role in the industrialization era; they became an essential factor in the modern world of international trade and market economy.

In a competitive economy, manufacturers and retailers can provide consumers with different products in the same category. Although, at first glance, these products do not appear to be different in the eyes of consumers, however, they may differ in terms of quality, price or other features.

Trademark marketing, in the purpose of carrying out market transactions, in order to buy and sell or convert the CTM in a national trademark, is an economic activity continuously adapted to current and future consumer requirements, in order to meet these requirements with maximum efficiency. In this context, the trademark falls under the marketing activities, market study, rationale, trademark awareness, advertising, transmitting the trademark right by the Conveyance Contract and the License Agreement [5].

3.1. The Conversion of the Community Trademark in a National Mark

G. Costache said that, in terms of the Conversion of the mark, we must have in view the possibility to opt for national protection when:

- the Community trademark application has been withdrawn or dismissed;
- the Community trade mark has been revoked, canceled, its protection was not renewed or the holder gave it up [6].

The Community trade mark proprietor (or the proprietor of a Community trademark application) which no longer exists, may require the conversion into a national trademark:

- For some / all Member States of the U.E.
- For some / all products or services in the CTM list.

The conversion also works in international trademarks designating the EU, the holder being able to choose:

- Either the national protection;
- Or the designation under the Madrid Settlement/Protocol (opting - back conversion).

The conversion does not work:

- if there is not a valid Community trademark application (meeting the minimum conditions for granting the filing date and the conversion fee -200 Euros);
- when the Community trademark has been revoked on the grounds of non-use, except those States where it has been found that it was used according to the national law - art. 112(2)(a)CTMR;
- when the reason for which the Community trademark (or the trademark application) ceases its effects would prevent the registration of the same trademark in the designated Member State.

Formal terms for the request for conversion:

1. is made within three months;

2. the application is filed at OHIM and must contain certain elements;

3. The language of the application;

4. The conversion fee.

The three months period

a) cannot be extended;

b) is calculated differently according to the request for conversion:

- From the date when the application for the CTM withdrawal reaches to OHIM;
- From the date when the request for the renunciation of the Community trade mark has been entered in the Register of Community Trademarks;
- From the date of the delivery of the final decision in case of revocation or cancellation.

The Conversion Effects

The conversion application which is submitted to the National Office becomes national trademark application and it will retain the filing date/the priority/the seniority of the Community trade mark application.

If opting - back conversion – the international trade mark application submitted to WIPO will keep the original date of the international trademark with EU designation.

Conversion Advantages:

When the holder of the Community trademark renounces to the previous mark or allows its termination, he will continue to have the same rights to the previous trademark as if it had continued to be recorded.

Another advantage is the elimination of national trademark renewal costs.

If the Community trademark, for which there was claimed the seniority of a previous national trademark, ceases to exist, and there is no possibility for a conversion application, once with the CTM rights there will also be lost the rights to the previous national trade mark whose seniority was claimed.

4. Conclusions

It is known that, for a supplier of goods or services, a market where he/she enjoys the free movement of capital, people and goods is very tempting.

The European Union is such a space where these facilities may benefit from, currently the Union covering the territories of 27 countries, including Romania since 01.01.2007.

Among other things, a market economy is characterized by the abundance of product and service offerings, and we recognize that the burden on producers and service providers is not easy. Due to the multitude of products and services, each has to "tailor" their offer and act so that consumers choose their products and/or services and not those of the competition.

Given that the trademark has become a powerful means of pressure on the market, we can conclude that, although the law does not require the registration of marks, both manufacturers and service providers are interested in protecting their business. Also, by means of the interaction between production and consumption, the mark is a kind of "arbiter" in market organization, a means of matching supply and demand.

Since the principle of territoriality protection was an obstacle to the free movement of goods within the European Community, and the national rules of the member States often differed significantly, attempts have been made in order to harmonize the national laws of States, concerning trademarks.

In order to establish an internal market, the industrial property rights, especially those concerning trademarks, on one hand, had to be harmonized at Community level, and, on the other hand, there had to be established a system which, using a single procedure, could register trademarks which enjoy protection throughout the European Union.

The diplomatic conferences and intergovernmental meetings, begun in 1960, aimed at harmonizing national laws. In this sense, the trademark system is governed by a series of treaties, the first being the Paris Convention, followed by the Madrid Agreement, and then by the Protocol relating to the Madrid Agreement, and, more recently, the Community Trademark.

We can say that there are three ways for trademarks registration which provide a protection level adapted to the business interests of the companies.

Thus, the nationally registered trademark provides the protection which is limited to the market of a single country; the internationally protected trademark resolves, in particular, the issue of extending the protection outside the European Union and the Community trademark offers protection for the entire market within the European Community.

5. References

[1] E. Niculescu, V. Marin. *Marca comunitară şi marca naţională. Abordarea motivelor de refuz în procedura de examinare,* lucrare prezentată la Seminarul „Implicaţiile extinderii mărcii comunitare ca urmare a aderării României la UE", Cap Aurora, 29 august – 3 septembrie 2005.

[2] E. Bălan. *Dreptul asupra mărcilor naţionale şi comunitare în contextul aderării la Uniunea Europeană*, în Revista Dreptul, Anul al XVII-lea, Secţia a III – a, Bucureşti, nr. 2/2006, p. 153.

[3] V. Limbidis. *Protecţia mărcii comunitare*, Seminar: Constanţa, Cap Aurora, 25.08.2007.

[4] C. Anechitoae, *Introducere în dreptul proprietăţii intelectuale. Ediţia a 5-a*. Ed. Bren, Bucharest, 2010, pp. 261-262.

[5] I. Macovei, *Tratat de drept al proprietăţii intelectuale*. Ed. C.H. Beck, Bucureşti, 2010, pp. 363-366.

[6] G. Costache. *Conversia mărcii comunitare în marcă naţională. Revendicarea seniorităţii mărcii naţionale.* Seminar: „Un scop mai multe opţiuni; protecţia mărcilor la nivel comunitar sau naţionale?" organizat de Oficiul de Stat pentru Invenţii şi Mărci, Constanţa, Cap Aurora 16 - 20 august 2010.

[7] L. Mocanu. *Sistemul mărcii comunitare* în: Revista Română de Dreptul Proprietăţii Intelectuale, no. 1 (18), year VI, Bucharest, 2009, p. 157.

Effects of the Crisis on the Labor Market

Guni Claudia Nicoleta
"Spiru Haret" University of Constanta
borsanclaudia@yahoo.com

Abstract

Globalised markets and multinational companies tend to be reflected in an open global marked. More so, under these circumstances, economic and financial developments in a country influence and are influenced by developments in other countries. The Romanian labor market is affected by the current economic and financial crisis, which is manifested by rising unemployment rate as a result of reducing the activity of several economic agents. This is exactly why overcoming the crisis implies both measures and policies aimed at creating new jobs and taking into account the trends that can be noticed in our country: an aging population, migration of young specialists, temporarily leaving to work abroad.

Key words: financial crisis, unemployment, working abroad, active employment policies.
J.E.L. classification: E24, J21, J61.

1. Introduction

We live in an era where the most part of our economic and social life is determined by global processes, an era where national cultures, economies and boundaries have already begun disappearing. Globalisation brings with it a wave of liberalization of capital, investition, commercial and labor force flows, in the context of intensifying international competition.

This is what determines economic developments in one country to influence and to be influenced by economic developments in other countries. This is more of a reason why the onset of an economic or financial crisis will be felt globally. Whether talking about a financial or economic crisis (caused by financial, political or social factors), we can discuss about the onset of a pronounced economic instability, uncertainty and insecurity about the future. There is a significant decrease in the volume of transactions in the stock market, an emergence of mistrust in the financial system, a disarray of the market mechanisms.

The crisis has affected and continues to affect various branches of the economy, among which we mention the loss of jobs. As a result of global economic problems, the crisis has rapidly spread in all areas. Nowadays, a large number of companies worldwide have announced restrictions of activities as a measure of adapting to the market turmoil, it inevitably leads to a large number of layoffs and, in some cases, to reduce the wages.

The expanding of the global financial crisis is based upon three effects:

- the contagion effect, which refers to the spreading of imbalances from one region to another (especially in the context of globalisation);
- the cumulative causality effect, which means that the imbalance which occurred in an area overlaps imbalances in other areas;
- the "herd behavior" effect – speculative investition fund managers simultaneously leave the territories where the earning opportunities are diminished.

The signs which showed the beginnings of the financial crisis in Romania were: Leu depreciation, stock market volatility, increase of external debt, increased economic deficit in the context od a deteriorating trade balance and a drop of the foreign investments, "frozen" crediting.

2. Current imbalances on the labor market

The Romanian labor market showed some imbalances which were only exacerbated by

the global financial crisis. These imbalances refer to:

- *labor resources*, which over time knew divergent evolutions, with a downward trend in recent years due to falling birth rates and to an increased aging of the population;
- *Romania's demographic situation* has a downward trend and, according to estimates, will continue to have it in the future, trend which will further affect our country's labor resources.

Romania's population is decreasing and, according to all estimates regarding its future developments, *it will continue to decrease,* at least until the year 2050. Estimates show that in 2050, for 100 active citizens, there will 149 inactive citizens, and the population over 65 years of age will exceed five million, as opposed to three million, the current figure. Quite an impact will be that of the severe decrease of the young population, aged 3-20, population which will be reduced from the current figure of five million people to a figure of 2.5 million people in the year 2050.

With time, the effects felt due to a decrease of the population will consist in specific economic problems determined, on the one hand, by a labor force shortage, and on the other hand by *insufficient economic resources needed in order to support the elderly.* A small number of children in the present means less future taxpayers and hence lower incomes or higher taxes.

- labor market tensions interfere with the *legislative institutional tensions*, with negative consequences on the medium and long run. Even though there have been improvements in the labor legislation, practice proves that these are insufficient and inconsistent when raported to the labor market dynamics. The Romanian labor market does not yet have all the legal requirements designed to prevent blockages, distortions or failures and to provide training and normal functioning. This aspect is correlated with the situation of other markets, notably with the markets devoted to monetary and financial assets, as the labor market is a secondary market.
- *ratio of employed citizens, employees and retirees* significantly affects the equilibrium of the labor market, taking into account the principle according to which the pension contributions are paid from the contributions of those working. The ratio between the average number of retirees and unemployed on the one side and active population and employees on the other side, expresses the pressure manifested upon the income of those working or the dependency rate.

Said dependency rate in recent years in Romania shows an incressing pressure on those working, as a result of the increasing number of retirees (sometimes illegal ones) and the continually aging population. As known, in 1989 there were four employees for one retiree, while nowadays there's less than one employee for each retiree.

- the partnership which is particular to the labour market is frail and weak, as seen from an *organizational* point of view.

Labor offices and qualification centers are not able to cover all aspects of neither the demand and supply flows, nor of mediation, professional training, or reconversion.

- the Romanian labor market is dysfunctional not only on a macro-enonomy level, but also on a micro-economy level. Thus, collective bargaining appears to be an important institution for labor market performance when it armonises with the union organisation and the employer association.
- another problem facing the Romanian labor market is working to adapt the supply to the labor demand, in terms of training and market needs. In this respect we must consider the degree of youth education, the education level of the population, professional training according to the labor market requirements, continuous training.
- taking into account the current state of labor efficiency in Romania, much lower compared with more economically advanced countries, especially compared to the countries in the European Union, it must be concluded that sustained efforts are needed, efforts which have to be well founded and consistently promoted in order to enhance substantial labor productivity at all levels of its manifestation (job, enterprise, economic

branch, economic and social areas, national economy).

- another important aspect is that of *migration.* We must take into account the migration of young gifted people, whose training needs investing in, but who often offer nothing else in return to the Romanian labor market, as many of these young people never return to work in Romania. On the other hand, we must also take into account the large number of those leaving to work abroad on a temporary basis, thus affecting the active population in our country.

3. Crisis effects

Under the current circumstances, the tensions on the labor market have grown, thus affecting the structures and mechanisms. *Labor demand significantly decreased* becase of reduced investments, end of business or reduction of the activity of a number of enterprises, decrease of the final demand for goods. The reduction of the budget for shopping has led many companies to produce less, to reconsider any extension and to make important lay offs in order to minimize costs. This leads to increased unemployment rate, while those who are working hardly afford to support pensions and welfare. On the other hand, the labor offer registers significant structural imbalances: professional, territorial, by age groups, by skill categories.

Job loss mainly affects the sectors with intensive capital, those with lengthy production cycles and those offering durable products. The most affected by this crisis are those who fueled it in the first place, trying to offer several financing solutions to their clients: commercial banks, investment banks, investment funds and strategic investors. When they withdrew their financial support, by becoming aware of the conditions for granting the credits, economy started to show signs of fatigue and adjustment. The policy to encourage consumption by means of quick and easy access to consumer credits and to mortgage credits has led to an increase of the activity in several sectors, such as automotive construction, real estates, constructions and building materials. There has been an economic growth based on consumption, financed by debts. But when the economy showed signs of change, increasing interests, the consumer behaviour has changed the moment they realized that their incomes cannot support the same type of consume. Thus appeared a cash crisis, which further accentuated the problem of those who, having no financial resources coming from the market, see themselves uncapable of running their current financial operations.

The current global recession has left its mark on the population that fled abroad in order to work, in the sense that the number of those who left, as well as the amount of funds sent by them back in the country registered a decrease. According to a study made by the Migration Policty Institute there are few people still leaving abroad in order to work, while the majority of those already working abroad chose to stay there. Immigrant workers are exposed to the risk of losing their job more than local workers, because they often work in the industries most exposed to the consequences of the recession, namely in constructions and tourism. As such, they send less money home as a support to their families than before the crisis. Most of the money sent by workers from abroad to their families are used for current expenses such as maintenance, food, clothing, thus not contributing to investments, which would support healthy economical development and growth.

Therefore, between 8% and 10% of Romanians aged 15-64 have left to work abroad, about 2.7 million persons respectively.

From the perspective of income from the Romanians working abroad, this is a positive phenomenon, but long-term adverse effects may occur, when thinking of a late development on a local basis. Moreover, despite a reduction in earnings facing most immigrant workers, in most cases there is no widespread tendency to return home**.** This shows that for some of them the conditions back home would be even worse and it would make it more difficult and expensive for them to return abroad once the crisis is over. This is especially true for illegal immigrants.

This particular analysis of the labor migration from Romania must not lose sight of some characteristics of those who leave to work abroad. It is a well known fact *that many gifted young people are leaving the*

country, building an enviable career for themselves in the Occident and that very few of them ever return to the country.

We must keep in mind the fact that a majority of those who temporarily leave the country in order to work abroad are the workers in the families living in the contry, with incomes and/or pensions are much lower than average wages in Romanian economy, at times even lower than the minimum wage.

The situation requires further clarification also by taking into consideration the fact that many of those who leave to work abroad are retirees. At a first glance, the situation may seem perfectly normal. Every retiree is entitled to have a temporary job, if health allows and if there is sufficient motivation in this regard. But another known fact is that almost one million retirees (i.e. 20% of them) have achieved this status and all the related rights upon request, before reaching the statutory retirement age, thus without having worked for the period required by the law. There's the question of how many of the nearly one million "young" retirees are working abroad. Seen that our country offers no possibilities of working and earning enough to make a decent living, moving abroad looking for a job seems to be the only alternative both for some retirees and the unemployed and even for many of those who do have a job in the country.

4. Conclusions

To conclude, we can say that the migration phenomenon stresses the active population decrease in Romania. In addition, future developments in migration abroad is at this day unpredictible, being directly dependent on the economic and social evolution of Romania, immigration policies of advanced countries as well as on the changes in the global recession. Therefore, the management of demographic and occupational problems in our country should first and foremost take into account of the indestructible unity between the labor market mechanisms and the responsible involvement of public power and of the state of law.

It is extremely important to take into account the effects of the expansion process of the European Union over Romanian labor market, such as: increased labor migration towards the states of the European Union, increase of the requirements of qualified labor force, greater use of information technologies, the need to create a more flexible workforce, capable to take part in continuous training etc. All of the above require special attention to the *educational system* as well to developing an occupation policy aimed to fully and efficiently employ workforce, according to the tendencies in the European Union.

These employment policies must also take into account the other adopted macroeconomic policies, so as to aim at taking active measures meant to create new jobs, especially in areas which could be developed in our country, such as agriculture, infrastructure development, environmental protection. The active measures should consider our national trends: an aging population, the evolutions in the dynamics of participation in the work of various socio-professional categories, migration of young specialists, temporary migration in search of work abroad.

5. Bibliography

[1] Petrescu, B. „Dezvoltarea pieței muncii", Raporturi de muncă, nr. 9/2006, Tribuna Economică Publishing House, Bucharest, 2006

[2] Dobrotă, N., Aceleanu, Mirela . Ocuparea resurselor de muncă în România. Structuri anacronice. Evoluții atipice. Eficiență redusă, Economic Publishing House, Bucharest, 2007

[3] Hirst, P., Thompson, G. Globalizarea sub semnul întrebării, Trei Publishing House, Bucharest, 2008

[4] Socol, C., Hrebenciuc, A., „Efectele extinderii turbulențelor financiare internaționale asupra economiei românești. Soluții de prevenire", Economie Teoretică și Aplicată, nr. 8/2008, Economic Publishing House, Bucharest, 2008

[5] Yifu Lin, J. (Prime-vicepresident and Chef Economist , World Bank): „The impact of the financial crisis Impactul crizei financiare on developing countries " available on , *http://siteresources.worldbank.org*

The Financial Crisis and the Capital Market

Guni Claudia Nicoleta
"Spiru Haret" University of Constanta
borsanclaudia@yahoo.com

Abstract

The financial crisis was the negative, cumulative effect of several interconnected factors, of economic, financial and institutional nature. Interdependence of economies and global financial systems have led to the chaing propagation of the crisis effects, due to the globalization of the financial services market. The fall of developed markets has had a strong impact on emerging markets which have experienced an unprecedented lack of liquidity. Against this background the international financial crisis, the Romanian capital market was characterized by high volatility, reduced liquidity and a sudden decrease of stock exchange indices.

Key words: financial crisis, financial market globalization, foreign investments, liquidity.
J.E.L. classification: F21, F36, G01, G15, G24

1. The main triggering factors for the global financial crisis

The financial crisis has been made possible mainly by unsustainable developments in the crediting, developments marked by excessive liquidity, low interest rates, asset price fluctuation and inadequate risk management. To the above mentioned factors which led to strong global macroeconomic imbalances, we must add the unprecedented development of financial innovations represented by financial instruments whose characteristics, risks and systemic effects were not well enough known and valued by the financial institutions involved, namely by the competent authorities.

The years preceding the financial crisis brought, from a legal point of view, numerous significant changes, both in the U.S. and in the European Commission, by rearranging the new principles meant to ensure a prudential business environment, while fostering competition and creating the infrastructure necessarry for the markets to be able to offer integrated financial systems.

Construction of the single European financial market has begun ever since 1993, with the issuing of the financial investment services directive, but shortly after the entry into force of the Community act, it needed to be revised because of the technical development of regulated markets, of the emergence of alternative trading systems, of the expansion of investment firms activities and, not least, of the traditional approach of national authorities regarding the organization, functioning and supervision of market participants.

The joint efforts of decision makers to implement measures contained in the European Financial Services Action Plant (FSAP) have materialized in 2004 when the Markets in Financial Instruments Directive (MiFID) was approved. There followed a series of community measures relating to transparency, market abuse, capital adequacy, takeover bids and collective placing organisms in securities. Thus, the existing regulatory and supervisory framework has failed to prevent the emergence of the crisis, particularly because of the following:

- inadeguate management of risk due to weaknesses in risk assessement on the part of the financial institutions, through the use of inappropriate statistical methods;
- inadequate credit risk assessment by the rating agencies due to outdated assessment methodologies and major conflicts of interests; lack of market regulation and supervision of credit derivative instrument market and of structured products;
- insufficient examination of the macro-prudential risk;

- inadequate management of the crisis through inappropriate application of prudential regulations, delays in action-taking by some of the international institutions and lack of coordination between them.

Thus, through securitization transactions, the cash flows of individual loans were combined and the financial instruments so generated the aferrent credit risk were transferred to international financial markets.

As a result of this transfer, the credit risk of high risk mortgages in the U.S. (subprime lending) was taken over by institutional investors. Interdependence of economies and global financial systems have led to the chain propagation of the crisis, due to the globalization of financial services market, thereby negatively affecting other markets such as goods and services, quickly reaching the real economy.

Although the use of products, such as credit derivative instruments and structured instruments more visibly affected institutional investors, they also influenced retail investment due to aspects which were not granted sufficient attention, such as:

- retail investors have difficulty understanding how these instruments operate, since the available information is too bulky, written in a sophisticated language which does not facilitate the possibility of comparing products;
- continuous innovation;
- convergence within the sales channels;
- incomplete or unclear advertising which could affect the appropriate choice of products.

Although these complex instruments hardly occur in emerging markets, because of globalization of financial flows which resulted in placing the stocks of the emerging markets in countries with advanced capital markets, international financial system weaknesses have led to indirect negative effects on emerging markets as well, including that of Romania.

2. Effects of the international financial crisis on capital markets

The financial crisis triggered in the U.S. spread to the financial markets in Europe and Asia, because of their strong interconnection due to loss of confidence in the financial system, interbanking liquidity levels suddenly dropped, thus several financial institutions have become dependent on funding lines from central banks. The decreasing liquidity and the increase in the cost of credit caused a significant decrease of the lending population and of the economic agents. Consumption declined, many large companies have reduced their production, others have gone bankrupt, thus fueling unemployment.

The situation worsened in 2008, when major private financial institutions came close to bankruptcy (Lehman Brothers). JPMorgan Chase announced acquisition of Bear Stearns for 236 million dollars, with the help of EDF and the U.S. Treasury announced the takeover of Freddie Mac and Fannie Mae. After only one week, EDF took over Goldman Sachs and Morgan Stanley. One of the major U.S. banks, Bank of America, took over Merrill Lynch for 50 billion dollars.

The severity of the crisis, considered by financial analysts as the strongest so far ever since 1929, led to extraordinary government action. The largest insurance company in the world, American Insurance Group (AIG), was supported by the U.S. state by public funds because of systemic risk that its bankruptcy would have represented. The same happened in Europe where European governments have implemented programs to support financial institutions in difficulty, getting to the point where they would even nationalize the key players in the financial market, as was the case of banks such as Royal Bank of Scotland (RBS) or Northern Rock, the fifth institution in Britain, where the British government became the major shareholder. Thus, central banks have combined efforts to revive credit markets. The significant decrease in financial markets primarily affected the segment of capital markets. All national markets have experienced these events, some exchanges taking the decision to suspend trading because of the decreases registered. Much of listed securities fell, the shock being intensely felt especially in the case of shares of banks and other financial institutions. Central banks have opted for a capital infusion to counteract the effects on the

banking segment, but the capital market has continued to decrease, complemented by a high volatility.

Market reacts beforehand to expectations regarding the real economy. Negative expectations, fueled by favorable statistics, led to behavioral changes of the investors and determined, in 2008, a pronounced decrease in quotations on international financial markets, causing significant decreases in the most important indices

3. Effects of the International financial crisis on the Romanian capital market

The capital market in Romania was characterized by high variations of the indices and of the liquidity level in 2007, determined by external factors, such as a significant rise in international markets early in the year and an escalation of the tensions in the American high-risk mortgage market, but also due to significant changes of the investor's perception regarding the stability of the internal macroeconomic indicators after the onset of the external crisis. Global reappraisal of risks has led to a change in the behavior of non-resident investors on emerging markets, a trend also felt on the domestic capital market.

Non-resident investors reduced capital flows to the domestic capital market since August 2007 (except December), due to rising risk aversion compared to the first half of the year. Substantial inflows in December were also due to the IPO's performed by TRANSGAZ, which recorded a very high degree of subscribing.

Regarding the Romanian market, August 2007 marks the first month in which non-resident investors have become mainly sellers of shares. In the following period, the process continued, the end of January 2008 non-resident investors' net sales value totaled 561 million lei. However, the negative evolution of the stock exchange indices in the first three months of the crisis took place against a lower net sales volume of non-residents (87 million lei), which leads to the assumption of a simultaneous existence of pure contagion in this phase of the correction.

The domestic capital market saw three periods of extensive correction of the stock indices since the onset of the crisis on international markets: July-August 2007, October-November 2007 and January-February 2008. The level of correlations between the BET indicator and the international ones shows an increased influence of the evolution of developed capital markets and a larger synchronization with emerging markets in the region at certain times of corrections. The strongest external impact was felt at the moment when the crisis had an onset on international financial markets (July-August 2007), and the risk aversion of investors has sharply accelerated , and in the first two months of 2008, when investor fears the U.S. economy enters the risk of recession and its global expansion have boosted capital outflows from the stock markets and redirected them to the governmental securities markets, to the precious metals and raw materials markets. The difficult international environment has fostered the decline of the domestic capital market in that period, but internal causes were the ones with the greatest impact.

Nationally, in 2008, the most conspicuous effects were the worsening of the investor perception on risk and the massive reduction of liquidities in institutions and financial markets. With the local financial institutions lacking exposures on toxic financial instruments giving rise to the international financial crisis, turmoil in international markets indirectly affected local markets and investors by means of the real economy and of financial market liquidity.

The international financial crisis, capital market in Romania recorded a similar trend to other markets in Europe, America and Asia, characterized by low liquidity and significant depreciation in the indices. This has been exacerbated by closures of positions held by foreign financial institutions in local financial instruments in a short time and the reluctance of investors to maintain or increase exposure to securities. In these circumstances, the entire market capitalization fell by 47%, reaching the level of 57.8 billion lei.

Evolutions of the Bucharest Stock Exchange and of the Monetary-Financial and Commodities Stock Exchange Sibiu were influenced by international market evolutions, both in terms of investor perceptions towards capital market and on

the work done by foreign institutional investors. Like markets in the region, in October, the BSE suspended, on two occasions, market trading, due to reaching the maximum threshold variation of negative indices.

Regarding the Sibiu Monetary Financial and Commodites Exchange, since the setting up of the futures market untill the end of 2003, we can note that the volume traded was relatively constant, exceeding 300,000 contracts per year. Therefore, 2006 became the best year in the history of stock exchanges, with a total of 4,268,710 contracts traded with a value of 9744.28 million lei (approximately 2.770 million euro). The explosive growth rate has made it possible to record a daily volume record of 71,000 contracts in November.

In the year 2007, the interest earned by the derivatives market in Sibiu has generated average trading volumes and higher, depending on different times of the year. If volumes in the first half of 2006 were significantly higher, in the second half, decreased liquidity which led to a trading volume of 3,490,923 contracts, representing 81.78% of the total amunt traded in 2006.

Although the volume of 3,618,766 contracts traded in 2008 was higher than in 2007, the number of open positions decreased, especially in the first half of the year, as a continuation of the trend started the previous year, investors are focusing on more by speculation operations rather than on arbitration and risk covering. A decrease by 35% of the value traded in 2008 and in the early 2009 is primarily due to lower quotations for derivative financial instruments, which have closely followed the evolution of quotations from BSE.

The derivate financial instrument market SIBEX knew a continuous development. The years 2007-2008 were included, despite the difficult financial context, in the trend already established, marking both the increase of the futures market liquidity and the consolidation of SIBEX's position in the region. Positive trends in financial and operational indicators must be assessed, more so since it occurred in the context of constant local stock degradation in 2008, especially in the second half amid worsening international financial crisis effects. Sibiu Stock Exchange has demonstrated the capacity to maintain steady interest for its products regardless of overall stock market. The Stock Exchange in Sibiu, Romania's capital market into the top markets for derivatives in Europe, occupying eighth place in the derivatives segment with the underlying shares by: Eurex Frankfurt, Euronext LIFFE, BME Spanish Exchange, OMX Nordic Exchange, Borsa Italiana, Oslo Bors Exchange Athex derivatives.

The evolution of the fund market indicators for markets open in 2008 coincides with the corrections registered on the regulated markets as a consequence of the internationall financial crisis. However, the increasing number increasing number of investors and thye drop of the assets at a rate lower than that recorded for correction indicators show that the sector was still one of interest to investors, with a registered shift towards investments with a lower security level (particularly fixed income instruments). However, since the onset of the international financial crisis, the investment fund industry shrank in terms of value of asset portfolios held by investors. Open investment funds in late 2008 had net assets of 941 million lei. The drop in the amount of the asset portfolio was generated by lesser value of shares quoted and by the volume of investors sought redemptions, after the net asset value depreciation.

The activity of the financial investments service companies has registered a significant decrease during the last year, due to the decrease of the regulated market liquidities, markets where they offer financial services to their clients and also due to the number of active accounts of the investors. Local intermediaries reduced their activity by closing up a relevant number of secondary offices and by reducing the number of employees, as well as by restricting their object of activity, in order to be integrated in the prudential capital requirements.

Although the aderhation of Romania to the European Union has offered investment companies the oportunity to offer investing services and activities on the territory of other member states as a result of the sole passport, by the end of 2008 only three such companies notified such intention to the authorities.

4. Measures to counteract the international financial crisis effects

In these crisis conditions extraordinary measures needed to be taken, both internationally and nationally. In the USA and in some European states, governments and central banks responded by improving liquidities, granting governmental loan grants, re-capitalizing finacial institutins, guarantee of the newest emissions by insured banks, avoiding the collapse of interconnected major companies, buying bank shares, coordinated decreases of interest rates.

The European Union supported the necessity to develop measures for stabilizing, surveying and consolidating the financial sector transparency. The European Union Council also requested the adoption of quick measures regarding the rating agencies, financial survey and accounting standards.

In this context, a series of measures were taken in order to strengthen the cooperation and coordination between capital market authorities in the member states and in order to correct the capital markets as a consequence of the financial crisis impact: temporary suspension of short selling, monitoring of the impact of recent market events upon investment funds, protecting of the investos, monitoring the way the accounting standards are applied, monitoring the functioning of the post-transaction infrastructures on the financial instability period. Adopted measures also regarded the modification of the legal framework at an European level. Given the turmoil on international financial markets, which could be felt on the Romanian capital market, starting with September 2008, the surveying authority took measures meant to stimulate the market, such as: suspansion of the 0.08% rate applied on transacted values for a six month period and then diminishing it yo 0.04%, suspansion of the rate for guvermental security transactions, suspension of the rate for public guvermental selling offers and of public selling offers made in order to integrate them for transactioning on a regulated market. Moreover, in view to intensifyingthe survey at intermediary level, collective investment organisms, and market operators, all these entities were asked to give more frequently and more detailed reports.

In order to support the capital market, the National Securities Commission toghether with Economy and Finance Ministery took temporary measures of easy fiscal policy for stock transactions, such measures being a part of anticrises measures in several European Union states. Among said measures we mention suspending the taxes for profits made by foreign legal persons and suspending taxes for profits of authorised persons made by transactions on the capital market as well as deducing loses registered by authorised persons in the folowing fiscal year by net winings of the same nature. Moreover in the case of Romanian legal persons winning from transacting capital securities are free from taxes same as expenses related to transactions were considered undeduceable.

In July 2007 the National Committee for Financial Stability (CNSF) was created as a consequence of the agreement between the Economy and Finance Ministery, the Romanian National Bank , the National Securties Commission and Private Pension System Supervisory Commission in order to cooperate in the field of financial stability and financial crisis management and starting September 2008, the members of CNSF initiated and adopted common measures related to financial stability of the Finanacial-Banking System in Romania.

5. Conclusions

With the deepening of the current financial crisis, there is no doubt that we are dealing with a structural crisis, deeply connected with the lack of coherent dynamics of the whole system. Appearing after the capital markets crisis in 1987, the US recession in 1991, the Asian crisis in 1997 and the dramatic fall of share prices of the internet in 2001, this crisis, much more serious than those in earlier years, is certainly known as the most sever since the 30s.

In Europe, the financial crisis triggered an intense process of reform of the central institutions and of restructuring of financial markets, when new principles came to force, meant to ensure a prudent business environment, while allowing the

development of competition in the integrated financial services segment.

The correlation of the Romanian capital market to those in Europe was relatively low, except for the international financial turmoil in September – October 2008. The decrease in the intensity of the perceived risks in the global financial system has led to lower correlations, indicating a low level of integration of the domestic capital market with the European markets.

6. Bibliography

[1]. Anghelache, Gabriela (2009). "Romanian Capital Market in the European Context", Ed. Economica, Bucharest, ISBN – 973-709-065-9

[2]. Anghelache, Gabriela, „Piața de capital în contextual integrării în Uniunea Europeană", Economie teoretică şi aplicată, nr. 9/2007, ISSN 1841-8678 (print edition), ISSN 1844-0029 (online edition), pp. 22, 26, September 2007

[3]. Dragoescu,Elena (2006). "Piața de capital şi operațiuni specifice", Curs, Dimitrie Publishing House

[4].Wymeersch E., „The futures of regulation and supervision in Europe", Working Paper of Financial Law Institute - Ghent University, 2005, Belgium

[5]. European Cenral Bank, Monthly Bulletin, 2008-2009

[6]. National Romanian Bank, Report On Financial Stability, Bucharest, 2008-2009

[7]. Romanian National Securities Commission, Annual Report, Bucharest, 2006-2008

Effects of the Current Crisis on the Global Economy

Haralambie George Alin
Petroleum-Gas University of Ploiesti
haralambiegeorgealin@yahoo.com

Abstract

This paper presents some effects of the current international economic and financial crisis on the *main macroeconomic variables. For this purpose, are valued the direct and indirect influences, on short and medium-term, of the crisis on direct investment, on employment, on the non-governmental credit ale valued. Financial crises are an inevitable feature of the capitalist system and follows a predictable course. The increasing of chances of profit in a particular economic sector attract funding sources, creating an explosion of investment.*

The global upturn from what is considered the worst economic and financial crisis since the 1930s remains fragile, and a premature exit from demand-stimulating macroeconomic policies aimed at fiscal consolidation could stall the recovery. A continuation of the expansionary fiscal stance is necessary to prevent a deflationary spiral and a further worsening of the employment situation. In this context, it is important that the macroeconomic policy framework be strengthened to promote sustainable growth and employment creation. Past experience suggest that a sustainable growth strategy requires a greater reliance on domestic demand than has been the case in many countries over the past 30 years. In such a strategy, job creation for absorbing surplus labour would result from a virtuous circle of high investment in fixed capital leading to faster productivity growth with corresponding wage increases that enable a steady expansion of domestic demand. This may call for a rethinking of the paradigm of export-led development based on keeping labour costs low.

Key words: global economy, financial crisis, foreign direct investment, unemployment
J.E.L. classification: E24, E62, G01

1. The concept of globalization

Globalization has become an objective in scope and evolution. The world economy is the combination of all economic agents and the interactions between them on a global scale. The main stages of globalization are: globalization through foreign trade and globalization through foreign capital investment.

Initially the main form of manifestation of global economic relations was manifested by external trade. Meaning of globalization in world economy has led to the world market a new category of economic agents (transnational corporations), who turned their attention to the opportunity of transferring production abroad in order to reduce foreign trade operations.

As the world's states have created the legislative framework necessary for economic and social expansion of transnational corporations, globalization has passed through foreign capital investment.

The world economy has evolved differently depending on global trends over time, recording the dynamics in the last 20 years. The world economy is an expression of a system of interdependencies. It is conducive to global economic competition between operators and is characterized by cyclical economic activity by alternating phases of growth and recession phases in different areas of the globe.

The world economy is showing trends such as regionalization and globalization that affect every trader regardless of economic space in which they operate. The world economy is showing an upward trend of development disparities between the developed and under developed.

Economic policies pursued by most countries of the world, pursuing economic growth. In recent years the world economy has been subject to increased social, economic and regional policy.

National economies are part of the world economy. Globally, it is noted a continuous process of training and restructuring economy. Developing countries by following a process of transition to market economies and developed countries with advanced economies are involved in regional integration processes. Regardless of their level of development, national economies are involved in the irreversible process of globalization.

Transnational companies are the main force acting on the meaning of internationalization and globalization of economic life.

On the formation and development of the global economy is the global market. Global market is all transactions that occur between traders around the globe.

The main forms of global market are:

- international market of goods and services whose development has led to perfection through foreign trade globalization;
- international market of capital that consists of investments made by operators as foreign capital investment.

World market is heterogeneous reflecting features of the global economy. Contemporary world economy is characterized by inequitable distribution of global income and the high percentage of developed countries among world states.

Since the mid-nineteenth century, noted that economic activity known phenomena that follow each crisis period of 8 to 10 years and that economic activity progresses through a succession of stages that make up an economic cycle In an economic cycle is grown following phases: phase manifested by rising economic growth and economic depression phase.

Ascent phase is characterized by increased investment, revenue, production and reducing unemployment. During this period the monetary and credit market interest rate decreases.

Braking business announces end of rising phase manifested by reduced profits, lower stock exchange activity, restricting and expensive credit, reducing investment activity.

2. Government policies to tackle crisis

Economic policies are reflected in monetary and credit policy, fiscal policy, public expenditure policy, trade policy.

Adoption of economic policies depends on economic cyclicality. The global economy has demonstrated that economic activity is fluctuating. Fluctuations are of great magnitude, duration and occur with some regularity.

The economic crisis is triggered and enter into economic depression phase characterized by reduced global demand and investment, increased unemployment.

The recession phase, the policy aims to stimulate investment by lowering interest rates and granting credit facilities. Measures aimed at stimulating demand.

Investment flows began to bottom out in the latter half of 2009. This was followed by a modest recovery in the first half of 2010, sparking some cautious optimism for investment prospects in the short term. In the longer term, the recovery in investment flows is set to gather momentum. Global inflows are expected to pick up to over $1.2 trillion in 2010, rise further to $1.3–1.5 trillion in 2011, and head towards $1.6–2 trillion in 2012. However, these prospects are fraught with risks and uncertainties, including the fragility of the global economic recovery.

There are some major changes in global investment patterns that preceded the global crisis and that will most likely gain momentum in the short and medium term. Firstly, the relative weight of developing and transition economies as both destinations and sources of global investment is expected to keep increasing.

These economies, which absorbed almost half of investment inflows in 2009, are leading the FDI recovery. Secondly, the recent further decline in manufacturing investment, relative to that in the services and primary sectors, is unlikely to be reversed. Thirdly, in spite of its serious impact on investment, the crisis has not halted the growing internationalization of production. But the rebound from recession will not endure if it continues to be based on temporary factors, such as inventory cycles and exceptional fiscal stimulus programmes, and if the shortcomings that caused the crisis,

such as unregulated financial systems, income inequality and global imbalances, persist.

In developed countries, financial rescue packages initiated by governments in 2008 and 2009 prevented the collapse of financial markets, while supportive fiscal and monetary policies partially compensated for sluggish private demand. These countries have seen growth in the last quarter of 2009. However, domestic demand remained weak due to high unemployment and reduced private consumption. Investment has been discouraged by idle productive capacities, uncertain demand expectations and more difficult access to credit.

In developed countries and economies in transition there are wide variations about the depth of the recession and economic recovery, which were forced to apply restrictive macroeconomic policy. The financial shock seriously affected those emerging-market economies that had been running current-account deficits and depended heavily on net capital inflows. Financial turmoil on the markets have had little effect on poor countries and emerging market economies that have avoided deficits and have accumulated large foreign reserves crisis in previous years. Most Asian and Latin American emerging-market economies were able to contain a rise in unemployment during the crisis and achieve a rapid recovery of domestic demand. This served to drive their output growth in 2010. Indeed, in the first quarter of this year some of the large emerging-market economies in these regions achieved growth rates.

Higher export volumes and a rebound in primary commodity prices boosted national income and fiscal revenue, especially in Africa and West Asia. The growth rate for Africa in 2010 as a whole is about 5 per cent, and in Latin America, GDP is expanded by some 5 per cent in 2010. In some countries of the region growth exceeded 6 per cent. In South-East Asia, GDP increased with 7 per cent in 2010, and in East and South Asia most countries are on track to return to their pre-crisis growth rates. In several countries of Central and Eastern Europe recovery is slower owing to high unemployment, wage cuts and constraints on government spending.

Countercyclical macroeconomic policies adopted by developed market economies led to a slight recovery in the global economy since 2009. However, during the course of 2010, there has been a reorientation towards fiscal consolidation in Europe, implying a shift towards a restrictive fiscal policy stance and thus a withdrawal from an expansionary demand stimulus from the beginning of 2011 onwards. This could compromise further recovery since, in most developed countries, especially in Western Europe, private demand, so far, has only partially recovered from its trough. It would therefore make countries overdependent on exports for their growth and could lead to the re-emergence of current-account imbalances of the kind that contributed to the build-up of the financial and economic crisis in the first place.

The strength of the global recovery has varied in line with how aggressively stimulus measures have been applied by different countries. For example, one of the largest economies (China) experienced a decrease in exports to developed countries, offset by increased domestic demand as a result of measures taken by government incentives. Its GDP growth accelerated already in the second quarter of 2009, as did growth throughout East and South-East Asia, once again contributing to an increase in employment and production capacities. China, and to a lesser extent India and Brazil, are leading the recovery, not only in their respective regions but also in the world.

With the interest rate in the United States and other developed countries is very low, any tightening of monetary policy in emerging market economies, may cause large differences in the interest rates. This, coupled with a renewal of risk appetite on the part of financial investors, could well lead to an increase in net private capital flows to the emerging-market economies. Indeed, their stock market indices are already showing a substantial improvement. This, in turn, could generate upward pressure on their exchange rates and may require currency market intervention with a view to preventing exchange-rate appreciation as well as to provide "self-insurance" against speculative carry trade operations.

While developing countries are leading the recovery, it remains fragile and uneven in developed countries. Among the developed countries, United States has witnessed a stronger recovery in domestic demand than the leading current-account surplus countries (Germany and Japan), but they have to deal with a high unemployment rate. Moreover, the housing market and house prices remain depressed. Recovery in Germany and Japan continues to be characterized by their strong reliance on exports. Weak domestic demand in Germany is no longer being offset by more buoyant domestic demand elsewhere in the EU. Europe has become the centre of the global crisis, as its home-grown problems add to the vulnerability of its shaky financial markets.

In the first half of 2010, stress in the markets for some European countries' public debt escalated. European Commission and IMF, responded with a support package for Greece and other European countries who had difficulties, which helped to calm financial markets. However, doubts remain as to address regional imbalances. Most EU countries have increased the tax burden, while operating wage reductions with impact in private demand. In 2010, the austerity measures adopted by governments have had the effect of reducing the budget deficit. The prospect of a premature exit from stimulus in Europe has heightened the risk recession in this region, or even worldwide. In the eagerness to embark on fiscal consolidation, it is often overlooked the negative impact on public revenues due to tax abstinence.

Continued global coordination of efforts directed at crisis management and systemic reform remains an acute challenge. At this stage, coordination primarily concerns the free-rider problem. As a rule, governments should withdraw stimulus only after achieving a full recovery of private domestic demand in their country. If it is withdrawn prematurely, they have to rely on exports for recovery. Ideally, the timing of an exit from stimulus should contribute towards a rebalancing of global demand. The continued stagnation of domestic demand in Europe may threaten the global recovery.

The short-term effects of fiscal austerity, including job losses, are unlikely to be offset by sharply falling interest rates and greater confidence in long-term prospects. The depreciation of the euro in the first half of 2010 essentially means exporting unemployment to the rest of the world. The public sector, as the largest purchaser of goods and services and the largest employer, has a significant influence on the expansion and functioning of goods and labour markets. Moreover, governments can levy taxes on the modern sector and on highly profitable export activities to enable the provision of State financial support for productivity growth and income generation in the traditional and informal sectors. As a result, important linkages can be established between successful export industries, on the one hand, and the rest of the economy on the other. This is all the more important when such linkages are not created by market forces owing to the structural heterogeneity of a developing economy.

While the prevention of excessive inflation is undoubtedly important, a monetary and financial policy to promote employment creation through greater fixed investment is of particular importance for developing countries where investment dynamics are weak, but where the enlargement of productive capacity and productivity growth are necessary conditions for the absorption of surplus labour. An employment-friendly monetary policy would aim at maintaining low costs of credit for investment in fixed capital and avoiding currency appreciation.

Between 2010-2014, employment will be one of the key factors in overcoming global crisis. Employment dynamics could have the following characteristics: non-financial firms tend to reduce (or optimize) the variable costs, particularly salary costs as a result of diminishing external and domestic demand for domestic production through reducing staff numbers; temporary layoffs, or partial use of staff (by "turning" its activity, the rest being considered laid off staff); expansion of part-time employment, or acceptance from employees, a concomitant decrease (usually proportional) of working hours and salary levels

Financial policies should enable credit to be directed to sectors and activities that are of strategic importance for the structural transformation of the economy as a whole. Such financial support, which has often been

used as an instrument of industrial policy, could also help solve the problem of access to adequate financing faced by many small, innovative enterprises, including those in the informal sector and agriculture. Many of these enterprises can play a key role in creating employment and linkages between modern and traditional production activities. Examples of such policies include the direct provision of credit by public financial institutions or by intervention in financial markets through such measures as interest subsidies, the refinancing of commercial loans and the provision of guarantees for certain types of credit.

By shifting the emphasis of monetary policy towards growth and employment creation, the scope for central banks to pursue the objective of maintaining price stability or low inflation will be reduced. Therefore an additional instrument will be necessary to control inflation. This can be provided by an incomes policy.

In the same way as it can contribute to generating greater domestic demand, such a policy can also prevent labour costs from rising faster than productivity and thus serve to control inflation.

As labour costs are the most important determinant of the overall cost level in a vertically integrated market economy, their importance in helping to stabilize the inflation rate cannot be overemphasized. If an incomes policy were to succeed in aligning wage income growth with average productivity growth plus a targeted inflation rate (not based on indexation from past inflation rates), cost-push inflation could be controlled. It would keep inflation low by preventing both increases in real production costs and demand growth in excess of the supply potential. Thus, central banks would not have to keep interest rates high to combat inflation, and consequently there would be more space for a growth-oriented monetary policy.

This is especially true for developing countries, many of which have a history of very high inflation.

Backward looking indexation of nominal wages frequently contributed to bouts of inflationary acceleration.

This has proved to be extremely costly, because the only way central banks can cut inflation is by applying repeated shocks to the economy through interest rate hikes and currency revaluations. Such measures imply sacrificing real investment and employment for the sake of nominal stabilization.

3. Conclusions

The current crisis started in 2007 has affected in greater or less all countries, however, China and Japan have succeeded more quickly to overcome its effects, by stimulating industrial production, domestic consumption and exports by maintaining a low rate of national currency, instead, the countries of Central and Eastern Europe are confronted with strong union movements, due to increasing unemployment, wage cuts due to increasing budget deficit.

In this context, it is necessary to achieve consistent economic recovery program that is based on encouraging investment to create new jobs with impact on consumption of goods and services.

4. Bibliography

[1] F. Bonciu, "World Economy" Publishing Lumina Lex, Bucharest , 2004.
[2] S. Dumitrescu Ana Bal, "World Economy", Economic Publishing House, 2002
[3] UNCTAD- World Investment Report 2010
[4] UNCTAD-Trade and Development Report, 2010

Intangible Assets as a Source of Competitive Advantage for the Romanian Small and Medium Enterprises

Holban (Oncioiu) Ionica
The Academy of Economies Studies, Bucharest
Nelly_oncioiu@yahoo.com

Abstract

Before globalization, the society of information and knowledge, all social structures have become environments. In a global economy, every developed country needs a continuous flow of technological innovations which results in competitive advantages.

The intangible assets is a resource with which count all organizations, conforming different stocks of knowledge as they can be: the singular, collective and organizational that should not be left as such, but the interesting thing it is that this is used, is mobilized and developed, that is to say to negotiate it on different forms.

This paper wants to show that the intangible assets are fundamental for the creation of the wealth since with an appropriate one administration a series of benefits take place. Also, it intends to answer the following question: is it important for Romanian SMEs to improve potential, quality and excellence operational innovation?

Key words: accounting system, normalization, convergence.
J.E.L. classification: M21

1. Introduction

The global objective of the small and medium enterprises (SMEs) support is to enhance the competitiveness of businesses, maintain the attractiveness of Romania, its regions and towns for investors, promote innovation, stimulate demand for research and development results, foster a spirit of entrepreneurship and encourage the growth of the knowledge-based economy by means of the capacities for the implementation of new technologies and innovated products, including new information and communication technologies. These all factors lead to the very important social role and social responsibility of SMEs, mainly in the regions facing economic problems.

The intangible assets have become increasingly important in the modern economy, financial accounts produces insufficient information about them, with the result that investors are uninformed and managers leading the allegations. Together with its collaborators, Lev (2002) has argued grounds, showing that economic development requires that the intangible assets to be more recognized in the financial statements: "we use a system to take decisions than 500 years in a business complex; the essential assets that create value have fundamentally changed." Recognition of an element of intangible asset requires the company to demonstrate that the item meets the definition above: to have identifiable character, to be controlled, to obtain future economic benefits and can to be able to asses at a reliable cost.

In final years the concept of competitive advantage started to occupy the central place in the SMEs' strategies. These firms learned to speak more and more about the notion of competitive advantage like something they must have.

Once gained, the competitive advantages can be eroded, can be copied or counterattacked by competitors, therefore for a company is important to gain these advantages, but more important is keeping them over vast periods of time, allowing the firm to situate itself in front of the competition for a long time. A competitive advantage can be born by implementing a strategy of value creation that hadn't been implemented before by other competitors or can be born by realizing the same strategies by competitors, but in a superior way. Maintaining the competitive advantages over long periods of time transform them in

strategic or sustainable competitive advantages.

The Romanian SMEs competitiveness is basically a function of two factors. First, it is determined by the extent a company can identify those value dimensions that are important for their customers. These are the main characteristics of the firm's complex product and service package a customer expects and respects. On the long run a company can be competitive only when it is able to create value for their customers and as a consequence contribute to their competitiveness as well. These value dimensions are the aspects of supplier selection. The second factor of firm competitiveness is the sum of resources and capabilities that makes a firm able (capable) to create and deliver the identified important value dimensions for the customer. A company can possess a very wide range of resources and capabilities. Those subsets of resources and capabilities have the biggest importance which is fundamental to the firm's performance.

2. Literature review

In the opinion of (Canals, 2003), "the new economy", generated by the new technologies, the one denominated "it was digital" and/or "it was of the information and the knowledge" he has made that the administration of the knowledge goes acquiring more and more importance. It assures the author that the knowledge, just as he/she understands each other nowadays, it is a resource that not so alone it allows us to interpret our environment, but rather he gives us the possibility to act. In the same way (Serradell, 2003), he observes that in the last times, the scientific community has come showing a growing interest for the administration of the knowledge, interest that he gone even to the study of such topics as the new economy, the vision of the companies like organizations able to generate competitive advantages by means of the knowledge, the intellectual capital, the intangible assets among others.

Prescott and Vischer authors of the "organizational capital" you/he/she is considered therefore that you/he/she is necessary to check if the strategy of some companies has been changed that have administered, in the past, the knowledge, and if they recognize its advantages when valuing its personnel and to recognize that the administration of the knowledge can be the key of the competitiveness, of the sustained growth and of the consolidation of the Society of the one knowledge looking for an administration of effective knowledge.

We have different ways to communicate, the transmission of the knowledge is taken from immemorial times and historically he/she has moved of generation in generation through the humanity's history the man he/she has always looked for to know; although the conscience and the studies on the new position of the knowledge - and their organized generation - in the economic systems they had their beginnings in the beginnings of the XIX century, as he/she refers (Rivero, 2002), where he/she also affirms that nowadays the knowledge constitutes the main source of sustainable competitive advantages in the time it is not an utopia; it is already an axiomatic true. The antecedents of the knowledge are looked for in the Greek philosophy, they are carried out from times of Plato who distinguishes the knowledge in several levels and grades in a process of discursive intellect. Aristotle explains to it as logical relationship among subject expert and I object well-known, in a passive form of reception of the cosmic thought, according to appointment in their investigation (Pacheco, 2004).

Should understand these multi-teams that the application of the new technologies to their managerial contexts, they will allow them the power to delegate or to program through these, certain tasks that allow the success of the synergy in order to generate value and that, in turn demand creativity and innovation.

By the middle of the decade of the siestas, H. Igor Ansoff, grateful as the father of the modern strategic thought, the main Fade introduces in the analysis of strategic options. But it is starting from the decade of the eighty that Michael E. Porter becomes the most outstanding author in competitive strategy, where the same one proposes a new focus for the strategic plantation, and he/she writes that the "competitive advantage is born fundamentally of the value that a company is

able to create for their buyers. These advantages have varied in the context those from concepts like leadership in costs, differentiation to concepts like competitive strategy based on capacities and resources due to the ability of the organization of facing the dynamism of the internal means (to operate) and the external means (market) in which seeks to participate.

3. The presenting of competitive advantages as intangible assets at fair value

According to International Financial Reporting Standards (IFRS,2005) competitive advantages as intangible asset is defined as an "identifiable non-monetary asset that has no tangible substance and that is used in manufacturing or delivering of goods and services, in renting to other subjects or in administration." The asset is being governed by an accounting unit which then expects an economic advantage in return. A paradox of intangible assets is that the more incorporates, the more volatile is its valuation.

Thus, in traditional accounting systems, if an intangible asset does not meet the criteria above, then it will not appear in the accounting books of the company. However, as time passed, the traditional accounting concepts and systems became improper for the purposes of the new company models form the post-industrial economy (organizations based on knowledge, immaterial, with a low number of employees with high qualification).

Furthermore, the use of fair values, with a small number of exceptions, mirrors long-standing requirements of United Kingdom (UK) GAAP. UK GAAP has long required the use of fair values for the initial measurement of assets and liabilities or the allocation of the cost of the acquisition in a business combination to the acquired assets and liabilities. The options to measure property, plant and equipment and investment property at fair value at each balance sheet date are long-standing UK treatments that have been incorporated into IFRS. More significantly, the extensive use of historical cost-based amounts, in particular for the measurement of many financial assets, and financial liabilities and as the dominating practice for tangible and intangible assets, is common to both UK GAAP and IFRS.

Practical, IFRS use the term 'fair value' as a generic term that may be applied to all assets, liabilities and equity instruments irrespective of whether they are quoted or traded on active markets. In other words, IFRS use market value as a subset of fair value - it is fair value as determined in an active market.

More and more, the basic representations of the accountancy evaluations including competitive advantages as intangible asset, excepting the historical cost, are real values.

But the process doesn't stop here. After getting the accountancy information it must be furnished to the interested one and has to be interpreted in the scope to take decisions. Look, there is obtained accountancy information, based on the concept of real value, with the destination of evaluating the interest and solvability of a patrimonial entity.

Because of the high variety of information, that are requested by the users or furnished from the patrimonial entity, there are some qualitative characteristics of the financial measurements that are strictly limited. Even with an understanding of the definition and what is and what is not fair value, IFRS are unclear whether fair value should be based on an entry price or an exit price of an asset, liability or equity instrument.

In other words, conventional financial statements and management reports presently provide insufficient information on the competitive advantages as intangible asset that really contributes to a company's success. That increased importance of competitive advantages to business competitiveness has driven change in the accounting treatment of intangibles and accounting standards try to improve disclosures about them.

On top of that, the current lacks of investment in intellectual capital have several consequences. If we can develop a better way to account for such investments, we will achieve a more efficient allocation of resources and benefits will accrue to the economy.

As a result it is some problems of credibility and meaningfulness vis-à-vis these new reports according with IFRSs. Also the intangibles phenomena represented by the

date which can be in conflict with their reliability.

Today, IFRS and specific national modifications also deal with the question of compatibility of the standards within the EU. This question should be resolved by the Common Consolidated Corporate Tax Base project that is to be finished by 2011. The EU aims at creating a unified approach as far as establishing one's income tax is concerned; the individual member countries would be in charge of establishing the rate then.

4. The administration of competitive advantage for Romania small and medium enterprises

The Small and Medium Enterprises (SME) sector is also important in overcoming social tension brought about by the globalization tendencies connected with the rapid transfer of certain industrial programs to countries with lower wage costs and with a high intensity of global competition. SMEs are of particular significance for the development of the national economy, for job creation, and for the development of individual municipalities and regions. They help to create a healthy business environment and increase market dynamism. SME development is generally considered to be a principal factor of economic development, irrespective of how economically advanced a country is. SMEs play a decisive role in the creation of new jobs and, in general, operate as a factor contributing to social stability and economic development. However, their development may be limited by objectively existing trends in the operation of the market. More often than large businesses, they face difficulties in the financing of their current activities, especially development plans, due to fears connected with the increased risk of investing in these companies and the limited possibilities of securing loans. Also, SME access to information, in particular information on new technologies, potential markets and changes in legislation, is more difficult.

SME support in the next programming period, i.e. 2007-2013, will be based on the Policy adopted by the government on 12 April 2006. With a view to fostering a positive business environment necessary for the development of entrepreneurship and for the sharper competitiveness of SMEs, measures in the following areas will gradually be implemented. Simplification of tax legislation and a reduction in administration as factors helping to foster a more favorable business environment, with the support of the administrative registers of public support (a basic economic register, a basic register of area identification and properties, a basic population register). The impact of proposed legislative is changes on SMEs as an integral part of the legislative process, reflection of the requirements of EU legislation in the field of ecology.

Adherence to a regime for the import of goods and to customs, tax, technical and health regulations though the consistent activities of Customs Administration bodies. The stimulation of enterprises and employees to develop their skills, including tax allowances, the promotion of the development of standardization, metrology and testing in keeping with the requirements of the market and society, with the aim of enhancing the competitiveness of SMEs.

Direct financial assistance for the projects of small and medium-sized enterprises will be based on the following principles, for example on preservation of an expedient level of continuity with programmers whose functioning proved its worth in the 2004-2006 period. An increase in the application of instruments ensuring the access of SMEs to capital, especially private capital, based on the principle of full or partial return and the principle of risk distribution. The focus of grants on the development of the knowledge economy and the promotion of consulting, information and training services, the integration of the blanket oriented support of business projects increasing the competitiveness of small and medium-sized enterprises with regional aid, facilitating the necessary differentiation of aid intensity and increased support for projects with high benefits for the economy and development of the regions (e.g. job creation in selected regions, especially areas with intensive State aid, energy conservation, the development of selected branches), on support for the development of products with higher finality and better enhancement of inputs and a more favorable environmental impact.

5. Conclusions

The global objective of SME support is to enhance the competitiveness of businesses, maintain the attractiveness of the Romania, its regions and towns for investors, promote innovation, stimulate demand for research and development results, foster a spirit of entrepreneurship and encourage the growth of the knowledge-based economy by means of capacities for the implementation of new technologies and innovated products, including new information and communication technologies. These all factors lead to the very important social role and social responsibility of SME, mainly in the regions with economic problems.

On the other hand, the intangible assets is a resource with which count all the organizations, conforming different stocks of knowledge like they can be: the singular, collective and organizational that should not be left as such, but the interesting thing it is that this it is used, it is mobilized and develop, that is to say to negotiate it of different forms. The different visions around the topic they have generated a series of proposed models that they believe expectations, activities, lists and technologies, that they have pointed to give support to the development of the human resource in the organizations, but without fixing a direction or mark that it allows to settle down clearly as implementing the administration of the intangible assets. Of there the necessity to identify the different forms in that it is in the organization. These us it motivates to continue revising the state of the art in order to contribute a pertinent model to our environment.

The evaluation of current intangible assets is made at their just value which, according to IFRS 2007, is a concept similar with that of market value. An intangible element, reported as a current expenditure, cannot be later on recognized as a part of a current intangible asset's cost. However, the influence of intangible assets is mixed, both negative, by the superior concurrence, the increase of the turbulence of the businesses environment, and positive, facilitating the access at new markets of provision and sale, the acceleration of the know-how transfer, the access at new technologies, partnerships and strategic alliances at international level, etc.

In conclusion, the Romanian SMEs bring a significant contribution in what concerns competitiveness, research, innovation, employment as well as the solution to particular problems. We should strive to develop a dynamic and competitive SME sector, which will contribute to economic growth, employment and reduction of poverty.

6. Bibliography

[1] Barney, J.B., "Firm resources and sustained competitive advantage", *Journal of Management*, 2007, Vol.17.

[2] Grant, R.M., "Prospering in Dynamically-Competitive Environments: Organizational Capability Knowledge Integration", *Organization Science, 2006,* Vol.7.

[3] Sveiby, Ke., "What is knowledge management?", available at: http://www.co-i-l.com/knowledge-arden/kd/whatiskm.shtml, 2002 .

[4] Kadocsa, Gy., "Research of Competitiveness Factors of SME", *Acta Polytechnica Hungarica*, 3(4), 2006, 71-84.

Management and Leadership. Planning and Orienting

Horga Maria-Gabriela
Academy of Economic Studies, Bucharest
Horga Vasile
„Valahia University" of Targoviste
gabihorga@gmail.com
Ionescu Alexandra
„Dunarea de Jos", University of Galati
al3xandra_ionescu@yahoo.com

Abstract

Why is it so important the ability to lead? Because those who lead organizations make things happen.

A leader is one who directs people and their ideas, sets the direction, leadership is a specific process, which resulted in a clear vision and strategy. After determining the orientation, a leader aligns the employees who wish to follow him and then motivates them.

The difference between a leader and a manager is that the first directs people and their ideas while the other organizes things, avoiding chaos in the activity. The leader sets the direction, while the manager is planning the activity.

Key words: leadership, leader, manager, orientation, planning
J.E.L. classification: M10

1. Introduction

Leaders and the ability to drive organizational behavior are topics that have been extensively investigated. Management is one of the most important functions of leading, and ideally all managers must be leaders. Why is it so important the ability to lead? Because those who lead organizations make things happen.

Functionality and performance clearly depends on the organization managers and their leaders. Are all managers leaders? Ideally speaking, yes, all managers should be leaders. Even if we consider leaders from a managerial perspective, we notice that groups often have informal leaders who are able to influence others without using the power of the position.

Managers and leaders are those who design policies, strategies, the organizational culture and the management system that is operated by generating efficiency, sustainability and competitiveness.

On the other hand, the manager is the one who coordinates and monitors the work of his subordinates and the organization's resources so that organizational goals are met.

The leader is the one who may influence others to achieve the organization's aim and he has managerial authority. The leader always takes into account his relationship with the followers. The core of leadership is the team spirit and to know how people think or feel in order to behave harmoniously for a common purpose.

Throughout this paper, I analysed a number of issues to the management and leadearship within the economic organization, since most work done in the world is conducted within or through organizations. Thus by studying the theme of economic management within the organization, I will lean on the running of the human factor, and also on what is organizational management is, the coordination of the processes and the organization's resources.

Leadership is not easy, and in many ways it is much easier to manage than to lead.

2. The definition of leadership

Thinking about leadership, researchers in the field responses to the question „*What is leadership?*" vary from that of the Professor Emeritus Warren Bennis, a political scientist, researcher and witer, who said that „ the concept of leadership is like beauty, hard to define but easy to recognize when encountered". Ken Blachard, also researcher and writer, who stated that "leadership relates rather to a path in one direction than to a meaningless walk." *(14)*

So we start by clarifying who are the leaders and what is the ability to lead. A leader is defined as someone who can influence other and who has managerial authority. More specifically, the leadership is the porcess of influencing individuals and groups, directing their efforts towards achieving organizational objectives. The team's success is measuring a leader's success and not otherwise. If within the organization leadership is practiced, then the followers have a dynamic role and purpose to fulfill and they do not expect the leader to decide what is to be done.

The polotical scientist James McGregor Burns, made a fundamental discovery, when considering that leadership involves transforming people rather than tranforming organizations and not only the simple motivation of people for a salary.

In the '80s, Jim Kouzes şi Barrz Posner, researchers and authors on leadership focused their reserch on the actions and the behaviour of leadership and discovered five key actions, each containing two behaviors:

- *Challenging process,* that require a behaviour focused on the search of opportunities, of experimenting and assuming risks;
- *Inspiring a collective vision*, involving a behaviour focused on building a future vision and of gaining the followers' support for that specific vision;
- *Increasing the followers capacity to act*, requiring a behaviour focused on stimulating the collaboration and support among employees in order to encourage their personal development;
- *Showing the personal example*, involving the capacity to influence the sollowers through the personal example and by focusing on every success gained by the employees;
- *Encouraging and motivating those who follow the leader*, by recognizing the followers contribution and by celebrating and rewarding their success.

Though, by referring to this theory, leadership means more than actions and behaviour, means also the abilities of leading, like: trust in oneself, trust in the formulated vision, trust in the capacity to find the solutions needed, trust in the followers who need to implement the formulated vision; determination (the will to achieve a set goal), dominance in contrast to other, motivational power, integrity, sociability.

Leadership is the process by which a person sets a goal or directive for one or more people and makes them work with competence and full commitment to achieve them. At the leadership basis is always the team spirit, being the status that reflects the desire of people to think, feel, and behave harmoniously for the achievement of a common goal (5).

In an organization, *human resources* are a pro-active factor in achieving effective activity. To operate, the organization needs people, the right people. People perform their task within the organization, waiting for the leader to establish the route, the purpose, to guide them. The leader has now become a vital element of a successful business. The organization may have all the advantages: financial resources, market position, and the latest technology but if it fails to chapter leadership, they are simply lost and the organization goes down.

Mere possession of quality human resources is not enough to achieve the desired results, but requires a certain material conditions and social climate and management in order to determine not the "use" but the "participation" of these resources to achieve objectives . The man as a resource should not be regarded only in terms of opportunities to do something, but also through the attitude towards what he is doing and towards the organization (13).

Thus, leading is based not only on postion and power, but on trust and relations.

Regardless the perspective, we cand identify the following operational concepts of leadership:

- it is a process
- involves influence
- it is exercised within a group
- it involves fullfilling an objective
- the managerial power may exist, but is not necessary.

The essence of this process is the leader's ability to influence the members of the group. The group is composed of followers that show confidence in their leader. In this context the leader is the one who has the vision of the future and proposes them one or more goals to be achieved while the adherents assume following the leader and the goals implementation.

The leader creates an environment where creativity and innovation thrive and where employees feel that they are heard.

3. Management and leadership

The relationship between management and leadership has sparked great interest in literature, distinguishing clearly between the two terms. Reasercher Warren Bennis (22) makes a very explicit distinction between leaders and managers, including:

- The manager is the one that "makes things right", the leader is the one that makes "the right things"
- The difference between them is of "those who master the context and those who are subject to the context"
- "The manager administrates while the leader innovates"
- "The manager imitates while the leader designs"
- "The manager maintains while the leader improves"
- "The manager focuses on system and structure while the leader focuses on people"
- "Management is based on control while leading is based on trust"
- "The manager has a short term perspective while the leader has a long term orientation"

Summarizing the difference between a leader and manager is that the first one directs people and their ideas first and the other gets things organized and avoids chaos in the activity. The leader sets the direction while the manager is planning the activity. Orientation should not be confused with long-term planning, that it is a managerial process and cannot replace the guidance of leadership which resultes in a clear vision and strategy. After determining the orientation, a leader has to align its employees to follow him and to motivate them.

Functionality and organization performance obviously depends on the managers and leaders. They are those who design strategies, the management system and organizational culture and they are also those who manage them, generating efficiency, sustainability, competitiveness and efficiency.

As the organization grows and becomes more complex, management is required for its functioning and for organizing the work. Both management and leadership are important processes in the company despite the fact that differences between the two are sometimes conflicting. The two processes do not exclude one another on the contrary they can work together as the most effective managers are also leaders. But the problem of most of the companies is the fact that the leadership is missing, a shortcoming that nowadays is very expensive.

4. Key functions of management and leadership within the organization

The management processes have several main components which correspond to „the functions of management: planning, organizing, coordinating, training and monitoring-evaluation." (3) Depending on how these functions are exercised, we can identify three stages of management: anticipation phase, the operationalization phase, final phase, the measuring and the interpretation of results. " (3) In management certain managerial relations are established, which can be defined as those „relationships established between components of an organization or between these and the components of other systems during the activities of forecasting, organizing, coordinating, coaching and monitoring-evaluating.

Thus, within the organization th manager meets the following functions:

1. .*Forecasting* – which is the total work processes that determine the organization's objectives and targets, aswell as the need of resources allotment and the means necessary to achieve these objectives. Detailed steps are established to achieve the objectives through forecasts, plans and programs.
2. *Organising* – all the management processes comprising of phisycal and intellectual work processes and their components, expressed in operations, stroke work and tasks and grouping these on job positions, groups and departments aswell as assigning it to the personnel based on technical, economic and social criteria in order to achieve the formulated goals.
3. *Coordinating* – all the management processes consisting of all work processes harmonising decisions and personnel actions and their subsystems. Coordination assures correlating the personnel's actions with the management decisions.
4. *Motivating* - attraction of employees to improve technical, commercial or financial performance and also by harnessing the creative potential of staff .
5. *Controlling and evaluating* – the necessary processes to measure the company's performance asweel as the individual's performance and comparing it to the established objectives.

The leadership process, acquires within a complex organization, three main functions that can be summarized as follows:

1. *Orienting* – the leader creates a vision, starts by setting a vision, formulates strategies to produce a change within the organization, aimed to realize the vision. The leader, as a strategist, is willing to take risks.
2. *Aligning people* – the leader communicates the vision and strategy to his followers, they understand it and are aware of it, thus they accept and allingn to it.This philosophy relates not only to align people inside the organization, but also those outside them, to anyone who is relevant to the firm's strategy implementation.
3. *Motivation and ispiration of people* – the leader maintains the involvement of the followers despite the barriers encountered in their work by appealing to their needs, values and emotions. He motivates followers by appealing to unmet needs, by influencing them, by using the power of expertise or information or by creating a culture based on values, by being an example and inspiring people through their empowerment, their involvement in the decision making process, by encouraging recognition, by creating a sens of belonging to the organization.

5. Conclusions

To summarize, a leader is one who directs people and their ideas, sets the direction, leadership is a specific process, which resulted in a clear vision and strategy. After determining the orientation, a leader aligns their employees who wish to follow it and then motivates them.

Leaders are in a team, mentors and remedied, conflict managers, they use their influence in their relationship with adherents so that they always pursue the goals of the organization.

In order to work, the company need people, the right people. People fulfill their tasks within the company, waiting for the leader to establish the route, the purpose, to guide them. The leader has now become a vital element of a successful business. The organization may have all the advantages: financial resources, market position, cutting-edge technology but if it fails in leadership, they are simply lost and the organization goes down, like a car that is not driven.

Supervisors or managers may tell their subordinates what they have to do in a certain way, but the leader will be the one to explain why it is important to achieve that task, as first and most important step towards attracting a deliberate cooperation - the core of genuine leadership.

Investigations on the ability to lead, that is the deliberate influence on others to achieve a goal through collective action showed that over time, leadership proved to be vital, not only for economic organizations, but for the entire world. Thus, leadership is present every day, everywhere in society and along the history. Ethology studies show that any population needs to be led by a leader.

We can identify in this posture appreciated leaders, who led the world and who had a deep influence on others such as: Martin Luther King, Nelson Mandela, Mother Teresa, George Washington, Margaret Thatcher or M. Gandhi. In history, the leaders' quality was

always of prime importance. Regardless where it was required, in wars, in states management or in business management, it has proved decisive in the results outcome.

6. References

[1] Nicolescu, O., Nicolescu, Luminita, *Economy, firm and knowledge based management,* Economica Publishing House, 2005, ISBN 973-709-125-6

[2] Nicolescu, O., (coord.), *„Managers and human resource's management",* Bucharest, 2004, Bucureşti, 2004, ISSN 973-709-034-9

[3] Slater, Robert, *29 secrets of leadership from Jack Welch,* All Publishing House, Bucharest, 2009, ISBN 978-973-571-816-9

[4] Kotter, John, *The force of change – how leadership differs from management,* Publica Publishing House, Bucharest, 2009, ISBN 978-973-1931-00-5

[5] Gavrilă, Tatiana, Lefter, Viorel, Management of organisation, Economică Publishing, Bucharest, 2007, ISBN 978-973-709-333-2

[6] Maria-Gabriela, Horga, O*rganizational culture and leadership within the modern firms: the role of the leadership in the organizational performance,* Les annales de l'universite Valahia Târgovişte, section Sciences Economiques, XIV^{éme} anne N° 23, pag. 211, ISSN 1453-8202

[7] Maria-Gabriela, Horga, *The impact of going to the economy based upon knowledge on leadership,* The Thomson ISI Index to Scientific and Technical Proceedings 12th IBIMA Conference on Creating Global Economies through Innovation and Knowledge Management – Theory & Practice, International Business Information Management Association (IBIMA), University of Malaysia, pg. 99, 2009, ISBN 978-0-9821489-1-4

[8] Maria-Gabriela, Horga, *The Role of leadership in total quality management,,* Proceedings of International Conference of University Spiru Haret, Foundation România de mâine Publishing, pg.339, 2009, ISBN 978-973-163-510-1

[9]Kotter, P. John, *Matsushita Leadership,* Publica Publishing House, Bucharest

[10] Kets de Vries, Manfred F.R., *Leadership –the art of leading,* Codecs Publishing, Bucharest, 2003, ISBN 973-8060-63-x

[11] Charan, Ram, *Know how – 8 abilities that differentiate successful managers,* All Publishing, Bucharest, 2008, ISBN 978-973-571-728-5

[12] Covey, Stephen R., *7 stages efectiveness or a wisdom abecedary,* Allfa Piblishing, Editia a 9-a, Bucharest, 2009, ISBN 978-973-724-218-1

[13] Covey, Stephen R., *The 8th stage of wisdom – from the effectiveness to greatness,* Allfa Publishing House, Bucharest, 2006, ISBN 973-724-053-7

[14] Blanchard, Ken, Muchnick, Marc, A leader's recipe*,* Curtea Veche Publishing, Bucharest, 2004, ISBN 973-669-081-4

[15] Maxim, E, *Quality Management*, Iaşi, 2004

[16] West, Michael A., *Lucrul in echipa, lectii practice,* Ed. Polirom, Bucharest, 2005, ISBN 973-681-970-1

[17] Blanchard, Ken, Johnson, Spencer, *The One Minute Manager,* Curtea Veche Publishing House, Second Edition, Bucharest, 2009, ISBN 978-973-669-829-3

[18] Blanchard, Ken, Stoner, Jesse, *From purpose to doing it,,* Curtea Veche Publishing, Bucharest, 2004, ISBN 973-669-068-7

[19] Buckingham, Marcus, Coffman, Curt, *Manager against the wind,* Allfa Publishing, Bucharest, 2007, ISBN 973-8457-42-4

[20] Coord. Lock, Decnnis, *Management Gower manual,* Codecs Publishing, Bucharest, 2001, ISBN 973-8060-43-5

[21] Kotter, P. John, *Matsushita Leadership,* Publica Publishing, Bucharest, 2008, ISBN 978-973-88365-8-7

[22] Bennis, Warren - On Becoming A Leader, Random Century, 1986, ISBN 0-7126-9890-6

[23] Armstrong, M., *A Handbook of Human Resource Management Practice*, Kogan Page, London, 1999, I**SBN** 0-7494-4631-5

The Renewable Energy Based Economy in the Context of the Current Crisis

Ichim Cosmin
"Alexandru Ioan Cuza" University of Iaşi
ichim_cosmin@yahoo.com

Abstract

Never before, since the last economic crisis, has mankind tried so hard to protect the environment by using alternative energy sources. No one can deny the importance of steam, electricity and oil for the creation of long term economic wealth. Nowadays, the use of renewable energy sources plays a crucial role in guiding economy towards a new wave of growth, or, according to some, towards an apparently normal wave of lack of growth, as long as the needs of mankind and ecological requirements are met.

This article deals with renewable energy sources (RES) seen as a solution to the current crisis and as a means for sustainable development. This recently established industry leads to a new industrial revolution by creating work places and by contributing to the decrease of costs by no longer using sources of fossil energy. The dependency on other states and the fluctuating prices compel us not to remain stuck with the technologies, industries and energetic systems of yesterday.

Key words: renewable energy sources, energy market.
J.E.L. classification: P4; Q4.

1. Introduction

Mass production and consumption have depended, since the beginning of the 20th century, on primary sources of energy (oil, coal, gas, biomass and nuclear energy), all of which are non-renewable and primarily responsible for global warming. The increase of consumption led to a higher rate of exhaustion of primary energy sources, which, in association with events such as the oil crisis in 1973 and the concern related to the rise of the temperature at world level determined mankind to rethink its attitudes towards the environment and the energetic sector. The Nobel Prize for peace, granted to Al Gore in 2007, as well as the voices of hundreds of researchers confirmed the necessity of paying more attention to climatic changes. The worrying estimates with regard to the rise of emissions of greenhouse gases and its influence on the environment attracted the attention of numerous scientists and researchers desiring to find viable solutions.

The rethinking of energy sources is a solution to the emission of greenhouse gases, as well as to the exhaustion of the primary sources and to the dependency on other states, two other significant factors that influence decision making in the energetic sector [16]. In his work entitled *Renouveler la production d'energie en Europe: un defi environmental, industriel et politique,* Pellion advocates for the implementation of a common energetic policy at the level of the European Union, similar to CECA 1951 and to Euratom 1957, given the fact that this sector uses fossil energy for 70% of its needs and is extremely dependent on other states. At present the EU manages to cover only 37% of the demand for gas and 18% of the demand for oil from its own production.

The main solution for a healthy climate and for the creation of a competitive, sustainable and reliable energetic sector is to promote the use of renewable energy sources (biomass, hydro energy, geothermal energy, wind energy, sun energy). In order for this to be attainable, one must create some administrative structures at a local level and laws must be passed at the level of the EU.

The Kyoto protocol [2], negotiated in December 1997, reunited 37 states which undertook, by signing this protocol, to reduce greenhouse gases by 5.2% over the period 2008-2012, in comparison with the values from 1990. Nowadays, this protocol has been

signed by other 187 states, including Romania. From thereon, the promotion of the use of renewable energy sources became a major component of the EU strategies. Starting with the European Directive 2001/77/CE [6], the establishing of some objectives with regard to Renewable Energy Sources (RES) via *The Road Map from January 2007* [4] and the suggestion to attempt to reach 20% of energy from RES by 2020, comprised in Directive 2009/28/EC [5] are the main attitudes adopted by EU for the organization and implementation of the policies related to the use of RES.

Although there is an increasing interest of local authorities in stimulating the use of equipment that produces renewable energy, specialists in the field identify some major obstacles that prevent consumers from adopting RES. The unsuccessful market segmentation, the consumers' lack of information and the lack of some programs meant to make consumers aware of the benefits of using RES [18], combined with the producers' and suppliers' unsatisfactory control of marketing strategies are the primary causes of a poorly developed RES market in some EU states. The studied conducted so far focus on the political and technological context, on the market requirements necessary for the implementation of RES [15] and on the instruments required for the funding of RES [12]; unfortunately, research in economy and sociology, crucial for the understanding and modification of consumer behavior [10], [16], [18] has been neglected.

The governments of the member states play a key role in promoting RES through the power of example and the provided support. Although considerable efforts are made at a macro level, each individual can contribute, in his own turn, to the reaching the ambitious threshold of 20% of energy produced from renewable energy sources. This article deals with the advantages of using renewable energy sources starting from the hypothesis that the cycles and long waves of growth coincide with shifts in major energy sources. The problems analyzed herein are structured as follows: environment problems, problems related to the architecture of the energetic system and problems concerning the implementation of RES.

2. Environment problems

The production of energy for transportation, heating, cooling, the production of power in heating plants by burning fossil materials is the main cause of global warming, as a result of the rise of CO_2 emissions. The conclusions are well known: during the past decades there has been an increase in the emissions of CO_2 in relation to the production of power, by 75% in comparison with 1971 and by 20% in comparison with 1990, the average rate being 2% per year [21]. At the level of the EU, the emissions of greenhouse gases increased by 77.6 million tons over the period 2000-2006. In absolute terms, the most significant growth of emissions of greenhouse gas was registered in Spain (an increase by 48 million tons), Romania (an increase by 18 million tons) and Italy (an increase by 16 million tons) in 2009, when compared with 2006. At the other pole, the most considerable decreases of CO_2 emissions were registered in Great Britain (decrease by 18 million tons), Germany (decrease by 15 million tons), France (decrease by 14 million tons) and Belgium (decrease by 9 million tons) [7]. The most recent report of Intergovernmental Panel on Climate Change [13], drafted by 2.500 experts who worked for 3 years' period, presented the following conclusions: we can be 90% sure of the fact that the activities of mankind determined the heating of the planet; during the last 100 years, the growth of the global temperature, in percentages, was of +0.74%; 11 out of the last 12 years were the hottest years in the last 150 years; the average temperature for the next one hundred years may increase by 6.3 Celsius degrees.

It has been proven that climatic changes have disastrous economic and social consequences. The melting of the glaciers, the destruction of crops and the impossibility of making agriculture, the increase of the degree of water acidity, the destruction of ecosystems and the rise of the level of the ocean are threats with a major impact on the inhabitants of this plane [19]. By paying more attention to climatic changes (see the Kyoto Protocol and the last directives of the EU), governments are trying to reduce the impact of the use of traditional energy sources, striving, at the

same time, to determine consumers to utilize renewable energy sources [20].

Table 1. Fossil reserves

Position	Oil: Proved Reserves	Thousand million barrels at end			
		1989	1999	2008	2009
1	Saudi Arabia	260.1	262.8	264.1	264.6
2	Venezuela	59.0	76.8	172.3	172.3
3	Iran	92.9	93.1	137.6	137.6
4	Iraq	100.0	112.5	115.0	115.0
5	Kuwait	97.1	96.5	101.5	101.5
…					
51	Romania	1.2	1.2	0.5	0.5
52	Thailand	0.2	0.4	0.5	0.5

Position	Natural Gas: Proved Reserves	Trillion cubic meters at end			
		1989	1999	2008	2009
1	Russian Federation	n/a	42.44	43.30	44.38
2	Iran	17.00	25.00	29.61	29.61
3	Qatar	4.62	11.16	25.37	25.37
4	Turkmenistan	n/a	2.59	8.10	8.10
5	Saudi Arabia	5.22	6.15	7.57	7.92
…					
32	Romania	0.13	0.35	0.63	0.63
…					
51	Germany	0.29	0.23	0.10	0.08
52	Italy	0.30	0.19	0.06	0.06
53	Denmark	0.11	0.14	0.06	0.06

Position	Coal Production	Million tons in			
		1989	1999	2008	2009
1	China	1054.2	1280.0	2803.3	3050.0
2	US	889.7	998.3	1063.0	973.2
3	India	215.3	314.4	515.9	557.6
4	Australia	201.7	302.0	397.6	409.2
5	Russian Federation	409.8	249.5	328.6	298.1
…					
20	Romania	61.3	22.9	35.9	30.6
…					
34	Japan	10.2	3.9	1.2	1.3
35	France	14.5	5.7	0.3	0.2

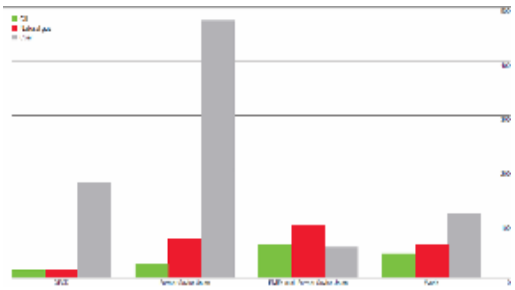
Source: BP Statistical Review of World Energy, 2010

3. Problems related to the architecture of the energetic sector

The exhaustion primary energy sources (coal, oil and gases) and the dependence on other producing states are the factors that led to the rethinking of the architecture of the energetic sector at the European level, as well as at the level of our country.

The stock of hydrocarbon, gas, oil and coal needs hundreds of thousands of years to reach maturity, rhythm which is incompatible with the current rhythm of consumption. Without a radical change of behavior, the exhaust of these resources cannot be avoided. Although some believe that experts cannot accurately predict the period when the stocks are exhausted [16], others have somber predictions which give birth to increasingly heated debates on the reconfiguration of the energetic sector. For example, *BP Statistical Review of World Energy* shows, as one may notice in figure number 2, that the primary energy resources will be available for: 45.7 years for oil, 62.8 years for gas and 119 years for coal [1]. Things look gloomy for Romania, too: thus, at a consumption rate specific to 2009, the reserves of oil of Romania will only last for 14.2 more years, the gas reserves for 57.9 years and the coal reserves for 30 years.

Figure 2. Availability of fossil reserves (years)



Source: BP Statistical Review of World Energy, 2010, available at: bp.com/statis ticalreview

The only downturn of these estimates is that they rely on currently exploited reserves, without taking into consideration the new resources that may be discovered in time. However, the major impact of the concern for the environment may determine us to put an end to the exploitation of primary resources and may orient us towards energetic independence. This is the case of Ecuador, the first country to have received compensations for not extracting its oil, following an agreement with UN. According to this deal, the amount to be received by Ecuador, 3.6 billion dollars (an average of 300 million dollars per year) will be transferred to a special fund which will be managed by UN. The donors will be some developed and rich

countries, concerned about ecological issues, namely: Germany, the Netherlands, Norway, Italy and the USA [9]. Whether it aims at protecting the environment or at promoting the market of renewable energy sources, already built by the donor countries, the agreement implies a change in the optics concerning oil dependency.

Due to the fact that in many EU countries the demand exceeds the internal capacity of extraction of underground resources, they become dependent on other states with a bigger production capacity (see table no. 1). For example, the EU can cover only 37% of the demand for gas and 18% of the demand for oil from its own production, resorting to import for the rest. In 2009, the Romanian people consumed: 211.000 barrels of oil per day, producing 93.000 barrels per day, 13.6 billion m^3 of natural gas, with 10.9 billion m^3 extracted, and 6.2 million tons of coal, with 5.7 million tons extracted [1]. The political instability of some states and the eventual price related issues are some of the few reasons that may create circumstances in favor of the development and exploitation of renewable energy sources.

The scenarios concerning the current sources of energy are not viable. If things go on like this, one will witness an ecological disaster which will affect poor populations the most and will perpetuate the increasingly wide gap between the rich and the poor [11].
On the other hand, access to clean, basic energetic services, acceptable in terms of their price, is crucial for sustainable development and for the eradication of poverty and may have major benefits in fields such as health, professional training, the creation of employment opportunities, income generation, and economic consolidation. Numerous poor communities from rural areas have limited access or do not have access at all to clean energy.

The new RES (modern biomass, water, geothermal, wind, sun energy, energy produced by currents, waves, and other sources of marine energy) have enough potential to meet energetic needs, are inherently decentralized and, consequently, they are unlikely to cause wars and conflicts like the ones we are already familiar with in countries rich in oil. Despite these advantages of RES, the current energetic systems still have strong prejudice when it comes to renewable energy.

4. Adjustment to a new consumer behavior

The industry of the exploitation of the European sources of renewable energy has already reached an annual turnover of 10 billion euro and a number of 200 000 employees. Europe is the global leader of RES technologies. The use of RES has a major impact on investments in the energetic sector. RES replace imported fuels, with beneficial effects on the balance of payments. Although per unit of installed capacity, RES are more intensive from the perspective of capital, if one takes into consideration the external costs to be avoided, the investments in RES turn out to be cheaper for society than investments in conventional energy.

The development of more intelligent and more efficient energetic technologies has been spectacular. Technologies have improved and costs have dramatically dropped. The examples of sun and wind photovoltaic energy are illustrative. As concerns expenses, investment costs for wind energy decreased by approximately 3% per year in the last 15 years.

In the European Union, RES have already reached a significant percentage of the total energy produced. Germany, for example, doubled its production of renewable energy in the past 5 years, up to 8% of the total energy production. At present, Denmark takes 18% of its electricity from wind energy
[7] and has created an industry with more employment opportunities than the electric sector itself. Spain jumped from practically nothing a few years ago, becoming the second producer of wind energy in Europe, with a capacity of 6.000 MW. Countries such as Finland, Sweden and Austria supported the development of heating and energy industries from modern biomass, via the fiscal policies they adopted, by supporting the Research and Development Sector and by managing the adopted industrial policies. The concept from these three countries is exported throughout the entire world, as it saves significant emissions of CO_2.

In the European Union there are two alternatives for the promotion of the energy obtained from renewable energy sources [17]: *the fixed prices system*, which consists in the purchase, by producers, suppliers or consumers, of renewable energy at a fixed price, established depending on the renewable energy source used; *the system of compulsory annual quotas*, combined with the system of green certificates (document certifying a quantity of 1 MWh of electric energy from renewable sources, supplied in the network), where the governments establish the energy quota that is to be purchased by producers, suppliers or consumers, and the purchase price is established based on competition.

At a European level, the system that promotes energy from renewable sources focuses especially on the electrical energy produced by wind energy, sun energy, geothermal energy, biomass, energy of the waves, hydrogen produced from renewable sources, as well as on the electrical energy produced in hydro-electrical plants with an installed power smaller than or equal to 10 MW, commissioned or upgraded starting with 2004 [14]. The member states of the EU have taken a series of steps in order to encourage citizens and companies to invest in energy obtained from renewable sources. Thus, Great Britain gives grants to citizens and companies that install sun panels and use the thus obtained energy for their daily activities. Spain, Greece and Sweden partially finance sun energy with the purpose of determining citizens and companies to resort to the production of energy from such sources.

Germany focuses on wind energy (in 2006, it had 32% of the total wind energy at world level, thus ensuring 6% of its total energy production). Romania has a strategy of capitalizing on renewable resources, approved via Government Decision in 2003, and the system consists in combining the compulsory quotas and green certificates.

The main sources of renewable energy are: *hydropower* – at present it ensures a significant part of the renewable energy of Romania; *sun energy* - it is the safest source of renewable energy; *wind energy* - it is used on the Romanian territory especially in the area of Dobrogea (see the CEZ project) and is a viable solution for those locations that are not connected to the national power network, but, as far as costs are concerned, it is more expensive than sun energy; *biomass* – the reserves of biomass are primarily composed of wooden waste, agricultural waste, household waste and energetic crops, and the production of biomass is not only a source of renewable energy but also an opportunity for sustainable rural development (at the EU level, 4% of the necessary energy is provided by biomass, and 300 000 new jobs are expected to be created in the rural environment as a results of the exploitation of biomass); *geothermal energy* – it can be exploited especially in resorts, and a PHARE project was completed for these purposes in Călimăneşti, Cozia and Căciulata in 1998. A number of 47 producers are accredited to produce electrical energy from renewable energy sources in our country this year [3].

By choosing renewable energy sources, consumers directly support the development of clean and less polluting energies that will contribute to the reduction of the impact that traditional energy has on the environment, leading, at the same time, to the increase of energetic independence.

5. Conclusions

The main effect of the current crisis on world economy is concretized in a process of becoming aware of the advantages of using Renewable Energy Sources to the detriment of fossil sources. As explained above, the world economy faces a new industrial wave that coincides with shifts in the major energy sources. The creation of employment opportunities, the long term decrease of production costs, energetic independence and the decrease of the emissions of green house gases are the key elements for driving sustainable growth through the use of RES. The states that have alternative energy in the structure of their energetic sector are states that have already come out of the recession. These states contribute, through their example, to the motivation of other countries in approaching such investments.

6. Acknowledgements

I would like to thank my coordinator, Professor Emil Maxim, for his support and Project POSDRU/88/1.5/S/47646 for the unique opportunity.

7. References

[1] ***, *BP Statistical Review of World Energy,* 2010, available at bp.com/statisticalreview, read 08.2010.

[2] ***, *Kyoto Protocol to the United Nations Framework Convention on Climate Change*, Kyoto, 1997, available at http://unfccc.int/ resource/docs/convkp/kpeng.pdf, read 08.2010.

[3] ANRE, *Lista producătorilor de E-SRE ale căror unități de producție au fost calificate pentru producție prioritară de energie electrică pentru anul 2010*, ANRE Decision no. 2696 / 03.12.2009, available at http://www.anre.ro/ documente.php?id=389, read 08.2010.

[4] European Commission (EC), *Communication from the Commission to the Council and the European Parliament on a ''Renewable Energy Road Map Renewable energies in the 21st century: building a more sustainable future,* Bruxelles, 2007, available at http://eurlex.europa.eu/ , read 07.2010.

[5] European Commission (EC), *Directiva 2009/28/CE a Parlamentului European şi a Consiliului din 23 aprilie 2009 privind promovarea utilizării energiei din surse regenerabile, de modificare i ulterior de abrogare a Directivelor 2001/77/CE and 2003/30/CE,* Bruxelles, 2009, available at http://eurlex.europa.ro/, read 07.2010.

[6] European Commission (EC), *Directive 2001/77/EC of the European Parliament and the Council of 27 September 2001 on the promotion of electricity produced from renewable energy sources in the Internal Electricity Market*, Bruxelles, 2001, available at http://eurlex.europa.eu/, read 20.07.2010.

[7] Eurostat, *Eurostat yearbook 2009*, Luxembourg: Office for Official Publications of the European Communities, 2009, available at http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-CD-09-001/EN/KS-CD-09-001-EN.PDF, read 07.2010

[8] Faiers, A. and Neame, C., Consumer attitudes towards domestic solar power systems, *Energy Policy*, Vol. 34, No. 14, 2006, pp. 1797−1806.

[9] Gordon, D., *Ecuador seeks oil compensation,* BBC News, the 21th of September 2007.

[10] Guardiola, S., Renewable energy; tapping and typing the citizen's mind, *Humanomics*, Vol. 25, No. 4, 2009, pp. 254-267.

[11] Kaygusuz, K., et al., *Renewable* Energy Sources in the European Union: Markets and Capacity, *Energy Sources*, Part B, No. 2, 2007, pp. 19–29.

[12] Lindlein, P. and Mostert, W., *Financing Instruments for Renewable Energy*, KFW Bankengruppe, 2005, available at: www.sefi.unep.org/fileadmin/media/sefi/docs/ industryreports/KFW Report Final Draft.pdf, read 09.2010.

[13] Metz, B., Bosch, P.R., Dave, R., Meyer, L.A. (eds), *Contribution of Working Group III to the Fourth Assessment Report of the Intergovernmental Panel on Climate Change*, Cambridge University Press, Cambridge, United Kingdom and New York, 2007.

[14] Neguţ, S., et al., *Orientări privind securitatea energetică a României*, Institutul European din România, Bucureşti, 2008.

[15] Ogihara, A., et al., Policies to ease the transition to a post-fossil fuel era, *International Review for Environmental Strategies*, Vol. 7, No. 1, 2007, pp. 63-80.

[16] Pellion, A., *Renouveler la production d'energie en Europe: un defi environmental, industriel et politique*, Robert Schuman Foundation, Paris, 2008.

[17] Plumb, I. and Zamfir, A., A comparative analysis of green certificates markets in the European Union, *Management of Environmental Quality: An International Journal*, Vol. 20, No. 6, 2009, pp. 684-695.

[18] Rundle-Thiele, S., et al., Lessons learned from renewable electricity marketing attempts: A case study, *Business Horizons*, Vol. 51, 2008, pp. 181–190.

[19] Stern, N., *The Stern Review on the Economics of Climate Change,* Grantham Research Institute, London 2006.

[20] Wang, S., et al., Study on fuzzy models of wind turbine power curve, *IASME/WSEAS International Conference on Energy and Environmental Systems*, Chalkida, Greece, May 2006, p. 33.

[21] World Energy Council, *Energy and Climate Change Study*, London, 2007.

Country Risk Management

Iliescu Elena Mihaela
"Nicolae Titulescu" University of Bucharest, Factulty of Economics
mag_mihaela@yahoo.com
Constantinescu Maria Florentina
Court of Auditors
lenk_r@yahoo.com

Abstract

Given that the current business world is based on the expansion of global markets, more companies participating in the international activity, business management has been faced with new challenges.

This is because companies in order to cope with global competition were forced to adapt to the external environmental conditions and to develop activities and strategies from an international and global perspective.

Under these circumstances it was necessary, the development of the international dimension of management.

A key mechanism, an integral part of all decisions made within the international business is country risk management.

Experience has shown that if there is no country risk management implemented, the compensating cost will exceed by far the losses occurred for implementing and applying the strategy for diminishing the country risk.

Therefore, the most important role of country risk management remains the growth opportunity that adds up to the overall management.

Key words: country risk, management, global business
J.E.L. classification: M16, F21, F23

1. Introduction

"The essence of progress is risk" [1], but, only if, the risk is properly identified and evaluated, so that, the vulnerability of the activities will be reduced by taking the adequate protective measures.

Given the permanent nature of risk, the statement finds confirmation in the business environment, where, as John Maxwell states in his paper "Develop the leader in you", effectiveness is the foundation of success.

Management activity is the one who seeks the achievement of economic goals of the business by developing and applying the action program, which, as a consequence to variability and complexity of the businesses has recorded a continuous improvement and diversification.

This way, a central place within the general management activity of the company is taken by risk management.

2. The diachronic analysis of the "risk management" concept

Risk management is the process through which the additional risks related activities are conducted, directed methodically in order to minimize losses, achieve maximum added value for each activity and for the entire portfolio of activities and of course, increasing profitability.

This way, the success probability will increase, and reduce the likelihood of failure for the overall objectives of the organizations.

Therefore, risk management should represent a primary and continuous activity in the process of implementing the strategy for any company, whether it is a small medium enterprise or a large company.

Not only the modern world is concerned about the risk management process. For example, the tools currently used for risk management have their origins in 1654-1760, when theories like probability theory, game theory, chaos theory emerged.

Add to this the theory of regression to the mean, expressed in 1875 by Francis Galton, who explained why the share prices fall toward average after a spectacular rise.

Also in 1952, Harry Markowitz devised a revolutionary theory for the business world, showing that diversity is gold for any investor or manager. Harry Markowitz was at that time student at the University of Chicago, a prestigious educational institution in the United States of America, among whose graduates the Nobel Prize winner was included.

In fact, even Harry Markowitz won the Nobel Prize for economics in 1990, following his theory of 1952 (Portfolio Selection) - the first notable attempt to quantify the risk, showing that there is no gain without risk and that we should not put all our eggs in one basket, because it involves an unacceptable risk.

Therefore, after the relatively recent introduction in the 1929-1930 period of the concept of "risk management" (his appearance could be interpreted as a reaction to losses caused by the great stock market crash on Wall Street in October 1929 and the global economic crisis, that started in the same year), the field has witnessed a rapid development.

Usually, for large companies, a specialist in the field is employed, i.e. a "risk manager", while within the small and medium enterprises, the responsibility is assumed by the management team in general.

But there are still managers who believe that "risk management is rather magic than science" and therefore do not consider useful its application to practice.[2]

Unfortunately in our country, although it is acknowledged the significant contribution of risk management to the business activities' success, the activity in this area is still in its early stages. In a study on the Romanian business environment, its influence on the attitude toward risk and risk management, conducted in 2006 and attended by managers from 25 SMEs operating in various sectors, has found the following statement: "Although almost unanimously the respondents gave high importance to risk management activity (76% very important, 24% important), this managerial activity will not benefit of an organizational structure and a specific process. Only 8% of respondents confirmed the existence of specific organizational structures, which demonstrates that risk management is fragmented and it is integrated with other management structures [3].

3. Global business management

Given that the current business world is based on expansion of global markets [4] in increasing number of companies participating to the international economic activity, the management activity started facing new challenges.

This is because businesses in order to cope with global competition have had to adapt to the external environmental conditions and to develop activities and strategies from an international and global perspective. Internalization success depends on the ability to develop a multidimensional [5] strategy based on the optimal answers to four fundamental questions of economics:

- What (the nature and content of the international flows – material economic goods, services, capital, human resources);
- How much (the internationalization degree, respectively the intensity of the external commitment);
- How (the technique, the form of manifestation outside the national space- foreign trade, financial investment, licensing, joint - ventures, etc.);
- For whom (destination).

Under this circumstances it was necessary the development of the international dimension of management. Thus, as a reflection of the internalization process of the economic life a separate component of the management science has been outlined- international management.

It has the role to "organize, command, coordinate and control the activity of businesses on third markets, outside the national perimeter".

In my opinion this phrase sums up very eloquently the specific of the management activity. It is a definition of management, made since 1916 by Henry Fayol, in his paper named "Administration industrielle et générale".

A key mechanism, an integral part of all decisions in the international businesses is country risk management.

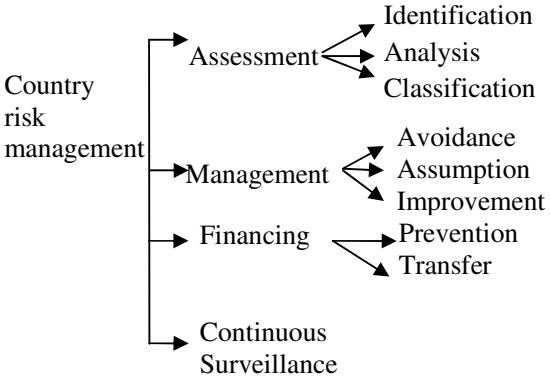
Part of international management, risk management represents the sum of all strategies undertaken by businesses that are internationalizing their activities in order to reduce risk within their operations.[7] Adopting adequate measures have as an effect the reduction of the company's vulnerability.

The above allows the following observation: among the three types of management: international management, risk management and country risk management - there is a high degree of interaction and integration, all being the components of the overall process of global enterprise management (from the international organization concept, emerged in the early twentieth century, went to the multinational enterprise concept , around '50s, so that starting with 1980 the term global business will become used more frequent in literature).

Mandatory steps within country risk management activity

Formulating and implementing the strategy for country risk management is different form business to business. This is because a significant influence on the success of international business has the "manager skills" respectively the professional training and the attitude toward risk.

However, regardless of the company's type, the country risk management is a complex process that requires going through some common steps required for achieving overall economic goals (maximum added value for the entire portfolio of activities and thus maximizing the total profit.)



Risk assessment is according to General Accounting Office United States (GAO / AIMD), the cornerstone for all other elements

For this purpose the identification of country risk is the first step, the essential condition, because only a proper and permanent identification allows the smooth development of the next phase, which is the analysis.

Country risk analysis involves decomposition of the indicator on risk factors (political risk, economic risk, social risk), so that the potential failures, effects of occurrence and the probabilities of occurrence could be identified and measured.

Assigning a certain degree of risk to an activity is subject to two factors: the likelihood and consequences of occurrence.

The easiest option for estimating the effects of risk materialization, but with a high degree of subjectivity is the expected value (EV), which is calculated as the product of the probability (P) occurrence (O) and effects (value) of materialization:

Thus: $EV = P \times O$

The expected value of a foreign business is computed by summing up the expected values for all identified risks.

Comparing the expected value with the costs associated to the reduction of risks by adopting specific protection measures, allows the investor to take the appropriate decision.

Thus, if the value is higher than expected costs of risk reduction, the decision maker will choose to reduce them.

Conversely, if the value is lower than the expected expenditure for risk reduction, it means that country risk materializing effects are insignificant and can be neglected.

In order to choose the best strategy for country risk management, reporting at a threshold of risk is required, according to a limit of normal profit rate, the costs of protection, the potential losses caused by the materialization of country risk and the economic power of the business.

So according to these data it can be decided which risks can be neglected, with insignificant effects and which must be prevented so as to ensure increased safety and efficiency of the external economic activity.

This is because, both understatement and overstatement of risk, reduces business earnings. Undervaluation leads to increased losses, while overvaluation involves excessive costs, unnecessary for protection.

Losses caused by the materialization of the country risk can take three forms:

- Opportunities losses, which occur due to not collection the amounts expected.
- Losses determined by additional costs, arising from undervaluation or overvaluation of risk;
- Real losses, represented by the amounts that can't be recovered from the host country.

Losses must be interpreted in this case, as the difference between actual and potential revenue associated with the international business.

Therefore, the foundation of country risk management should be based on the correlation between the degree of risk and its degree of acceptability.

The figure below presents such a correlation, based on four possible attitudes toward risk: assumption, avoidance, prevention and transfer.

For example, assuming country risk relates to its tolerance and is recommended in situations where the probability of materialization is reduced and the gravity of the effects is acceptable, which means the risks are negligible.

On the opposite side we can find the attitude for avoiding country risk, appropriate when the probability of materialization is high and the level of risk is also high, which would entail management expenses to high compared to the outcomes.

The manager can opt for improving the consequences of country risk manifestation, by prevention and/or transfer.

Thus, if the effects of materialization are serious but the frequency with which they occur is low it will follow the transfer of country risk.

For this purpose, there are specialized insurance companies that take, but only partially, some of the components of country risk (political risk, economic risk, etc.) in exchange for an insurance premium, determined according to the degree of risk of the concerned country to the specific activity, the allocated amount etc.

An important disadvantage is represented by the fact that only the value of the economical goods involved is insured and not the entire economic amount of the investment.

Prevention is an attitude recommended in the case where the frequency of manifestation is high, but the gravity of the country risk is low.

In this case, the international operator will seek to diminish the probability of occurrence and of the consequences of unwanted events by before and after internationalization measures.

If there is not implemented country risk management, the costs for compensating the losses will outweigh those for implementing and applying the strategy for diminishing country risk.

4. Conclusions

The most important role of country risk management remains the opportunity growth that is added to the overall management.

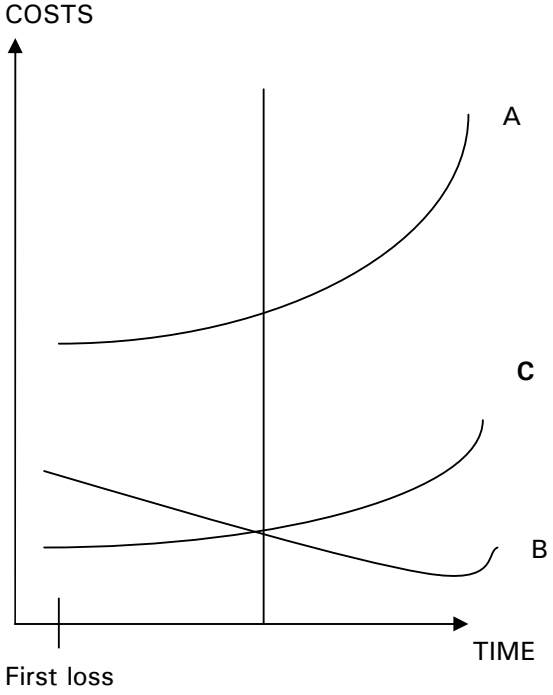
Regarding the costs for financing the country risk management activity the following were found:

- Costs incurred due to the uncontrolled production of undesired event (curve A) are lower before production and have an exponential increase after its occurrence.
- Costs due to the implementation of risk management (curve B) are higher in the first period of implementation (investment costs) and almost constant

after implementation (operation and maintenance costs).

- Costs due to the unwanted event when risk management is implemented (curve C), do not increase too much after the occurrence of unwanted events (the curve is controlled by the management effectiveness).

Fig.1 Cost Distribution



An additional argument, even though it is only metaphorical, shows in a very significant manner the importance of management in business activity, a statement made by Warren Buffett, famous American investor, who is among the richest people in the world: "There is no gain in predicting the rain. You win by building an arch. "

The current world economic climate entails in our country also, a reconsideration of the attitude toward international management theory and practice and therefore, implies paying more attention to country risk management.

5. Bibliography

[1] Iliescu Cecilia- "Some aspects regarding the history of risk"- article from "*Regional development and multiculturalism in the European Union* (Târgu Mureş International Conference, 26-27 October 2007), vol. II, publisher Risoprint, Cluj Napoca, 2007, pp. 19.

[2] Ilie Gheorghe – "The processes security and quality of life ", *journal Alarm Technical Bulletin of the Romanian Association for Technology Security* Number 2, May 2007.

[3] Seidl Mihaela – "Preventive management within the company's economic-financial activity "- *ASE PhD thesis* Bucharest, 2006, pp. 135-147.

[4] Soros George – "*The crisis of global capitalism. Open society in distress* "Polirom Arc, Iasi, 1999, pp. 16.

[5] Bradley Frank – "*International Marketing",* Teora publishing house, Bucharest 2001, pp. 17.

[6] Păun Cristian, Păun Laura – " *Country risk"*, Economic publishing house, Bucharest, 1999, pp. 97.

[7] Mazareanu V.P- "Reflections on the concept of risk", *Financial Audit magazine*, no.6/2006.

[8] Ioviţu Mariana, Iliescu Elena Mihaela – "The effects of economic crisis on country risk", *Timişoara Journal of Economics*, No. 4/2009

Economic Crisis and Its Impact on Unemployment

Ioneci Mihaela
Antonescu Eugenia
Mîndreci Georgiana
„Constantin Brâncoveanu" University of Pitesti
ioneci_mihaela@yahoo.com
eugenia_antonescu@yahoo.com
xibelix@yahoo.com

Abstract

Unemployment is one of the negative effects caused by the current economic crisis. All states have been affected by this phenomenon, but in different proportions, depending on the policies adopted at the beginning of the economic crisis or during its full development. In this paper, we intend to analyze the evolution of unemployment as unemployment rate calculated according to the sex and age of the unemployed people, as well as to establish some directions for its reduction. The actual implementation of flexicurity can represent a further step in controlling and reducing unemployment.

Key words: unemployment, flexicurity, the economic crisis
J.E.L. classification: E 24

1. Introduction

The current crisis was not really a surprise for those who understand how business cycles occur. The manifestation of the business cycles at certain time periods, but especially the recent evolution of the macroeconomic result indicators were elements which announced the emergence of the economic crisis. [2]

Correctly, the emergence of the crisis could not be determined in time, but once shown its effects were not expected for long.

One of the negative phenomena exacerbated by the crisis is unemployment. Normally, the economic crisis determines the growth of unemployment compared to the previous period. Depending on the intensity with which the crisis occurs the growth of unemployment may also be strong or less strong. We also mention that together with the triggering of the crisis there are also other factors that influence the evolution of unemployment: the demographic evolution, the policies established on the labour market.

In this paper we intend to analyze the evolution of unemployment both in the period before the emergence of the crisis, and during the crisis. In late 2007 the crisis was triggered in the U.S., and then it spread in other states.

2. Economic Crisis and Its Impact on Unemployment

In the euro area the year 2009 recorded the highest percentage of the unemployment rate of 9.4%. In the previous years (2007 and 2008) the unemployment rate was lower than in other years presented. Germany has an atypical manifestation of the unemployment rate, recording higher values in the years preceding the crisis than in the past two years, when the crisis broke out in Europe as well. In Japan, the unemployment arte increased in 2008 and 2009, just as in the U.S. In the U.S., however, the unemployment rate rose sharply in 2009 compared to 2008.

The following aspect should be noted: both in Japan and in the U.S. the unemployment rates between 2000 - 2008 are lower than those recorded at European level (values between 7% and 9.1%). If in 2009 the unemployment rate increases from 5.1% in Japan, in the U.S. it amounts to 9.3% comparable to the value from the euro area (9.4%). Thus, the influence of the economic crisis on the labour market is more than obvious.

In early 2000, just below 20 million persons were unemployed in the EU-27, slightly below 9 % of the labour force. In the first quarter of 2008, EU-27 unemployment hit a low of 16 million persons (equivalent to a rate of 6.7 %) before rising sharply in the wake of the economic crisis. [5]

Table no. 1 Unemployment rate in the major economies

(%)

	Euro area	Germany	Japan	United States
2000	8.4	7.5	4.7	4
2001	8	7.6	5	4.8
2002	8.4	8.4	5.4	5.8
2003	8.8	9.3	5.3	6
2004	9	9.8	4.7	5.5
2005	9	10.7	4.4	5.1
2006	8.3	9.8	4.1	4.6
2007	7.5	8.4	3.9	4.6
2008	7.5	7.3	4	5.8
2009	9.4	7.5	5.1	9.3

Source: http://epp.eurostat.ec.europa.eu

In our country, the break out point of the crisis was considered in late 2008, with powerful effects in 2009. If in 2007 the unemployment rate was 6.4% at national level, the following year it dropped to 5.8%, and in 2009 it achieved a rate of 6.9%.

Bulgaria had very high unemployment rates between 2000 - 2005, and in the past three years they were close to the values also recorded in Romania.

Table no. 2 Unemployment rate in Europe

(%)

	Euro area	Bulgaria	Romania
2000	8.4	16.4	7.3
2001	8	19.5	6.8
2002	8.4	18.2	8.6
2003	8.8	13.7	7
2004	9	12.1	8.1
2005	9	10.1	7.2
2006	8.3	9	7.3
2007	7.5	6.9	6.4
2008	7.5	5.6	5.8
2009	9.4	6.8	6.9

Source: http://epp.eurostat.ec.europa.eu

If in other countries the economic crisis has shown its effects soon after its outbreak, in Romania its effects are still fully ongoing. In 2009 the unemployment rate in our country was 2.5% lower than the average in the euro area, but the effects of the economic crisis has only just begun to unfold. The year 2010 shows us the true face of the crisis, through spectacular increase of the unemployment rate. In our country in 2010 thee are already 15 counties that have experienced unemployment rates above 10%.

Chart no. 1 Counties of Romania with unemployment rates above 10%

Source: http://www.insse.ro

Europe-wide unemployment rate is higher among women between 2000 - 2008, and in 2009 this rate is reversed. The unemployment rate for males increased by 2.4% last year, while the unemployment rate of females increased by only 1.3%.

Table no. 3 Unemployment rate by gender in Europe

(%)

	Male	Female
2001	7.8	9.4
2002	8.3	9.7
2003	8.4	9.7
2004	8.5	9.8
2005	8.3	9.6
2006	7.6	8.9
2007	6.6	7.8
2008	6.6	7.5
2009	9	8.8

Source: http://epp.eurostat.ec.europa.eu

Unemployment rate by age shows that young people face a growth of unemployment among them. Young people between 15 and 25 record a double-digit unemployment rate, being affected not only during the crisis, but also during the previous years. However, persons aged 25 and 74 recorded an unemployment rate around 7%. High unemployment rate among young people once again demonstrates the difficulties faced by this group in finding a job.

Spain (37.8 %), Latvia (33.6 %) and Lithuania (29.2 %), youth unemployment rates were particularly high. The Netherlands (6.6 %) was the only Member State with a youth unemployment rate below 10 %. [5]

Table no. 4 Unemployment rate by age in Europe

(%)

	Less than 25 years	Between 25 and 74 years
2001	17.3	7.2
2002	18	7.6
2003	18.1	7.7
2004	18.5	7.8
2005	18.3	7.6
2006	17.1	7
2007	15.3	6.1
2008	15.4	5.9
2009	19.6	7.6

Source: http://epp.eurostat.ec.europa.eu

Eurostat estimates that 23.057 million men and women in the EU-27, of whom 15.833 million were in the euro area (EA - 16), were unemployed in July 2010. Compared with July 2009, unemployment rose by 1.108 million in the EU-27, and by 0.668 million in the euro area.

Among the Member States, the lowest unemployment rates were recorded in Austria (3.8 %) and in the Netherlands (4.4 % in June 2010), and the highest rates in Spain (20.3 %), Latvia (20.1 % in the first quarter of 2010), and Estonia (18.6 % in the second quarter of 2010).

In July 2010, the unemployment rate was 9.5 % in the United States and 5.2 % in Japan.

3. Conclusions

Long-term unemployment is one of the main concerns of policymakers. Apart from its financial and social effects on personal life, long-term unemployment negatively affects social cohesion and, ultimately, may hinder economic growth.

Thus, unemployment is a social macroeconomic imbalance that can be countered by macroeconomic policies. In the European Union, the European Employment Strategy was adopted. In this strategy the strategic objective for the next decade was set as follows: the European Union is to become the most dynamic and competitive knowledge-based economic area in the world, able to achieve sustainable economic growth with more and better jobs and increased social cohesion.[4]

In 2003, the European Employment Strategy was revised, establishing at the same time the concrete goals in this regard. In this context three main objectives were emphasized:

♦ Full Employment

- the overall employment rate of 67% in 2005 and 70% in 2010;
- the employment rate for women of 57% in 2005 and 60% in 2010;
- employment rate of 50% for older workers (55-64 years old) in 2010.

♦ Growth of the labour quality and productivity

♦ Strengthening social cohesion and inclusion

All these objectives have not been able to foresee the future economic crisis and the growth of unemployment across Europe.

Within the context of the European employment strategy, there are a number of measures that are designed to help encourage people to remain in work or find a new job, including: the promotion of a life-cycle approach to work, encouraging lifelong learning, improving support to those seeking a job, as well as ensuring equal opportunities. The integrated employment guidelines for 2008-2010 encouraged Member States, among others, to:

- work with renewed endeavour to build employment pathways for young people and reduce youth unemployment, in particular, through adapting education and training

systems in order to raise quality, broaden supply, diversify access, ensure flexibility, respond to new occupational needs and skills requirements;

- take action to increase female participation and reduce gender gaps in employment, unemployment and pay, through better reconciliation of work and private life and the provision of accessible and affordable childcare facilities and care for other dependants;

The way to reduce unemployment in the future, particularly in Europe, is to necessarily adopt new forms of flexibility and security on the labour market. Thus, firms and workers can benefit both from the flexibility and the security, for example from better organization of labour, from the upward mobility as a result of the improved skills, from investment in training that pays off for companies helping the workers to adapt and to accept the change. Thus, the term used to include the above mentioned idea is that of flexicurity.

Implementing flexicurity involves the design and implementation of four policy components:

- Flexible and reliable contractual stipulations;
- Comprehensive strategies for lifelong learning;
- Policies from the field of the active and effective labour market;
- Modern social security systems. [4]

The adoption of these elements will lead to lowering long-term unemployment. Action is needed to absorb the present number of unemployed, especially among young people aged up to 25.

4. References

[1] Colectiv ASE, *Economie*, Editura Economică, Ediția a opta, Bucureşti, 2009, pp. 254 – 259
[2] Colectiv UCB, *Macroeconomie*, Editura Independența Economică, Piteşti, 2010, pp. 110 - 114
[3] N.Dobrotă, M., Aceleanu *Ocuparea resurselor de muncă în România*, Editura Economică, Bucureşti, 2007, pp. 124 – 142
[4] Ministerul Muncii, Familiei şi Egalității de Şansă, *Flexisecuritate (raport),* Bucureşti, 2007, pp. 3 – 4
[5] Unemployment statistics, [Online], http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/Unemployment_statistics
[6] http://www.insse.ro
[7] http://www.mmuncii.ro/ro

Romanian Economy in Terms of Economic and Financial Crisis

Ionescu Adriana
Constandache Mihaela
Condrea Elena
„Dimitrie Cantemir" Christian University,
Faculty of Touristic and Commercial Management Constanta
ioneascaadriana@yahoo.com
micky_eve68@yahoo.com

Abstract

Economic crisis in Romania fully installed by the end of 2008, resulted in dramatic decreases among companies of significant adjustment costs and budgets. In an attempt to keep business afloat, companies are looking for effective solutions ranging from cash flow monitoring, renegotiating contracts with suppliers rethinking strategies tailored customer service to more drastic solutions, such as redundancies of staff.

Key words: economic crisis, budget deficit, lower incomes, declining demand, wage restructuring.
J.E.L. classification: O1; O11

1. Introduction

Romania is in a severe economic recession. Although the implementation of comprehensive anti-crisis program supported by the International Monetary Fund (IMF), European Union (EU) and World Bank have failed to lead to normalization of financial conditions, the contraction in economic activity was worse than projected due to a combination of unfavorable external environment and a reduction Faster domestic demand. Thus, the economic environment remained difficult during 2009, registering a gradual improvement in 2010.

2. The macroeconomic framework for 2009-2010

Domestic demand declined more than anticipated when the program agreed with International Monetary Fund (IMF). Gross Domestic Product (GDP) Real recorded a contraction of 6.2% (year-on-year) in the first quarter, making possible an additional reduction in the second quarter. For the full year, the Government anticipates a severe contraction of 8% to 8.5% with a modest improvement at the end of 2010, poor financial conditions in housing and rising unemployment maintaining low domestic demand. External demand will improve only by the revival in other parts of Europe. The large output gap has contributed to controlling price increases, inflation decreased slightly.

The contraction in domestic demand triggered a more rapid correction of external imbalances. Cuent account deficit fell by three quarters in the first five months of 2009 compared to same period in 2008, both exports and imports decreased at a rate more pronounced than projected in the program (approximately 20% and 35 % year-on-year) [1]. All along the evolution of foreign capital and financial account was slightly better than projected under the program running as a slightly lower exposure to foreign banks was more than offset by a higher run by corporations and higher input Foreign direct investment (FDI). It is expected that external imbalances for the entire year 2010 will adjust more quickly than anticipated in the original program. It anticipates a decrease in the current account deficit up to 5.5% in 2010 (compared with 7.5% in the original program), from 12.4% of GDP in 2008. And it is anticipated that external funding will have a better situation, as the NFA are expected to be 4 billion over the program targets for the end of 2010.

3. The fiscal sector

Despite worsening economic conditions, expenditure control efforts have enabled the general government budget deficit target set for end of 2010, despite spending overruns in some of the decentralized government entities. However, as economic conditions continue to remain poor, deteriorating growth, lower receipts of income and current expenditure overruns, particularly wages, will push the deficit to a projected level of 8.1% of GDP, compared with agreed level of 4.6% [2].

It is anticipated that revenues will decrease by approximately EUR 17.5 billion (3.5% of GDP) compared with the initial schedule, due to lower revenues collected from VAT, social contributions and income tax. On the expenditure side, reducing the number of employees increases and produce some impact on wages, but the accumulation of massive salary increases last year, especially outside the central authorities, led to increases in wage costs are much higher than programmed . Even if they have fallen since last year, spending on goods and services above the level we wanted, while other expenses are covered below. Together these trends will lead to exceeding spending by about U.S. $ 3.3 billion (0.7% of GDP)[3].

To achieve a balance between short-term need to allow automatic stabilizers to acționezeşi targets medium-term adjustment, the Government decided to undertake further policy actions to limit the fiscal deficit in 2010 and reduce it in 2011. For 2010, it will mean an additional adjustment of 0.8% of GDP, not only by reversing the trends of the total expenditure exceeded approx U.S. $ 5.7 billion, compared to baseline, resulting in a deficit of 7.3% of GDP expenditure while improving the structure. This represents an adjustment of 2.2% of GDP in structural terms[1].

For 2010, the Government remains committed to taking additional measures to reduce the budget deficit to more sustainable levels in accordance with the recommendations of Decision. 1047 European Council.

This year, the Government aims to reduce the deficit to less than 6% of GDP, an adjustment of about 2.5 percentage points of GDP in structural terms compared with 2009. On the expenditure side, will be implemented to further reduce the wage bill, including a freeze on wages 80.3% of GDP) a continuation of the policy in July to replace a departing employee and reducing overtime pay and Awards (0.25% of GDP) and structural changes to reduce the number of employees and restructuring of the pay system.

4. Support for business crisis

To reduce the effects of economic crisis, Romanian companies will receive financial assistance through the Sectoral Operational Program - Human Resources Development 2007-2013.

Salaries of new employees will be subsidized by at least 50% for jobs and filling vacancies, provided that the items have not become vacant following the layoffs.

Financial support will be training employees through training subsidy, payment of that expense by being taught and materials used during training or the training course and pay the salaries of those who will be trained during the training.

Will be subsidized and improve working conditions employees, by settling the purchase and installation costs of various facilities, employee training, seminars, brochures and information materials, etc.

Wage subsidies and training courses fall into the category of state aid. Subsidy costs for information, training and investment in health and safety at work fall into the category of de minimis aid.

Subsidized employment, training and investments to improve working conditions will be made following approval of a draft prepared by the finance company.

The application form will be submitted to the Management Authority of the Sectoral Operational Programme Human Resources Development.

The total allotment of state enterprises in the period 2009 - 2010 is 133 million euros, of which [4]:

- 56 million will be grants to businesses for hiring;
- 52 million - for training of employees and
- 25 million - to improve health conditions and job security.

A company may require all three types of aid while in the same application form.

Example: a company can ask the same request:

- ✓ help to hire a worker PLUS;
- ✓ to help him train PLUS;
- ✓ help to make safe and healthy workplace.

Can I receive such aid large enterprises, medium and small enterprises.

5. The effects of the economic crisis on the luxury industry

The economic crisis has affected the luxury industry in Romania, in some areas even recorded declines of more than 50%.

The luxury market in Romania, the second largest market in the European Union after Poland had the largest growth potential in the region, before the economic crisis, estimated at 185 million euros this year.

According to studies conducted in the company, segment and well Being spa (massage) is the only area of the luxury industry has registered significant growth in all markets in the region.

In Romania, the operator of fitness centers and spa business has doubled WorldClass in 2009, beginning November 4 locations.

Also, one of the low-hit areas is the premium wines and alcoholic beverages (Ron Barcelo, Stalinskaya, Wembley, etc.), which were dropped by only 10%.

Specialists of the CPP Management Consultants expected this year will bring major improvements, the only segments that are easier decreases as fashion accessories, perfumes and cosmetics.

In terms of jewelry and watches segment, which fell by 30% in Romania, they will largely be purchased from abroad, something which will help maintain a low level of sales in the country.

Even if the market for luxury accessories (handbags and footwear) recorded the whole declined by 20% in financial crisis, the collection of accessories spring / summer was nearly exhausted before the discount period and the collection of autumn / winter, the store has remained a small percentage of the total stock for the period of promotion.

Hotel industry has dramatically slowed the development in 2009, decreased market in Romania amounted to 40%, given that mid-year decline was 35% over the same period last year.

But they led to increased competitiveness and service quality.

However, Romania has openings in the region by major area, in times of crisis.

These include the opening of Radisson SAS Bucharest in September 2008 with over 400 hotel rooms and a five-star classification, and projects completed or underway, such as the Grand Hotel Continental Grand Hotel du Boulevard - Luxury Collection and Sheraton Cluj.

The most affected segment of the industry in Romania is the luxury car market, with a decline of over 50 percent in 2009, after the market of luxury cars new and used last year in Romania recorded a growth of 88% compared 2007.

Given the economic, social and political premises from which leaves can say that 2010 will bring an improvement over 2009, but expects the luxury car market to record growth until the second half of 2011.

Brands Luxury Car that runs on the streets of Romania are Bentley, Maserati, Aston Martin, Ferrari, Rolls-Royce, Lamborghini, Bugatti, Maybach and Wiesmann.

6. The financial crisis and its effects on the Romanian tourism

The effects of financial crisis on the Romanian tourism is perceived differently by the field operators. Holiday prices will rise, but at the same time, we estimated a sales increase of 20% this year.

Prices will increase by about 5 to 10%, both for domestic tourism as well as outbound tourism, owing to rising utility prices, but also because the international economic crisis. However, the flow of Romanian tourists will not be significantly affected by global economic crisis.

According to NATA (National Association of Travel Agencies), the most requested destinations in Romania, stays bought by travel agencies are Prahova Valley and Poiana Brasov Predeal, Bran-Moeciu followed, Bucovina and Maramures.

Externally, it is estimated an increase of 20% compared to 2009. Winter destinations chosen by Romanian tourists are Austria, Bulgaria, Switzerland, Italy, France, Slovenia,

Slovakia, Finland and Lapland.

Over 85% of Romania's tourist traffic is ensured by Romanian. Moderate impact on the financial crisis it is now, overall, the Romanian tourism is due, paradoxically, just a lack of competitiveness of tourism product abroad.

In 2009 Romanians have provided over 85% of the country's tourist movement in these conditions, significantly reducing the number of foreign tourists rather than having an impact in 2010.

Traditionally, the period between January 15 and March 1 is much weaker than that between December 15 and January 15, and the market trend can be better observed in a time when demand is less than supply.

For hoteliers in mountain resorts, the main weak shot can come in the months, the loss of business customers. Drastic reduction of budgets for various conferences or large firms for team-building activities will translate very likely by the collapse of months of occupancy "death" for family tourism.

Lacking the infrastructure (roads, airports), Romanian tourism might not be very large, and now there will be additional pressure to prices, compared with the Bulgarian summer tourism will further reduce prices, which will not impress too much with Romanian hotel owners.

The "happiness", the problems will not affect very much tourism GDP taking account of its weight.

In 2009, tourism businesses rose to 9.1 billion (3.6 billion U.S. dollars), an amount that represents only 2.2% of gross domestic product (GDP) of Romania [5].

Over ten years the tourism industry's contribution will rise to 3% of GDP, and businesses will triple, according to the latest report on the global hospitality industry, conducted by the World Travel and Tourism Council (WTTC).

Romanian tourism industry's indirect influence on the economy will be, but larger, being estimated at 23.5 billion lei (9.35 billion U.S. dollars) this year, an amount that represents 5.8% of GDP.

Over the next decade, the indirect contribution of tourism, the WTTC estimated, will reach 7% of GDP in Romania.

7. References

[1] Economic Tribune, May 18, 2010 Number 17;
[2] Economic Tribune, August 14, 2010 Number 25;
[3] Economic Tribune, September 17, 2010 Number 27;
[4] www.financiarul.ro,
[5] *www.utgjiu.ro/revista/ec.ro*.

Managing Crises: Are Lax Fiscal Policies a Worthy Practice?

Ionescu Alexandra
"Dunărea de Jos" University of Galati
al3xandra_ionescu@yahoo.com
Horga Maria Gabriela
"Ovidius" University of Constanta
gabihorga@gmail.com
Horga Vasile
"Valahia" University of Târgovişte

Abstract

Financial markets turmoil, the collapse of the U.S. housing market, Lehman Brothers' bankruptcy, the lack of liquidity that followed, decreasing confidence of both population and private sector, have brought a severe financial crisis in mid 2007, which quickly turned into a economic recession. How did states react to temper the economic downturn that followed? How did they guide their policies? Which will be long-term consequences their present practices? And, above all, were the efforts worth? We intend to answer all these questions through this paper, referring to the European Union's case, and, in particular, to Romania's case.

Key words: Government deficit, public debt.
J.E.L. classification: E62, G01, H12, H62, H63.

1. Introduction

Within the current macroeconomic conditions, fiscal policies have undergone several changes, taking into account the fact that changing tax policy has a rapid impact on a country's economic situation, and given that fiscal policy is frequently used as a tool to intervene in economy, to alleviate imbalances. Thus, faced with a massive loss of confidence in both consumer and business sector, which inevitably led to a significant slowdown in economic growth, and even decline, in some cases, world economies acted in the sense of mitigating the adverse evolutions. We intend to analyze which was the role of fiscal policy in this context, and, in particular how was fiscal policy conducted.

From a fiscal policy perspective, it involved, in most cases, temporary reduction of taxes and duties and social contributions, knowing that, by reducing the social security contributions, for example, labour market is stimulated, while by reducing the income tax rate purchasing power can be sustained, especially in the low-income. Still, there were situations in which fiscal policies relied to an increase in taxation in order to obtain additional income, but these measures are not covered in the paper.

The problem of managing crisis throughout expansionary fiscal policies was strongly argued in time. However, in the present context, it is an important issue to discuss.

2. States' reaction in the context of the economic crisis

Countries worldwide have already taken steps to counter the negative effects of the crisis. Being the first affected, the United States was the first who acted in order to minimize the negative impact. The challenge was not an easy one: about USD 152 billion have been earmarked by the U.S. government through the 2008 Act for economic stimulation providing tax incentives for individual taxpayers and businesses. Moreover, the 2009 American Recovery and Reinvestment act developed in response to the economic challenges faced by the United States, aimed at making direct federal spending, massive support state and local authorities, and providing tax incentives amounting USD 326 billion. In the domain of wage taxation, the mentioned act provides tax breaks worth USD 116 billion over a period of two years, this resulting in a tax decrease of

approximately 6.2% of total income. China has approved a massive investment package, along with the introduction of plans to support the automotive sector, steel industry, textile industry, shipbuilding, petrochemical industry, ferrous metal and light industry.

Seriously affected by global recession, regarded as one of the deepest since the Great Depression of 1929-1933, the European Union's economy recorded the most significant decrease in its history since 2008. To mitigate the negative effects of the crisis, European countries have developed and implemented a set of measures aimed at halting the economic decline. Thus, regarding fiscal policy, most European countries approached crisis by reducing certain categories of taxes, considering the fact that such a practice, although involves budgetary imbalances, could lead to economic recovery.

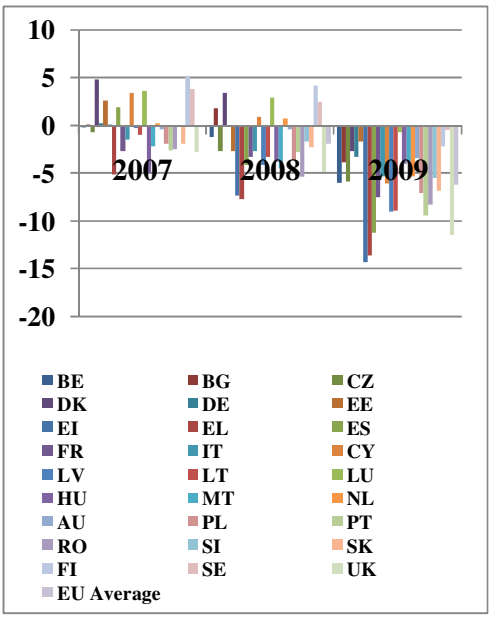
European countries have preferred temporary relaxation of taxation, by either reducing certain tax rates or specific tax or increasing the amounts allocated for grants, allowances or other forms of financial support. For example, Hungary has reduced the tax rate for individual income, and introduced a temporary reduced VAT rate applicable to dairy products, confectionery and heating services. Cyprus temporarily reduced VAT rate for accommodation at 5% (reduction by 3 points), and United Kingdom has reduced the standard VAT rate for a specified period (December 1, 2008 to December 31, 2009) from 17.5% to 15%. Czech Republic and Bulgaria, however, preferred to reduce rates paid monthly contributions of both employees and employers. Sweden has reduced the monthly rate of employee contributions. Germany has subsidized purchases of green cars in 2009 and granted an allowance of euro 100 per child, Italy has subsidized the purchase of furniture and household appliances.

Regardless of the package of measures adopted and the categories of taxes temporarily reduced, these practices have resulted in large budgetary imbalances due to the considerable decline in public income. It should be noted, however, the fact that a major contribution to the widening of these imbalances, had the increased level of public spending, as states used them as an instrument of fiscal policy, approving budgets with substantially higher expenditure. Nevertheless, we will not refer to this in particular.

3. Evolutions of public deficit and public debt at European level

The consequences of engaging in this type of fiscal policy, in fact predictable, have resulted in negative evolutions of deficit and debt, both globally and at European level. Referring to European Union's case, the average budget deficit widened in 2008-2009, the average deficit to GDP ratio rising to 2.3% in 2008, and marking a much higher level in 2009, respectively 6.8% of GDP (Graph no.1).

Graph no.1 – EU member states' public deficit (% of GDP)

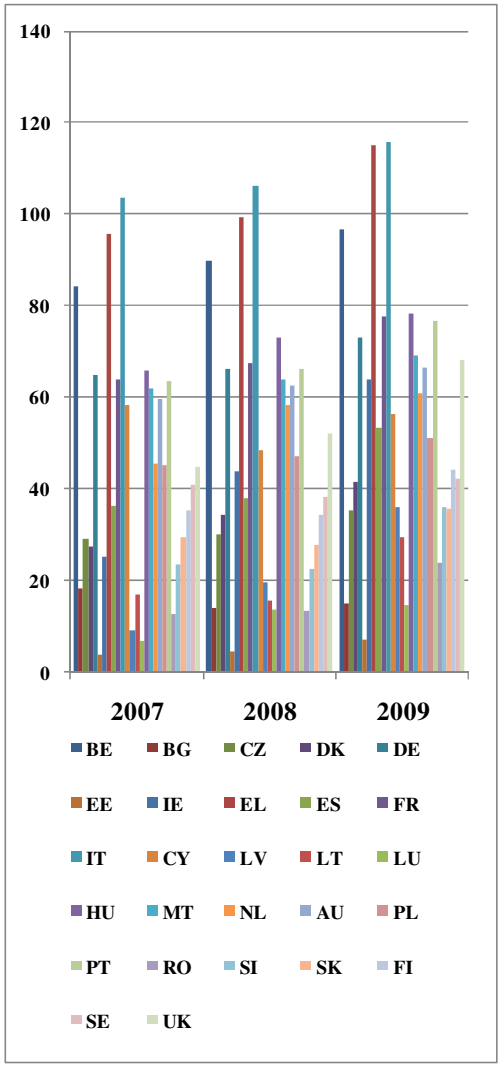


Source: Eurostat reports

Boosting deficits have consequences on public debt's levels, taking into account the direct linkage between public deficit evolution and national debt – they are directly proportional. This is obvious if we consider the fact that an increasing deficit involves additional financing to cover it (either by bonds issues or by external borrowing), which would naturally lead to increased public debt. That is why as states continue to record deficits, national debt accumulates and debt burden becomes increasingly pressing.

Recalling United States' experience of 2002, the high level of deficit led to a USD 6 trillion debt. Similar to this evolution, European public deficit growth led to an average debt exceeding the 60% threshold. Indeed, European Union's debt to GDP ratio reached 73.6% in 2009, compared to the lower 61.6% ratio of 2008 and 58.8% ratio of 2007 (Graph no.2).

Graph no.2 – EU member states' public debt (% of GDP)

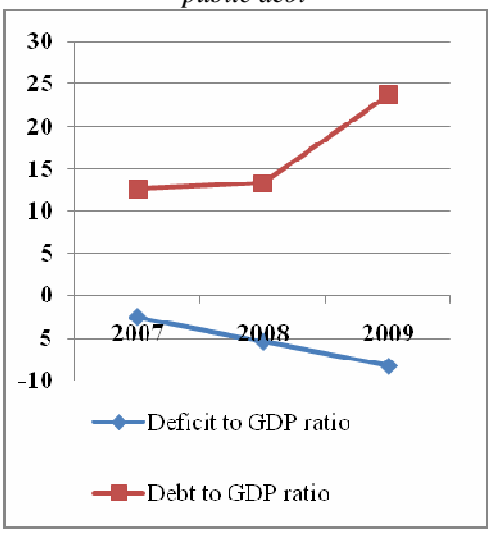


Source: Eurostat reports

Under the Stability and Growth Pact, aimed at coordinating tax policies at European level, deficit should not exceed a 3% of GDP threshold, and debt to GDP ratio should be less than 60%, respectively. Exceeding the maximum levels set for both indicators requires the opening of the excessive deficit procedure, as specified in the Treaty on European Union. Opening the excessive deficit procedure involves a series of restrictions for the respective state, as it relates to a careful monitoring of the two mentioned indicators, along with several recommendations made by the European Council and setting deadlines for correcting the deficit and debt levels. Failure to fulfill these obligations leads to further financial sanctions from the European Commission. Given the evolution recorded by the European states in the past two years, only five European countries currently recorded deficits within 3% of gross domestic product (Denmark, Estonia, Luxembourg, Finland and Sweden). For the rest 22 state members the excessive deficit procedure has been opened.

Romania is among countries with a deficit far beyond the acceptable threshold, namely 8.3% in 2009. As a result of the 5.4% deficit to GDP ratio recorded at the end of 2008, Romania joined the excessive deficit procedure in 2009. Still, it was expected that deceleration of economic activity will affect the amount of revenues collected in the context of current expenditure growth, and, as a consequence, Romania's fiscal position deteriorated in both 2008 and 2009.

Graph no.3 – Romania's public deficit and public debt



Source: Eurostat reports

Referring to Romania's public debt, its level is well below the generally accepted limits. Thus, the level of 23.7% of GDP recorded in 2009 is quite low, considering the fact that developed countries such as Finland, Sweden and Denmark had recorded debts that exceeded 40% of gross domestic product in 2009, and Britain, France and Austria have reported debts of over 60% of gross domestic product. However, debt evolution in Romania was a negative one, as it increased within a year by more than 10 points - it represented 12.3% of GDP in 2008 (Chart no. 3).

The reason for this growth was the increasing gap between revenues and expenditure together with the entry into the excessive deficit procedure, which inevitably led to limited access to European financing funds, and, inevitably, higher interest rates for deficit financing.

4. Consequences of expansionary fiscal policies

The following question arises: were these solutions efficient for stabilizing the financial sector and for the economic recovery? We will first discuss which states' possible approaches were.

The first possibility, the one that we have analyzed, was to use fiscal policy instruments to stimulate short-term demand by providing tax incentives – tax cuts and refunds of taxes and fees. The second option was that of intensive public spending, knowing that this practice has a direct effect on consumption, encouraging demand for goods and services. The majority of countries have alternatively appealed to this approach. Finally, governments could choose to make transfer payments to local authorities or to certain under-privileged groups, by providing financial assistance and unemployment benefits, or allocating funds for retraining. This latter practice was common too in national economic recovery programs. We recall here the United States' case, which spent about USD 237 billion to provide tax incentives to individuals, but also other large amounts for local and state authorities.

State intervention in the tax area has helped to mitigate the effects of recession, but the price was a high one: Europe's deficit had a record increase in 2009, reaching approximately 7% of GDP, while public debt rose by about 12% in 2009 compared to 2008, amounting 73.6% of European GDP. In figures, the costs of fiscal measures taken have been very high: European Union has approved a budgetary impulse of Euros 200 billion for public projects through the European Recovery Plan, other important amounts being allocated by each member state through the annual budget law for the same purpose. By comparison, global costs were some much larger: China spent USD 586 billion for carrying out public investments, while the U.S. approved not less than USD 787 billion for public spending in 2009.

A new question arises: were these efforts worth to stop recession? The answer is a difficult one. Yes, indeed, without use of expansionary fiscal policy, the economies of the world would have continued to decline, given the fact that, without states' support, the population would have further grown poorer and the private sector would have been even more affected. We therefore accept the necessity of temporary a tax relief. However, as deficits and public debt accumulate, financing the latter implies increases in interest rates, and consequently, investments' reduction. Clearly, the need of additional revenues would eventually rely on public contribution. This will actually lead to changes in tax policy, specifically, to an increase in taxation. Certain countries may return to the old tax system, but others could substantially increase taxation. This has happened after 2009. Most European states have applied this method during 2010, whereas the need to support the deficit without increasing public debt level became a priority. Accordingly, the temporary tax cuts have been abolished, being replaced by increases in tax rates and introduction of new taxes, in some cases.

5. Concluding remarks

The existence of deficit and public debt at European level much higher than the accepted limits has resulted in numerous macroeconomic imbalances in the Union who have limited opportunities for economic recovery of the Member States. In terms of financial restrictions and loss of confidence in

national economies, states and currently faces major problems. The effects of the current measures will surely be seen in the upcoming years.

We cannot certainly say that the efforts made to halt the decline and to stabilize the global economic environment were worth it, as the legacy they left behind will be a difficult problem to solve. If deficit and debt management in the coming years will be an effective one, yes, we could affirm that the efforts have paid off. Otherwise, everything will turn out to have been in vain.

As regards to Romania's case, it is premature to say that government efforts had the desired results. The economy is currently confronted with serious problems, registering high rates of unemployment and inflation, but also a very high deficit. Although public debt level is in the acceptable limits, solving the problem of the existing deficit will certainly be a challenge, the experience of past decades stressing that incorrect administration of the deficit will lead to unmanageable debt (we recall here the debt crisis of emerging countries in the 80s). Did we learn our lesson or is history repeating?

6. References

[1] Berg A., Borensztein E., Pattillo C., *"Assessing early warning systems: how have they worked in practice?* IMF Working Paper no. 52, 2004.

[2] Blundell, Wignall A., Atkinson P., Hoon Lee S., *„The Current Financial Crisis: Causes and Policy Issues",* Financial Market Trends, OECD, 2008.

[3] Goldstein M., Wong A., *"What might the next emerging-market financial crisis look like?"*, Working Paper series No. 05-7, 2005.

[4] Isarescu M., „*Romania in the Context of the Global Financial Crisis: An Overview*", "How is the World Different after the Financial Turmoil" Conference, 2008.

[5] Ionescu A., Horga G., Cuşu D., "*The role of public finances in stimulating the economic recovery"*, IBIMA, 2010.

[6] Mishkin F.S., *"Financial policies and the prevention of financial crises in emerging market countries"*, NBER Working Paper 8087, 2001.

[7] Poloz S., "*Financial Stability: A worthy goal, but how feasible?",* Journal of Banking and Finance, no 30, 2006.

[8] Reinhart, C. M., Rogoff K., *"This Time is Different: Eight Centuries of Financial Folly"*, Princeton University Press, 2009.

[9] Roubini N., Mihm S., *"Crisis Economics: A Crash Course in the Future of Finance"*, The Penguin Press, 2010.

[10] European Commission, *"Economic crisis in Europe: causes, consequences and responses"*, Office for Official Publications of the European Communities, 2009

Risk and Risk Culture in the Business Environment

Ionescu Gr. Ion
„Dimitrie Cantemir" Christian University
iionescu_levant@yahoo.com

Abstract

For having, in this context, an unitary image of the risk, the solutions come, in the identification of the common elements that stand at the bottom of the hole definitions, this are uncertened (undetermined) and loses. In this matter, we can say that the uncertened term is presented in all of the definition risks, because the validation of the existence will lead to the existence of two posible and distinct results. An event it's not affected by risk if we know for sure, that the identification in the context, will produce a loss.

The imidiate reality show that for none of the process we know and it's assumed, that goes in every domain of activity, the uncertened can't be erased. In this matter, we can draw a line that the risk and uncertened can meet everywhere, but combined in different propotions.

Key words: risk, probability, incertitude, business, the risk transfer
J.E.L. classification: M21

1. Introduction

In the acception of classical theory of the decission, the risk is identified as an uncertened element, but possibly , can come permanent in the process of the activities social – humanitary, and the damage can be irevesible . In the acception shown in the dictionary, the risk is defined as „the exposition of the posible losses of the damage", the societies of assurance think that the element „of hazard and posible losses".

Risk is considered an fundamental agent of business, because from no activity can't obtain profit without risk. That's because, every commercial society try to maximize the profit from the administration of the specific risk of his activity domain, from avoiding or transfering the risk that he doesn't want to take.

2. The risk in different acceptions

A good banking strategy „has to have a program and procedures of administration of the banking risks that search for, the minimization of the probability of producing this risks and of the revealing the banks potential. These result from the main objective of the banking politics, of suplimentary minimization of the losses supported by bank, and the activity of banking objectives makes the obtain of a bigger profit for the stockholder".

„In the state of theory statistics evolved in the risk evaluation, is presented a definition elaborated of the risks, the one that „the risk reflects the distribution variation of the posible results, probability and subjective value".[1] Regarding the quantification of the risks that tell that „the measurement of the risk is made within the analysis of utilities relevenat of money, with the distribution varieties of the winning probabilities and posible losses, for every particular choice".

From the likely point of view, the risk can also mean the profit variability towards the media profit from the last two years.

There are other definitions concentrated on the risk [2]:

- Chances of loss;
- The posibility of loss;
- The uncerten that can affect the result;
- The dispersion of the results that are waited for;
- The multidimensional concept that can't be reduced at a single element, at a number;
- „The variability of the posible result, regarding and unsure event" [3];
- „The probability of an upcoming event that isn't wanted" [4];
- „The uncerent regarding a loss" [5];
- „The variability result of the environment pressure" [6];

- „The posibility of loss can be more then expected" [7] etc.

For having in this context, an unitary image for the risk , the solution comes, in the identification of the common elements, that stay at the bottom of the definitions, becoming un certen (undetermined) and loss. In this way, we can say that the concept of uncerten is presented in all the risk definitions, because the validation of existence will lead to the existence of two posible results and distinct . An event is not affected by risk if it's known for sure that, it will lead to a loss. The imidiate reality, show that no other process can be assumed, once it is developed in the activity domain , uncerten and eliminated . In this context we can say that the risk and uncerten is known everywhere, but combined in different proportions.

In special situations, the events are never seen coming, and can damage the transgression and change the fundamental configuration of the problematic datas, the uncerten coming a potential factor of risk. Although it's present in different combinations, the risk and uncereten can't be confused, between the two of them there are seminificative differences, and the most important sais that„ for the risks you can make certain anticipations of events that can produce, and for the probabilities associatied to them, in an uncertein way, the decident can't identify all of them or none of the posible events that are produced and can't estimate the probability of their production"[7].

Because of the existence of a grade that manifests the risk, it can create an anarchy of them, depending on the probability of their realisation.

The events can be:

- high risk – when the probability of the realisation of them is very high;
- medium risk – when the probability of the realisation of them is moderated;
- low risk – when the probability of the realisation of them is low.

3. The cultural risk. The influence of the risk over business and the business environment

„The Basel Agreement fortifies the governement coopertive system and the transparence, making a contribution of the growth of the cultural risk", „that has to be promoted in all the banks"[8]. It is proven that, from a bank, can be problematic, if it is not sustained of an educated public. and the public is very sensible at the hearing of some bad news"[9].

The cultural risk is created in time, in the process of business, of the permanent links from the environment, from the enterprising , managers and employees in the practical and theoretical practice that have the social - professional categories, in the culture and grade of civilization and society.

A very important role, in gaining the cultural risk, it is in enterprising, doesn't matter the size of the CA. In the European Union they put a lot of price on the small and middle enterprises, on the importance and on the position based on „Lisbon Strategy". There is a „Green Book „ of the small and middle enterprising from the European Union, and Romania, is in the implementary faze, at local and national level. The statistics say that there are a lot of enterprises small and middle, in European Union, rather then United States of America, but not the superior number decide the real superior.

The american enterprises are more dinamic, agressive and can go very quickly on the world wide markerting. The primordial element it consists in the *business environment*, the dinamics and the rules that government it. „Most of the american succesfull antreprenors are at their second, third try. They collapsed and ended in ruin, learned what had to be learned , and then they had succes. In The United States of America, a failure at this moment doesn't discredit you in the face of society, banks or investment" [10].

From the point of view of the antreprenors, the private initiative it's a state of spirit in America, in Europe Union, not. In Europe if u get to a ruin, you loose everything and it's very hard to get back, from the social and financial point of view. You remain discredited, and in the business environment

you can be pointed with the finger. It's an aspect that, with exercise and only in time, has to be changed. The stake is high, because managing to cut the small business, the European Comission manages, on long and short tirm, to resolve the unemployment problem.

„The European Union proposed that, in the year 2010, to become the most important world wide economy, and the enterprises that are small and middle were declared, in „Lisbon Strategy", beeing the engine of this performance. They sustain that the „Lisbon Strategy", the globalization in general, discriminate them, serving, the intrests of the transnational companies" [11].

The middle and small enterprises, are the matric force of the progress of economy, and the globalization, looked as a delocalisation, of the services of production, create opportunity of growth. There are challanges that they must face, difficulties that must get over them. At local level, the enterprises small and middle don't have problems to confront at natinal level and comunitary. So real it is the effort of the European Comission of the elimination of the barriers from the way of european enterprises. „The lack of predictibility of the business environment, bankrupsy, corruption, all of this make the region that the starting of a business, her succes, be difficult. The growth of the instruments, the things will be different in the future and the small and middle enterprises will have, trull, an important social role, of the diminuation of bankrupcy, and the acces at the crediation and legislative transparation" [10].

The cultural risk tells the european enterpriser not to be tempted just to the acces of the fonds, and if it is posible, for the European Union doesn't mean much money, without obligations. The european finalities can't replace the sources of national finances and the personal ones, of the antreprenour, but they complete them, at least.

„European Union isn't a bank, and the financial competencs from the antreprenors benefits, doesn't change the efforts of the national governement, and neither the personal risks. It's just an ingredient of the succes of a business , not the determinent of him.

From this point of view, the europeans have a low cultural risk, rather then americans. In these coordonates are registered the romanians, because they change in the marketing economy, and for them, it started, trully, after 1990.

To learn how to live with some rules, in a world of risk, represents a major comitment to the citizens, managers, politicals, and business environment, represent a cultural matter.

Beeing „ a state with a grade of probability of happening" , the risk , if it's produced, the right state can damage the it untill the maximum level, representet by failure or ruin.

The result as the risk is attached, exclusevly, by negative aspects. Into a business, the risk has to be managed into an efficient mode. There are 4 stages [12] in the abbordance of risk :

- the identification of the risk;
- the analysis;
- the control;
- the risk transfer;

If the first two stages are clear, beeing necesary and obvious – the identification and the analysis of the risk spectrum for business – in the third stage, it can be put the problem if the business environment accept this risks, controling them and of course, to asume the concequences for them to produce or to match the fourth stage, if it transfers, parcial or total, to a specialized institution in protection, like societies of asurance and reasurance.

The risks that are asociated with business, go among others, in unloyal competition, the lack of honesty in the process of contracts, the use of fals instruments of bill, the cheating between partners form the environment business and not to mention, associates, the internal fraud or external of company, the unballane of the value, deficiency of the marketing - going up and down and many more elements of risk, some of them institutional or major force, all of these affect the profit and the existence of companies.

The inchoerence, sometimes made and the way it is interpreted of the normative acts, that governement the business environment, there are other factors of risk that can lead at the loss of the companies, so many times, from this cause going to financial colapse, or other unwanted situations. From a defectuos management of risks, informations and financial – economic failure, all of these lead

to some unwanted decisions, with some damage to companies. „For the identification of the risks that are associated with business, there is a manageral instrument very efficient and that is the analysis of the type due – diligence, that can't miss, starting way before taking an important decission" [13].

In the last few years, the recrudecence of a risk with concequences that are extremely bad for the business, it represents the managing of a bad process that many of people from business make it for their companies, of different judging laws. So many times , the responsability of the transfer of this proces, to some house lawyers, waiting for the favorable result, so many times, is defavorable, going to losses for the companies, sometimes equaling ruin.

The process that looks for the companies, make a major risk that has to be managed day by day, month by month , or year by year . In this domain it exists a very efficient instrment that combine the concercial abilities of the economic consultant and lawyer, generating a sinergy that it's necesary for winning the afferent causes of the retrospective process. The situation is similary to the construction of a house: for the realisation of it, it is needed more then the capacity and ability of the construction, for the projectionists and architects that only together can make a good enterprise.

4. Conclusions

In conclusion, to not take the risks seriously that business is up to, represent the first and the most important step to ruin or in other cases, fusions or investments of capital, to financial loss. It is considered that managing efficient the risks that the campain is exposed to, the costs are prevented that their are much less then the corelation, with the minimization of the effects .

The international statistics say that „in an defectuous management of risks, associate to business, make that 50 % from 10 businsses, to make in the first year of their existence, and from them, only one to manage the 5 years of activity. So, „an efficient management of risks can represent, without a doubt, a succesful condition in business, and the need to be secure, in the environment business, comes stringent" [14], the maximization of the profits and minimization of the losses representing a fundamental objective and strategic, for every responsible company.

5. References

[1] Ciucur, D., Gavrilă, I., Popescu, Ctin. *Economie*, Ediția a II-a, Editura Economică, Bucureşti, 2001, p. 307-318.

[2] Negoescu, Ghe., *Riscuri şi incertitudine în economia contemporană*, Editura Alter Ego, Galați, 1995

[3] Dorfman, M. S., *Introduction to Risk Management and Insurance*, 4th edition, Prentice Hall Inc., Chicago, 1998

[4] Giurgiu, I., *Mecanismul financiar al întreprinzătorului*, Editura Dacia, Cluj-Napoca, 1995

[5] Green, M.R., Trieschman, J., *Risk and Insurance*, 7th edition, South-Western Publishing, McGraw-Hill/Irwin, New York, 1998

[6] Niculescu, M., *Diagnostic global strategic,* Editura Economică, Bucureşti, 1997

[7] Hedgetts, M., *Risk Management. Concepts and Aplications*, McGraw, New York, 1994

[8] Caruana, J., [Guvernatorul Băncii Centrale a Spaniei şi preşedintele Comitetului Basel pentru Supravegherea Bancară], „Cuvânt la Forumul Financiar Sud-Este Euroean – 2005" în *Banii noştri*, 11 noiembrie 2005

[9] Fullani, A., [Guvernatorul Băncii Centrale a Albaniei], „Cuvânt la Forumul Financiar Sud-Este Euroean – 2005" în *Banii noştri*, 11 noiembrie 2005

[10] Liikanen, E., „Europenii nu au cultura riscului" în *Capital*, 29 ianuarie 2008

[11] Bara, R., „Cultura riscului trebuie promovată în toate băncile comerciale" în *Curentul*, 11 noiembrie 2005

[12] Blănculescu, I., „Riscul şi cum acesta poate influența afacerea" în *Săptămâna Financiară*, nr. 58, 1 mai 2006

[13] Cen, L., *Interest rate Dynamics. Derivatives Pricing and Risk Management,* Springer Verlag, Berlin, 1996

Marketing Strategy - The Axiology of the Strategy Valorification of Marketing

Ionescu Gr. Ion
„Dimitrie Cantemir" Christian University
iionescu_levant@yahoo.com

Abstract

The present material has an theoretic aspect of the marketing culture but also to marketing science as instrument of passing the condition of economic reality of the emanation of theoretic demarche, pure social-economic.

Threw the strategy of marketing in their own job, but in the society also from proximity and not also, tries to persuade,the exterior world , turns into their own world ,on their own essence, trying to show the nature, „natural" , in humanized nature.

Key words: economics, marketing, axiology, value, culture
J.E.L. classification: M31

1. Introduction

The need of knowing was, is and will be a coordonated human evergreen.It was synthesized by the great philosopher Immanuel Kant, in the next questions:

What do I have to do ? What do I enable to hope ? ..." [1]

„Also to the need of knowladge was, alike, tipical and the domain of the economic thinking, consider that the human society was constituted , existed and exists because of the economic activity, is, above all, a human activity and also social".[2]

2. The axiology in economy and marketing

The axiology is defined as a discipline that studies the domain of value, with moral preponderance. The finality of every economic act, of marketing, in cause, represents the creation of value. Though in the process of creation, in general, the economic one, constiuited a constant preocupation of all time, untill the XIX century „ the meditation over the value gave birth to important demarches in domain specialized so that it can treat the world of value and problematics that this implies." [3]

The theoretic preocupations in the economic domain and later, in marketing domain, were orientated sometimes, almost exclusive, over the „classic" values of spiritual nature, recognized and venerated since antiquity, also: good, beautiful, the truth and in the economic domain – the utility etc. Values that, based on the history stage, have a status of absolute instance.

Accordingly, under axiologic aspect, the theories about the values, have reached, the profile of the specific value considered supreme, absolute.

This tendence, of giving the „cardinale" value, exclusive attention or to establish her supremacy, over the other, constituted the theoretic handicap that snapped the relational approach of value.

Scientists agree that because of that motive, the generalization of the „value", started, not from the philosophy, in first place, as they thought, but from some disciplines with limited domain of enquiry, specially from the political economy, classical, distinct, in this sense, having Adam Smith and David Recardo. Slowly the conception about values, in every domain of social, political, economical.

3. The marketing culture

For the rollback of the succes activity, producers of goods, the natural person and firms „ have to know the requirements and the specific of markets, the characteristics of the competition and their offers, the mode and direction of the external components etc. so that they can do a proper offer compatible

with the need of the clients". [4]

„The economical thinking, in the domain of marketing, for start, coincide to the popular oppinion history of economic problems, then, in the chours of time, to stimulate the changes". [5]

Even though, marketing „as a practical activity, appeared in XVIII century, in Japan and then in the middle of XIX century, in USA"[6][7], „from the need of the absorbtion capacity of knowladge consume, terminology, the sphere extend, begin to loom at the begining of the XX century, but it became semnificative until the postbelic period".[8]

After the postbelic period, marketing became a lore of absolute, that took amplitude, so that almost nothing is done in the economic domain, tied to marketing and not also, outside the domain, and so a richer letarure appeared a specified business, press and specified publication, educational institutions and examination domain, forming a true spefcified culture of marketing.

4. The cultural concern of marketing and nature

The comparison of cultural marketing of nature, reveals a variate series of particularities, upon which it is possible a determination of them in conceptual plan.

One of these particularities stands in the fact that „ while the objectives and the processes of nature finance and manifest, only spontanious, never in any other way, the realities of the cultural marketing domain, imagine a necesity of existance of a conscious factor.

Any other culture, doesn't matter their nature, imply a spiritual component", and on a consequence way we can affirm that the cultural reality of marketing it's a human creation, fact that it's not hard to demonstrate, it's a product that human participates with the subjectivity and so, it contains itself the atributes of subjectivity specified, so that for what was named, at one point, strategy of marketing, it's also a human creation, from the management necesity, of bosses, of the reprezentative bosses, to resolve better and to find solutions in the production process, of changes, distribution, aquisition, of communication etc.

Second of all, there are no acts, they live among humans in the „interior" of their report even when there are products for other generations.

Even more, every domain of culture must be, in a way, recreated, brought back to life,but marketing is a domain that's newer and full of expansion and without exeptions, for this history stage.

Another particularity is that nature is exposed to her intergrality, the objective determinism, with natural laws that produces absolute.

At the other pole, the cultural domain, comes as an expression of human liberty, as a consequence of victory, always progressive, to get over a part of nature.

The marketing culture is the effect of the human effort in submitting the brute reality of a part from nature and society, of the business enviroment. The domination of existance by human, in the marketing domain, was made in variate directions that constitue, the front course of marketing culture – production, change, marketing politics, marketing strategy etc. The guarantee between nature and culture is that marketing is where human subjects restyle naturally, turning it into cultural.

5. The axiologic moment of the valuing strategy of marketing

Knowing the world, the business man, manager, the marketing man etc. won't manifest as a neutral agent, it will report, always, like a formal subject, like a product of a specific level, the growth of social economy with certain needs to their business enviroment, handed by necessities and ideals. Striving at the optimization of their conditions, reflecting the outside world,everyone. Every act of observe, to knowladge, can be, an act of appriciation.

Knowing the existance, the objective and impersonal, they do it in a human perspective and subjective. Threw the knowladge and aprofundation of marketing activity they report to the extern enviroment, at the world universe of marketing even, for that the appriciation to rapport him at his self.

Threw the marketing culture, hamed by characteristic problems, with the help of specific strategies, humans from this domain

learn how the world is, they explain it and also rank the followings, in rapport with the real situation and virtual, in this world, doing, the valorization.

At the origin of every cultural act, so, implied of cultural marketing, it is, always the dissatisfaction of human regarding an existantional situation and aspiration to a aim that can overflow the own condition, with the help of an instrument, called the marketing strategy, for the changing of existent.

The generic instatisfaction that the manifestation has regarding the existant, it's not nihlistic and it's not done on a pesimistic position so that, the scientist human, from the marketing domain, surprises by knowladge, the reality rationality explored, and tries to rationalize for his own, trough the act of valorization, adding in his pratice all the taxonomy specified to the strategy of marketing, with the specific strategy of marketing due to their practice.

So, the exterior relations, in this case, the marketing strategy, does not exist only in the exterior of a human, but also begin to take concern in theoretic value and workable, tried with aplicability *for (and not only for) human.*

The analysis in present time surprises only a part of the complex process of change, from material to ideal, the moment of subjectivity – moment in wich a human participates threw the hole subjective scaffolding *:* rationality, will, afectivity etc. at the habit of objective world.

If the raport human – reality, the scientist – marketing – was resumed at this frament, it will consume in the inner world of every subject, without a result.

In reality, the process has a mutual sense, of passing, from subjectiv, to objective.

The value don't reduce to the appreciative act with the subjective state (realised by vlue judgement) because in this case the appriciation objective doesn't change, lost in the infinity existance.

The value reide, in lost case, in the processing of the exposed reality of finding and appriciation, in remodelation (inovation) in the constitution of another reality, the apparition of new strategy marketing with a bigger practical value.

After that it turnes to an essencial moment of cultural act of marketing and that is the creation moment or the creator act, used daily.

6. Praxiology of strategy of marketing from the prospective of axiology

To function eficient, every enterprise must pertain in permanence at his extern enviroment.

However, regarding the multiple changes that come, in microenviroment, and in macroenviroment that has activity in, every enterprise must have a certain behaviour, a certain attitude that must incarnate in the delimitation of strategic directions and the practical modalities of accomplishment and reflecting the political content of enterprise marketing.

Both terms (strategy and tactic) are at origin, greek, and come from the military activity beeing, very sugestive for marketing (the marketing activity imply a continuous „war„ with the competition, that wins the best strategy and who implies, permanent, the proper and stable program for the reaching of their goals on long term)

Thus, strategy means the chosen stratagem by governers for winning of battle, and the tactic stands in the arrangements made for winning the battle. With other words, „the marketing strategy ... defines the defnining lines of atitude and guidance of enterprise, to achive their goals of some objectives." According to the term of refferal (the endorsed element) the marketing strategy can take various materializations: strategy marketing, product strategy, price strategy etc." [9]

In the political marketing, strategy owns a central place, because it abducts from the direction activity, and the tactic must be syncronized with the strategy, to correspond, to go on her line, to always find permanent ways and the perfect formes of putting them into a strategy". [10]

Strategy is the vision of ensemble for the mode: in wich they will be fulfilled the aims of the organization (the ways that the things are done), the tactic is the set of actions that transpose in practic the chosen strategy the moment in wich it has to be aplied and by who will be done.

„The objectives that must be done by the enterprise look at some period of times, defined in the firm activity, without refering to the simple moment or stage that have minor influence. At the end of these defined period,

must be taken objectives by major importance for the enterprise".[9]

Of course, the objectives must be expressed in rational terms (the profit rate, the volume of sales, the turnover etc.) the endorsed performance from enterprise, and the concrete mode of making them happen get form of a exact attribute, influenced by military terminology – „conquer„ of marketing, „offensive marketing, „expansion marketing„ etc.

The strategy is conceived in sinthetic terms, they have a realist character, showing the endorsed aiming and the concrete mode of touching it. [10]

7. Conclusions

If we take into account the unity of these asepcts, in the case of cultural aspects, and the social ones, show in plain dificulty the points of a line of net demarcation, between cultural and social.

However, culture, in our case the marketing one, it's not an aside body, distinct from the society, it represents the society in a way, expressly, on their own creation. The marketing culture, represents the effort of a part from human kind, shown in the economic life, the overflow of a level that exists (natural, economic, social, individual etc.) In particular area (science, forensic, philosophic, moral etc.) overall, culture, in general, beeing „value point" in wich the society advances in history.

8. References

[1] Kant, I., *Critica raţiunii pure*, Editura Ştiinţifică, Bucureşti, 1969, p. 307-308

[2] Pîrvu, Ghe., Gruescu, R.C., *Microeconomie*, Editura Sitech, Craiova, 2005

[3] Bâtlan, I., *Introducere în istoria şi filosofia culturii*, Editura Didactică şi Pedagogică RA, Bucureşti, 1993, p. 127

[4] Muhcină, S., *Marketing organizaţional*, Editura Muntenia, Constanţa, 2004, p. 97

[5] Lungu, I., Cosma, S., *Gândirea economică*, Editura Companiei Naţionale Administraţia Porturilor Maritime, Constanţa, 2002, p. 85

[6] Druker, P.F. *Management Tasks, Responsabilities, Practices*, New York, Harper and Row, 1973, p. 305

[7] Kotler, Ph. *Marketing Management*, New Jersey, Prentice Hall International Inc. 1989, p. 608

[8] Ionescu, I.Gr., *Marketing de la fundamente la procese decizionale*, Editura Ex Ponto, Constanţa, 2008, p. 19

[9] Florescu, C. (coord.), *Marketing, Marketer*, Grup Academic de Marketing şi Management, Bucureşti, 1992, p. 275

[10] Ionescu, I.Gr., *Marketing general*, Editura Ex Ponto, Constanţa, 2010

Audit Manager Risk Behaviour in a Global Economy – a Research of the Theories on the Determinants of Risk Behaviour

Ionescu Iancu Octavian
The Academy of Economic Studies, Bucharest
octavian.i.ionescu@gmail.com

Abstract

In an increasingly globalised economy, the quality and professionalism of business decisions are intrinsically linked to the risk behaviour of decision makers. The business decision makers are usually faced with a degree of uncertainty when they have to assess risk and make decisions. This paper examines risk behaviour from an audit firm manager perspective and from an academic perspective. The emphasis is on the managerial risk behaviour in business decision making. The research objective is to identify the extent to which theories on the determinants of risk behaviour addresses the critical importance of risk in business decision making at a global scale. It is discovered that the issue of establishing the determinants of risk behaviour has been debated by many authors but no conclusive theory is currently accepted. This article argues that the there are two main risk behaviour theories that explain risk behaviour of business decision makers at a multidimensional level.

Key words: risk behaviour, decision making, audit, manager.
J.E.L. classification: M10, M42.

1. Introduction

Audit firms are business entities that provide financial services and their management is ruled by the same forces that govern the global business world at large. The manager of an audit firm in today's globalised economy is required to make decisions that will imply a certain degree of risk that will impact on the firm's profitability and reputation. Risk is a central concept to both the audit process and the management of the audit firm, so this paper will be of interest for both the auditor and the manager. The concept of risk taking has played a central role in business research in the last few decades. The idea of risk has been present in business ever since man began to trade but never before the globalisation age has risk been more diversified in nature and more present on every business agenda. Risk is a concept whose definition has not generated a consensus in the academic or business circles but is generally accepted that it relates to issues of unpredictability, decision making and potential loss. Risk is intrinsically linked with decision-making and every decision made in business implies a certain degree of risk. The importance of risk to decision making is attested by its position in decision theory, by its standing in managerial ideology, and by the high level of interest in risk assessment in management. This paper will look into risk behaviour theories from a managerial perspective building on previous research done by many scholars.

2. Behavioural aspects of risk taking

Academic theories which attempted to explain the risk behaviour of decision makers date back as far as 1738 [1] and there are a significant number of empirical studies in the area of risk taking behaviour. However, these studies have not produced uniform findings. Some scholars underline the importance of understanding the personal attitudes to risk and considers the attitude and behaviour dimension one of the key dimensions to understanding risk. The rationale of the importance of understanding the decision makers' risk behaviour is that, to a certain extent, the strategies of an organisation reflect the dispositions of their managers in terms of their background, beliefs, attitudes and problem-solving styles [2]. This behavioural

aspect of managers' risk taking in decision making introduces the fundamental question about the determinants of risk behaviour. What exactly determines or influences a manager's risk behaviour when making a decision? There are currently several views accepted. The theories of risk taking behaviour are split into two major competing paradigms: one which emphasizes the importance of individual dispositional differences, which is called the dispositional view, and one which emphasizes the importance of situational factors, called the situational view. There are also views which try to integrate the dispositional view and the situational view, called integrative views.

3. The dispositional view

The individual dispositional view focuses on the individual differences in risk taking behaviour. For this school of thought, the general traits and general dispositional tendencies of the decision makers are believed to dictate their risk taking attitude. It argues that some people have a natural predisposition to be more risk-seeking or more risk-averse than others, irrespective of the situation or the context of the problem. In support of this theory, a significant number of empirical studies have reported on individual differences in risk taking behaviour. In 1970, Alderfer and Bierman [3] use two questions from Kogan and Wallach's Choice Dilemma Questionnaire [4] relating to financial investment, alongside other types of questions, to substantiate considerations regarding individual differences in attitudes towards risk choice in financial investment. In a study that directly examined the consistency of dispositional risk taking behaviour in two groups, one risk-seeking and one risk-averse, Schneider and Lopes [5] found that the risk-seeking group tended to prefer riskier choice on a consistent base when compared with the risk-averse group. Other scholars [6] observed that some people were more tolerant towards risk than others and found that individuals tend to be consistent in their attitudes towards risk. In an experiment in which the roles of risk attitude and tolerance for ambiguity in predicting choice were jointly assessed, Ghosh and Ray [7] found that both risk attitude and ambiguity intolerance determined choice behaviour.

4. The situational view

Many empirical studies suggest that situational factors such as the framing of the problem and the context in which the decision on risk is taken have a greater influence on risk taking behaviour. Slovic [8] argues that high correlations between risk-taking measures in structurally different settings are highly unlikely, suggesting that different settings in which decision on risk is made will have different decisional outcomes. March and Shapira [9] find that managers, as decision makers, make a sharp distinction between taking risk and gambling, which implies that the context or situation of the decision plays a major role in risk taking behaviour. In line with these findings, a very strong argument in favour of the situational view of risk taking behaviour comes from a seminal study conducted by Kahneman and Tversky [10] in which the authors advance an alternative theory of choice under risk – the prospect theory. Essentially, the prospect theory suggests that individuals tend to interpret the outcomes of a risky decision according to a reference point – such as the status quo - which changes depending on whether the outcome is framed as a gain or as a loss.

5. Conclusion

Since scholars first articulated the fundamental question about the determinants of risk behaviour in terms of whether they are dispositional or situational, the issue remains unresolved. However, there have been attempts, along the years, to resolve this issue by researchers who advanced the integrative theories but with little or no success at all. The most popular theories about the determinants of risk behaviour are those articulated by Kogan and Wallach: the dispositional view, which considers the personal characteristics of a decision maker such as natural predisposition towards taking or avoiding risk to be determinant of the type of decision taken and the situational view, which considers the context in which the decision is taken to be determinant of the decision maker's risk behaviour, irrespective of dispositional preferences. The process of globalisation has altered the way business

managers and auditors percieve risk. As the risks in a globalised economy have become more pervasive in nature, if better decisions are to be taken by managers and auditors alike, the determinants of risk behaviour must be better understood.

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

6. References

[1] Bernoulli, D., "Specimen Theoriae Novae de Mensura Sortis", *Commentarii Academiae Scientiarum Imperialis Petropolitanae*, Tomus V, 1738, pp. 175-192, translated and published as Bernoulli, D., "Exposition of a New Theory on the Measurement of Risk", in *Econometrica*, Vol. 22, No. 1., 1954, pp. 23-36.

[2] Das, T. K., Teng, B. S., "Strategic Risk Behaviour and Its Temporalities: Between Risk Propensity and Decision Context", *Journal of Management Studies*, Vol. 38, Issue 4, 2001, pp. 515-534.

[3] Alderfer, C. P. Bierman, H., "Choices with Risk: Beyond the Mean and Variance", *Journal of Business*, Vol. 43, 1970, pp. 341-353.

[4] Kogan, N., Wallach, M.A., *Risk-taking: A study in cognition and personality*, New York: Holt, Rinehart & Winston, 1964.

[5] Schneider, S. L., Lopes, L. L., "Reflection in Preferences under Risk: Who and When May Suggest Why", *Journal of Experimental Psychology: Human Perception and Performance*, Vol. 12, 1986, pp. 535-548.

[6] Bromiley, P., Curley, S. P., "Individual Differences in Risk Taking", in Yates J. F. (Ed.), *Risk Taking Behaviour*, Wiley, Chichester, pp.87-132, 1992.

[7] Ghosh, D., Ray, M. R., "Risk, Ambiguity and Decision Choice: Some Additional Evidence", *Decision Sciences*, Vol. 28, 1997, pp. 81–104.

[8] Slovic, P., "Information Processing, Situation Specificity, And the Generality of Risk-Taking Behavior", *Journal of Personality and Social Psychology*, Vol. 22, 1972, pp. 128-134.

[9] March, J. G., Shapira, Z., "Managerial Perspectives on Risk and Risk Taking", *Management Science*, Vol. 33, 1987, pp.1404-1418.

[10] Kahneman, D., Tversky., A., "Prospect Theory: An Analysis of Decision under Risk", *Econometrica*, Vol. 47, 1979, pp. 263-292

The Importance of Auditor's Professional Judgement in a Global Economy

Ionescu Iancu Octavian
Mocanu Mihaela
Turlea Eugeniu
The Academy of Economic Studies, Bucharest
octavian.i.ionescu@gmail.com
mihaela.mocanu@gmail.com
eturlea@yahoo.com

Abstract

If auditors are to continue to play a vital role in adding credibility to the financial statements, it is essential to address the risks and pressures they face in the course of an audit. The auditor's professional judgement is a focal point of those challenges. In an increasingly globalised economy, the quality and professionalism of a business is becoming more important than ever before. The audit profession is no exception. This paper examines auditor's professional judgement and its relationship with professionalism in the audit process. It is discovered that professional judgement is a powerful tool for the auditor and that there is a contradiction between efficiency and effectiveness in the audit practice. This article argues that the key to bring a balance to this contradiction is professional judgement.

Key words: audit, professional judgement, professionalism, efficiency, effectiveness.
J.E.L. classification: M10, M41, M42.

1. Introduction

Financial audits exist to add credibility to the implied assertion by an organization's management that its financial statements fairly represent the organization's position and performance to the firm's stakeholders and to consolidate trust in the business world. The financial statements must present information that are true and fair, that reflect the economic reality of the transactions, that are impartial, prudent, relevant and credible. As a professional and an expert in accounting, the financial auditor and his work, respecting laws and International Standards on Auditing, adds credibility to the financial statements.

Over the last decade the accounting profession has been at the centre of some negative articles in the press and with some justification. Global scandals like Enron, Parmalat, World.com, the current financial crisis with the collapse of big banks like Lehman Brothers together with numerous litigation faced by auditors are just a few of the factors that fuelled the society and regulator's critics. Different researchers investigating the issue place emphasis on a variety of phenomena that created the environment in which these major scandals were possible. The forces at work were numerous and complex. Corporate and individual greed, delivering services that acted to impair independence, becoming too close with clients, and participating actively in finding ways to avoid the provisions of accounting standards were only a few of the causes .

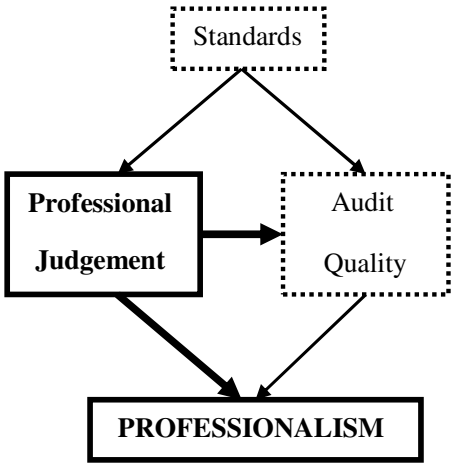
All these facts prompt to a more considerate approach towards the use of professional judgement in every stage of an audit and to allocating a greater importance to the issue of professionalism.

2. The concept of professional judgement

Throughout his work, the financial auditor usues an important and central element: professional judgement. Professional judgement is the cornerstone for the audit profession and is applied in all stages of an audit, from plannig stage to the audit opinion. Professional judgement is an integral part of audit and cannot be dissociated from it.

Professional judgement in auditing is the application of relevant knowledge and experience, within the context provided by auditing and accounting standards and the rules of professional conduct, in reaching decisions where a choice must be made between alternative possible courses of action [1]. By referring to professional standards, concepts like independence and objectivity, professional competence, integrity, professional scepticism and responsibility are implicitly incorporated in the definition of professional judgement. It is clear that professional judgement takes place in the context of professional standards reflecting the collective judgements of the profession. Professional standards are therefore important in exercising professional judgement as they act as references and lighthouses for auditors. The absence of comprehensive professional standards combined with factors such as the increased frequency of business failures and the inability to meet public expectations have increased auditors' exposure to liability claims. The quality of professional standards will definitely impact the professional judgement of the auditor and both will impact the quality of the audit work. The professional judgement exercised by the auditor in the course of an audit together with the quality of the audit work will, consequently, impact the level of audit professionalism (see Figure 1.).

Figure 1. The relationship between professional judgement and professionalism



Source: Original conception

3. The concept of professionalism

Many attempts have been made to define a profession, in general, and professionalism, in particular. The essence of professionalism is a commitment to develop one's skills to the fullest and to apply them responsibly to the problems at hand. Professionalism requires adherence to the highest ethical standards of conduct and willingness to subordinate narrow self-interest in pursuit of the more fundamental goal of public service [2].

Professionalism is an aspirational standard with a few essential elements: competence, personal integrity, responsibility, accountability and public obligation. The competence element comprises relevant, up-to-date skills and capabilities appropriate to the particular task and a broader foundation of relevant experience, knowledge and understanding. Competence, as part of professionalism, must also include appropriate non-technical skills such as communication, business, leadership, management competences. Competence must also be supported with relevant qualifications and maintained through continuing professional development. Integrity refers to a clear commitment to abide by a code of ethics which is recognised and administered by the professional community. Responsibility and accountability comprises a set of personal obligations and responsibilities which sit alongside the contractual obligation to an employer or client and a matching accountability which is also separate from that of an employer. Public obligation is another essential element of professionalism which refers to a contribution to protect the public interest, to social responsibility commitment and to a contribution to the professional community alongside support from that community [3].

4. Efficiency and effectiveness in auditing

In approaching an audit mission there is a contradiction between efficiency and effectiveness. Because of the limited resources of time and personnel, efficiency in audit is driven by economic and commercial factors of the cost–benefit analysis type. In contrast, effectiveness is based on

professional and ethical factors of the work well done type and audit quality. Although the academic theories that have warned against the unacceptably high level of compromise between efficiency and effectiveness seem to be contradicted by some studies [4], big scandals and frequent litigations in the audit profession indicate a rather high level of compromise between efficiency and effectiveness. In this situation of contradiction between efficiency and effectiveness, professional judgement is, again, of critical importance.

Whether used in risk assessment procedures, in tests of controls or in analytical procedures, professional judgement is a key element in choosing an adequate level of compromise between efficiency and effectiveness during an audit. In this context, depending on each and every economic sector, the need arises for a more attentive analysis of the equilibrium between efficiency and effectiveness through the use of professional judgement. Throughout the audit profession the push was on to extend the range of services provided. The consulting practices grew in different ways among the firms, mainly directed by the different talents of the personnel with the firms. These people were not paraprofessionals, but rather they were relatively high-paid personnel with strong skill sets in areas only distantly or even unrelated to accounting or auditing. Their numbers grew rapidly, and their success in generating high-margin fees gave them an increasing voice in firm management. Their relative success created enormous pressure on the auditing and tax practice, both to grow revenues and to increase margins.

The successes in the consulting practice increasingly influenced behaviour by auditing leaders and the impact of these behavioural changes gradually affected the behaviour patterns of audit personnel as well. Improved profitability became the key focus. These changes associated with the growth of consulting practices evolved relatively slowly over a period of about forty years. In essence, the cultures of the firms had gradually changed from a central emphasis on delivering professional services to an emphasis on growing revenues and profitability [5].

The focus on delivering quality professional service did not disappear, of course. However there is a strong sense of contradiction between the effectiveness and the efficiency of the audit work. Action is therefore needed in order to improve the quality of the audit and consultancy products and to better prepare the audit profession for the challenges it may expect from the present as well as from the future.

5. Conclusion

The possibility of human error in decision making is a critical reason why the study of decision making tasks and, in particular, professional judgement is important. The corporate and business cultural changes evolved over a long period and have become pervasive in nature. However, the professional auditor has a powerful tool at his/her discretion: professional judgement. Now is the time to use professional judgement more than ever to bring a balance to the contradiction between efficiency and effectiveness in the audit process for the benefit of the audit profession and the society at large. Therefore, the current challenge of firm leaders and auditors alike has to be to gain an understanding of how the current challenging economic climate could be tackled using professional judgement.

6. Acknowledgements

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

7. References

[1] Sherer, M., Turley, S., „Current Issues in Auditing", Third Edition, Paul Chapman Publishing, London, 2005.

[2] Rhode, D.L., „Professional Responsibility: Ethics by the Pervasive Method", Second Edition, Wolters Kluver Law and Business, Amsterdam, 1998.

[3] Wyatt, A.R., Gaa, J. C., „Accounting Professionalism: A Fundamental Problem and the Quest for Fundamental Solutions", The CPA Journal, Vol. 74, Issue 3, 2004, pp. 22-31.
[4] Pincus, K. V., Bernardi, R. A., Ludwig, S. E., 'Audit Effectiveness Versus Audit Efficiency: Are The Two In Conflict?', *International Journal of Auditing*, Vol. 3, Issue 2, 1999, p. 121-133;
[5] Gendrone, Y., Suddaby, R., Lam, H., „An Examination of the Ethical Commitment of Professional Accountants to Auditor Independence", Journal of Business Ethics, Vol. 64, Nr. 2, 2006, pp. 169-193

The Necessity of a New Paradigm in the International Relationships under the Present Global Crisis

Ionescu Romeo
"Dunarea de Jos" University of Galati
ionescu_v_romeo@yahoo.com

Abstract

The paper deals with the effects of the present global crisis on the most important world economic forces, in order to explain that the present framework is a wrong one.

The research is focused on …aspects: the evolution of the EU, USA, China and Japan economies, the change of the leader positions in the world economic top, the measures adopted in order to recover the most important economies and the new challenges of this global crisis.

Whole this research is supported by pertinent statistic database, tables and diagrams, which were chose in order to maintain the data comparability.

The main conclusions of the paper can be resumed into two categories. The first one is that the most important world economies continue to adopt a competitive strategy and to fight one against another during the present global crisis.

The second conclusion is that it is necessary a new global strategy of partnership in order to face the challenges of the present crisis.

Key words: world economic growth poles, competitive economies, world business environment, world ecological dimension.
J.E.L. classification: E60, F50, F59.

1. Global crisis vs global economic chaos

The present global crisis succeeded in destroying the myth of the Triad as the world first economic power. Moreover, it was able to support the idea that the world economy is too fragile.

As a result, the world economy top became instable since 2008. A study made by PriceWaterhouseCoopers talked about the possibility to change the world economic growth poles.

The Chinese economy will be able to overtake the USA economy in 2025 and the Brazil economy that of Japan in 2050.

On the other hand, Russia, Mexico and Indonesia are able to overtake the German or Britain economies until 2050.

The problem is that the global economic powers, individual or regional blocks, are not able to solve this problem yet.

What is wrong? What is the problem? How can it be fixed? These are questions which can find answers in the body of this paper.

2. Competition, not partnership

Even that the global crisis accentuated the interdependence between the world economies, most of these states continued the competition regardless of expense**.**

As a result, there are a lot of tops for the most competitive economies.

The 2008 IMD and World Economic Forum tops ranked 55 countries on 323 criteria, ranging from the per capita GDP and economic growth to exports, computer penetration, and even the cost of mobile phone service. It also includes qualitative assessments of dozens of factors, such as the level of corruption, state support for education, attitudes towards globalization, and the regulatory framework [1].

It is very interesting to view this top during 2007-2009, in order to observe the changes of the world economic environment under the global crisis (see table 1) [2].

Table 1. World economic top

Rank	2007	2008	2009
1	USA	USA	USA
2	Switzerland	Switzerland	Hong Kong
3	Denmark	Denmark	Singapore
4	Sweden	Sweden	Switzer-land
5	Germany	Singapore	Denmark
6	Finland	Finland	Sweden
7	Singapore	Germany	Australia
8	Japan	Netherlands	Canada
9		Japan	Finland
10	Netherlands	Canada	Nether-lands

Source: IMD, World Competitiveness Yearbook; World Economic Forum, Global Information Technology Report.

USA ranked first for the the sixteenth consecutive year. At least 50% of the world top 10 was owned by European countries.

For the first time, the Asian economies, Australia and Canada entered in top 10 in 2009.

On the other hand, the above top was not the same with world prosperity top in 2009. This top was made using specific indicators: economic fundamentals, entrepreneurship and innovation, democratic institutions, education, health, safety and security, governance, personal freedom and social capital [3].

According to this new top, the most prosper economies in the world were: Finland, Switzerland, Sweden, Denmark, Norway, Australia, Canada, Netherlands, USA and New Zealand.

In 2009, appeared a great break between the European and the Asian countries. Under the prosperity index, are six European countries and no Asian one in world ten top.

2010 started with important changes across the most powerful world economies. While USA and EU face difficult to the challenges of the global crisis, the Asian economies countinue to manage a fast economic growth.

As a result, the world competitiveness top 10 in 2010 is: Singapore, Hong Kong, USA, Switzerland, Australia, Sweden, Canada, Taiwan, Norway and Malaysia [4].

It is for the first time when Singapore and Hong Kong topped the USA in the world competitiveness top 10.

Only three European countries achieved the world competitiveness top 10. This represents 50% from the number of the European economies in 2009.

Another conclusion is that the economic growth pole moved from Europe and USA to Asia.

3. Specific measures to face the challenges of the global crisis

An interesting aspect is that the classic Triade (USA, EU and Japan) is not able to lead the present economic world.

Moreover, China is very close to achieve the second world economic power. There are at least four other Asian countries which perform high economic growth rates and which become the engine of the world economic development nowadays.

As a result, the classic economic powers (USA and EU) are focused on recovery economic measures. But the other Asian and non-Asian competitors are focused on highest economic growth and occupation of new markets.

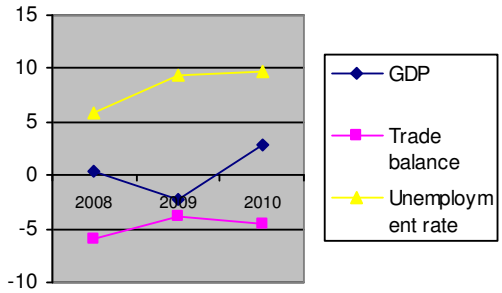
USA started the economic recovery in the third quarter of 2009, when the GDP growth rate was 2.2%, using the decrease of the firms' expenditures and stocks. It was the first quarter with economic growth after four preceding quarters without economic growth.

The improvement of the consumption expenditures was able to maintain the economic growth in 2010.

Moreover, President Obama announced the implementation of the third fiscal stimulus plan on December 2009. The expenditures are about 150 billion dollars. This new program was focused on the unemployment rate decrease and on the economic growth support.

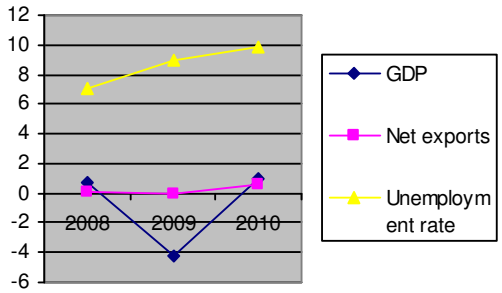
This program will be doubled by another government expenditures package focused on the unemployment and health assistance, and on financial support for federal governments and municipalities (see figure 1).

Figure 1. The trend of the USA economy



Source: European Commission, *European Economic Forecast*, Spring 2010, Brussels, p.164.

Figure 2. The evolution of the EU economy



Source: European Commission, *European Economic Forecast*, Spring 2010, Brussels, p.15.

As a result, the forecast for 2010 is positive and it speaks about the growth of GDP (2.8%), private consumption (2.1%) and public consumption (2.3%), as well.

The unemployment rate will be 9.7%, and the foreign trade balance annual change will be negative (-4.5%).

Another important world economic pole is the EU, which faces with o lot of challenges during the global crisis.

The difficulties connected to Greece, Romania, Portugal and other economies forced the EU to recognise that Lisbon Agenda was a fiasco. As a result, EU was focused on a new strategy (EU Agenda 2020), which takes objectives from the old strategy, but accentuates the ecological dimension.

The new EU strategy is especially supported by the Western Member States and it tries to achieve a knowledge based economic growth and more new jobs on long term, using the subsidization by the state of the "green technologies".

The EU 2020 Agenda tries to become a mechanism to coordinate the social, education, research and energy policies of the Member States. As a result, the measures adopted in Brussels are not compulsory for the Member States' governments.

On short term, the main objective of the EU is the rescue. On long term, the main objective is the growth of the competitively, because the European Commission considers that R&D in Asia will overdraw EU and USA until 2025.

The business environment, especially the greatest companies, asked for the decrease of the governmets expenditures. They consider that the unsustainable public expenditures represent a threat for the EU long term economic development.

As a result, the greatest European companies support the reform of the public health and social assistance systems, and the achievement of the Stability Pact provisions [5].

Moreover, the same companies ask for the necessity to study mathematics and science beginning to the primary school.

On the other hand, these companies ask for a decrease of the Common Agricultural Policy expenditures, the reform of the intellectual property rights and the growth of the public investment in technologic strutures which support the innovation.

On May 2010, the Member States signed an agreement connected to a rescue plan of 750 billion Euros, in order to stop the propagation of the Greek crisis and to ensure the financial markets stability, especially in the Euro area.

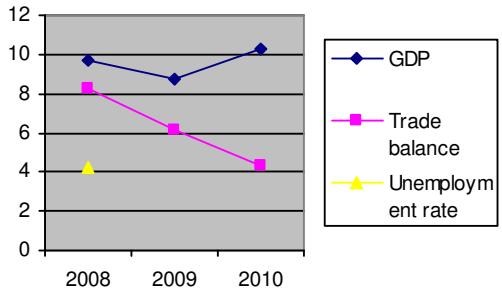
The governments of the Euro area will finance this plan with 440 billion Euros. 60 billion Euros come from a European emergency fund and 250 billion Euros from IMF.

A new important power of the world economy is China, which tries to achieve the second rank. The GDP growth rate was 8.7% in 2009 and of 9.6% in 2008.

This economic performance supported the financial markets and consumers confidence and ensured a growth of the welfare.

Moreover, on February 2010, China became officialy the greatest world exporter.

Figure 3. The evolution of the Chinese economy



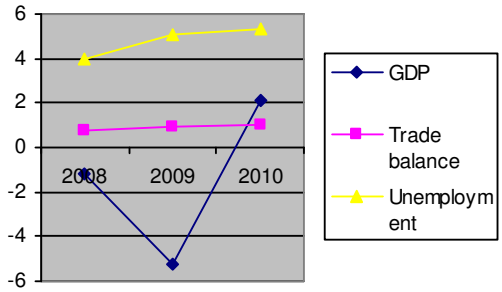
Source: European Commission, *European Economic Forecast*, Spring 2010, Brussels, p.164.

The GDP groth rate was up by 11.9% in the first quarter of 2010. This strong growth performance was driven by fixed asset investments, which were up by 26.4% in nominal terms in the first quarter of the same year compared to the same period of last year.

As a consequence of the early launch of the Chinese stimulus package from November 2008 fixed asset investment had already jumped by 24.2% in early 2009.

In 2008, Japan was the only G3 state which had a decrease of the GDP (-1.2%). The decreased became -8.9% during the first quarter of 2009.

Figure 4. The evolution of the Japanese economy



Source: European Commission, *European Economic Forecast*, Spring 2010, Brussels, p.167.

After an improvement of the terms of trade in 2009, the situation is expected to deteriorate in 2010. Strongly falling import prices contributed to reinstating the deflationary trend in Japan.

4. The short and medium terms trends

On short term, the evolution of the most important world economies will be different.

The EU will achieve a GDP growth rate of 1.7% in 2011, but the net exports will decrease to 0.3% and the unemployment rate will be constant (9.7%).

The American economy will face to a decrease of the GDP growth rate (2.5%) and the same situations for the trade balance (-4.5%) and unemployment rate (9.8%) as in 2010.

Japan will face to the decrease of the GDP growth rate (1.5%) and trade balance (0.8%) and with the same unemployment rate as in 2010 (5.3%).

Only China will maintain a high GDP growth rate (9.4%) in 2011. The trade balance will be improved (4.9%), but is almost impossible to obtain information about the unemployment rate.

On the other hand, the EU forecasts for 2025 under the current trends were presented by the European Commission in 2009 [6]. They are not so good for the EU and USA.

The world output will have doubled compared to 2005. The combined economies of the US, the EU and Japan will no longer dominate the world. The emerging economies (accounting for 20% of the world economy in 2005) will account for 34%.

The volume of trade could double compare to 2005. The positions of Asia and the EU are reversed. The EU is no longer the world's largest exporter. Asia could account for a larger share of the world's exports. China could become the second world economic power.

The centre of gravity of world production will move towards Asia. The combined economies of China, India and South Korea will weigh as much as the EU's [7].

If recent trends continue, the US and EU will have lost their scientific and technological supremacy to the benefit of Asia, even if they are still major world powers as regards R&D.

Asia will be the main destination of business R&D expenditure. India and China's share in global R&D spending could double to 20%.

`The world's population will increase by 20% to reach 8 billion people. 97% of this growth will occur in Asia and Africa. In 2025, the EU will only account for 6.5% of world population.

30% of EU citizens will be over 65 years of age – the highest proportion in the world. This is expected to necessitate an increase in public budgets of 5%.

World energy demand will have increased by 50% by 2025. In 2030, the EU will import almost 70% of its energy needs, calling the security of the EU's energy supply increasingly into question.

A question remains on the growth of intangible assets (human capital, ICT use) and the share of investments in these among the EU, USA and Asia.

Even today, the EU is very dependent on imports of raw materials. Access to these raw materials is becoming more difficult.

If the EU is not joined by other continental powers in the fight against climate change, the impact of its efforts to reduce global CO2 emissions will remain marginal. Adaptation strategies are necessary in any case.

Another forcast, made in the USA, situates Europe in a marginal role in a global context by 2025 [8].

Internal differences are predicted to cause Europe to lose its global clout and become a 'hobbled giant', characterised by little progress. Differing national priorities prevent the emergence of an effective external relations policy.

Lack of economic liberalisation and insufficient welfare reforms are predicted to undermine the EU's economic performance.

Some progress in further integration and stabilisation of the EU's neighbourhood is seen as possible, but there is uncertainty whether such steps would be sufficiently far-reaching.

On the other hand, there are other economies which are able to become the new locomotive of the economic world [9].

First of them is Mexico, which achieved a GDP/capita of 14500 dollars. The foreign demand supported the exports and the annual economic growth rate of 5% in 2010, after a decrease of 6.5% in 2009.

On the second rank is the Republic of Korea, which achieved a GDP/capita of 27600 dollars in 2009.

The exports and the industrial output represent the engines of the economic growth in this country.

Turkey has the third rank in the top of the most competitive emergent economies. The GDP growth rate was 6.0% in 2009 and it will be the same in 2010.

The current account deficit can be easily financed and Turkey succeeded in facing the crisis with minimum risks. As a result, any Turkish bank went bankrupt during 2008-2010.

Poland represents another engine of the world economic growth. It achieved a GDP/capita of 17500 dollars in 2009 and it is the only Member State economy which was able to avoid the recession. Asa result the GDP growth rate will be 2.75% in 2010 and 3.25% in 2011.

Indonesia is one of the three Asian economies which had economic growth during the recession. The GDP will growth to 5.8% in 2010 and to 6.4% in 2011, as a result of the investment environment improvment and of the performant fiscal and monetary policies.

The Saudi Arabia achieved a GDP/capita of 23800 dollars in 2009, and it has a positive economic trens as a result of the private sector support. The Arabian GDP growth rate will be 4.2% in 2010.

In 2008, Taiwan had a GDP/capita of 30900 dollars. The economic growth rate was 10.66% in 2009 and it was supported by exports and private investment.

Iran is a new entry in this top, with a GDP/capita of 11000 dollars and a total GDP of 340 billion dollars.

Argentina achieved a GDP/capita of 14400 dollars in 2009, and it will achieve a rate of 7% in 2010.

Last, but not the least, Thailand had a GDP/capita of 8200 dollars and it will achieve an economic growth rate of 3.5% in 2010.

According to the World Bank analysis, the emergent economies from East Asia and Pacific are the first which succeeded to recover and they will achieve a average GDP growth rate of 8.7% in 2010.

5. Conclusions

The present global crisis almost destroyed the world financial and economic system. It represents an important signal to change this system and to find a new way of sustainable development.

All important economies tried to perform recovery measures in order to face to the challenges of this crisis.

First results are divergent, as long as the greatest "classic" economic powers are not able to play their role in the world economy.

Moreover, new economic powers become to show their importance. China, Brazil, Korea and Russia have an important influence in the world economy nowadays.

Even that the crisis is global, the national economies try to find alone solutions based on competition, not on partnership. The result is a desperate fight for survive and the growth of the regional socio-economic disparities.

Moreover, the financial and the time costs are greater than those connected to a partenership strategy.

6. References

[1] International Institute for Management Development, *World Competitiveness Yearbook,* Free Press Release, Lausanne, 2008-2010.
[2] World Economic Forum, Global Information Technology Report, New York, 2008-2010.
[3] The Legatum Institute, *An Inquiry into Global Wealth and Wellbeing,* London, 2009, p. 2.
[4] International Institute for Management Development, *World Competitiveness Yearbook,* Free Press Release, Lausanne, May 2010, p.2.
[5] European Round Table of Industrialists, *ERT's Vision for a competitive Europe in 2025,* Amsterdam Plenary Session, November 2009, p.3.
[6] European Commission, *Europe in 2025 – Extrapolating current trends,* Brussels, 2009.
[7] European Commission, *The World in 2025: Rising Asia and socio-ecological transition,* Brussels, 2009.
[8] US National Intelligence Council (NIC), *Scanning the future: American and European Perspectives,* ISS Policy Brief, 2008.
[9] Walker Martin, *The Coming of "The Ten",* ATKearney, January 2010.

Opportunities to Reduce Expenses in Local Public Administration

Ioniță (Predescu) Lorena
Istudor (Vintilescu) Ileana Iulia
Ioniță (Nistor) Nicoleta
„Valahia" University of Târgovişte
lorevlad@yahoo.co.uk
iulia_32@yahoo.com
nicoletta.nistor@yahoo.com

Abstract

The approached theme tackles the opportunities that the local public administration has to improve the expenditure based on modern scientific Public expenses clasify as : functional expenses and economic expenses. Functional expenses are reflected in the classification of financial indicators that apply in the public sector. Thus, functional expenses are grouped into chapters and subchapters which indicate a particular function performed by state institutions: public authorities, other general public services, government debt and borrowing transactions, public order and national security, education, culture, religion, sports, social welfare, environment and water, fuel and energy, transport and communications. methods. In terms of the current economic crisis that our country is facing too, the local public administration should consider these opportunities. In this work, there is a short presentation of the steps to be taken and the management analysis techniques which can contribute to achieving a program on expenses control within the local public administration.

Key words: public expenses, expenses control, expenses management
J.E.L. classification: H72, H82

1. Introduction

Following the research and the economic, financial and accounting practice, bookkeeping, economics in general, found "the expenses" as the object of the accounting records. "Expenses" are scientific phrases, true, simple and understandable, used to express "what we want, as accurately as possible". The notion of expenditure must always be associated with the consumption of live work (present) and carried out (last) to obtain goods, performed works, public services provided for residents. All of these consumptions of values are observed, analyzed, evaluated in monetary expression and recorded in the accounting.

Economic expenses represent the consumption of material and financial resources to implement the measures approved in the State budget. These expenses fall on articles and line and indicates the economic nature: personal expenses, expenses of goods and services, capital expenses.

Public expenditure reflects consumption of resources required for the exercise state functions: legislative, executive and judicial. A state level, a special concern is the need of functioning institutions with fewer financial resources without influencing the smooth running of them, thereby making financial resources available to be allocated to development, in this way eliminating the disparities between Romanian and EU countries.

2. Expenses Control

We can talk about "expenses control" - that is a limitation of the expenditure, and an improved productivity by finding opportunities to reduce the local government spending under the circumstances of protecting the service performance, and by eliminating the unnecessary expenses or expenses that can be avoided.

Currently, the situation in Romania is that of the "forced savings" imposed by the Government through freezing the public sector jobs, the dismissal or reduction in frequency or quality of the services, all for the simple reason of saving money in these times of financial crisis.

In order to initiate a "expenses control" it is necessary to undertake an analysis on the expenses monitoring and control, and the expenses that are being needed to provide services. The questions to be asked are as follows: “Could the local government services be provided at lower costs?”, and also "How much shall we be saving if we contract the service?"

The answer can be given through an analysis of expenses, which requires time and experience, but which allows the implementation of the "cost control" strategies, identifies the progress or failure, in which case measures should be taken, sets the objectives to be pursued for the employees, identifies lower-cost alternatives for providing services, and also identifies high-performance operations.

The basic element is, first of all, the expenses management. At the beginning of the fiscal year, managers have funds already allocated in the budget and they need to achieve their objectives within the approved budget. Thus, the expenditure must be made within the budget limits and responsibilities, without having the situation when some line managers approve expenses without observing this requirement, hence the need to monitor and control the local government spending.

Alternative forms of service are another opportunity that local government has for "expenses improvement”: outsourcing or privatization of public services, franchise agreements, grants, vouchers, public-private partnerships, privatization of infrastructure.

Service outsourcing or privatization requires an agreement between local government and a private company with a view to providing a service at a certain level and of a certain quality. It can be used for communal services, local transportation, law enforcement and public safety. To outsource a service, it needs to start from an analysis of the expenditure and of the procurement process by public tender before the decision is made. In this context, the public bodies that are sub-ordinated to local authority must "compete" for the right to provide the service and prove that they can achieve cost savings in comparison with the private sector. The key to success is costing.

For making such a decision it is necessary to consider a range of issues, such as: all services that may be offered by several private suppliers shall become subject to outsourcing; any recommendation to outsource a service shall necessarily include an assessment of its effect on employees and an approach of the human resources issue; the impact on the existing employees; a fair comparison of the costs involved in the service provision by the entity sub-ordinated to the local authority and by the private providers.

Franchise agreements give a private company the right to provide a service within a geographical area. The resident or user pays for the provided services directly to the provider. The local government may regulate the level, quality and price of the service, but also retains the right to set the standards, level and structure of the franchise rates / instalments . This system is possible for services such as waste collection, operation of utilities, vehicle towing and storage.

Grants are a method through which the local authority provides access to these services to certain residents, who might not otherwise receive these services.

Coupons are a particularly useful tool for the local public administration which wants that some services or goods provided by the private sector to be accessible to a certain group of people. To be a successful method, the beneficiaries / residents must not have any difficulty in changing the service / goods provider.

Public-private partnership is an agreement between two or more public entities, with the potential to enhance the services, and with effects on costs due to the principle of effectiveness, i.e. reducing the unit costs due to increasing the size of the service provision. In the literature, these agreements have the following forms: ad hoc agreements, agreements between communities, and formal approach which involves the creation of regional economic operators to provide services.

Privatization of infrastructure can be total. By the infrastructure privatization, the local government sells the fixed assets in order to bring revenues to the local budget and to relieve it from the expenditure of the service provision and the costs of managing the fixed assets. It is therefore an attractive method, mainly when there is not a strong reason for the local government to provide that service, as in the United States case, where private companies manage activities like electricity network, transportation network, phone networks under the market conditions.

Corporatization (association) is another form of the infrastructure privatization.

Corporatization involves the creation by the local government of a company / for-profit corporation whose members are both the local authority and the local business community. The local government owns all shares or most of them in the new company. In fact, this new corporation attempts to correct the inefficiencies and to overcome the bureaucratic barriers, while operating without any the constraints coming from the local government. At the same time, the local government has the control and the new company is required to finance themselves. This method does not produce new revenue, but tries to reduce the costs by streamlining the business.

3. Management analysis techniques

The purpose of these techniques is to increase the ability to make smart decisions, with full knowledge of the case, with regard to changes in service delivery that will reduce their costs. These techniques are intended to identify opportunities to reduce costs, eliminate inefficiencies and improve service quality.

Management audit is a systematic assessment technique of the effectiveness of an entity compared with the existing standards and principles. This audit is not financial or for compliance, but is rather focusing on evaluation, and emphasizes the identification of opportunities for achieving savings, and a greater efficiency. This audit can be done with reasonable costs involving their own personnel. If the audit is conducted by individuals outside the entity with experience in the field, it has greater credibility.

Value analysis is a process that attempts to identify more cost-effective alternatives, more efficient from the cost point of view or that better preserve the resources in carrying out a function or operation, but without sacrificing performance or quality.

A value analysis always involves an analysis of cost and performance. Value analysis is a short term effort, but intense, of identifying the cost reductions which can be achieved over time, in a specific project.

Usually, the value analysis applies when the prices offered to tender for specific projects are bigger than those expected, in order to determine whether costs can be reduced.

Another specific technique that might help the management of the local government to reduce spending is costing throughout the service. This is a technique for acquisition of capital assets through which the total cost throughout the service and operation can be determined in order to provide the information that the management needs in order to make better decisions concerning the future acquisitions and a more efficient budget planning.

Thus, to implement the costing analysis throughout the service of a capital good, it is necessary to assess also the costs of operation, maintenance, and supply the necessary consumables, and the employment required for operation. Within the analysis, the compensation benefits can also be taken into consideration that includes returning the good by means of which the supplier guarantees a price at which the product will be reacquired by him at the end of the service duration of the good.

Structure analysis of the offers will allow the management to justify the purchase of a more expensive good, indicating the cost savings achieved throughout the service and the time needed to recover the additional initial costs. To be successful, at the local government level, for capital asset acquisitions, it is necessary to specify in the tender documents that the selection will be done based on costs throughout the service.

A technique establishment cost throughout the service also has disadvantages, such as:

- Further time and experience from the staff in order to prepare the tender documentation, the analysis and

verification of the information in the submitted bids.

- Rejecting the bids from the suppliers that do not have staff able to prepare the detailed documentation, as required.

Establishing reference standards on costs is a technique that allows the comparison of similar processes in all organizations, either public or private, in order to determine the successful practices and the costs of these practices. By comparing the practices and costs, the local government can assess where they are, and can identify objectively the strengths and weaknesses in terms of quantity and quality.

The standards can be set by measuring the current operating costs, so that the results of the cost interventions can be later compared. Standards can be also created by using the existing information sources, held by professional associations, universities, and interest groups.

For example, the Government Finance Officers Associations - GFOA of the U.S. (Association of Financial Managers in Local Government) maintains a database on the financial indicators in nearly 1,500 full annual reports submitted for the Result Certification Program from the GFOA.

These local governments are not taken at random. They include the local governments that are considered "better" in terms of financial reports. Setting standards is thus a new tool to analyze whether local governments are interested in determining performance and costs.

Total Quality Management - TQM is a management process that identifies and corrects the problems occurred with data collection and analysis.

This process uses the employees working in teams, employees trained in the use of statistical process control techniques, such as: brainstorming, the Pareto analysis, processing logic diagrams, histograms, surveys, etc.

The role of these employees is important because they are the ones that analyze, develop and implement the improvements under the guidance of a qualified person, starting from the consideration that these employees know the best the problems they are facing in their field of activity.

Thus, it is neither the financial manager, nor the mayor the one who develops the improved procedures and imposes them into the organization.

Substitution of labour by capital - as a result of budgetary restrictions, the local government does not meet innovations too often, local governments being traditionally a place with an intensive labour.

Significant investment is needed in local government, but usually they do not use complex analysis to consider long-term costs and benefits. The practices that ensure the lowest costs in the current fiscal year are being emphasized.

Generally, within the local government the cases of purchasing capital goods with a view to improving productivity are being rare.

4. Conclusions

"An expenditure control" requires the establishment of a program while the government itself can monitor their own local expenses, limit the amounts approved in the budget of the local community and determine the cost of services, programs and departments.

Thus, a first requirement is that the accounting department needs to be a reliable system to assess all applications for payment and whether there are funds available in the budget for the action approved.

It is also expected that the costs incurred comply with local ordinances and policies, within the responsibilities of the departments. A general program of cost control must consider all these aspects.

Peter Drucker in 'Tomorrow's Realities' indicates that there are sectors where the budget expenses can only worsen the situation. He also indicates how long the programs that are ineffective should be maintained.

In our opinion, the local public administration should consider these opportunities. In this context, particular attention will be given to research the possibilities to reduce administration expenses, eliminate inefficient and inappropriate expenditure, thus ensuring each year a volume of financial resources for sustainable development.

5. Bibliography

[1] Ailenei Dorel, Public Sector Economy, Bren Publishing House, Bucharest, 2002.
[2] Drucker Peter, Tomorrow's Realities, Teora Publishing House, Bucharest, 1999.
[3] GFOA Best Practice, „Monitoring Economic Development Performance", 2009.
[4] Greceanu Cocos Virginia, Public Institutions Accountancy, Tribuna Economica, 2006.
[5] Jitaru Constantin, Jitaru Mihaela, Local Government Accountancy, Danubius Publishing House, Braila, 2008.
[6] Kline James J., "Total Quality Management in Local Government", *Government Finance Review*, August 1992.
[7] Rose Pete, "Costing Government Services: Benchmarks for Making the Privatization Decision", *Government Finance Review*, June 1994.
[8] Siegenthaler Mark, "Regionalizing Local Services in Massachusetts", *Government Finance Review*, October 1994.

Planning Marketing Activity during Periods of Crisis

Iordache Maria Carmen
Ciochină Iuliana
„Constantin Brâncoveanu" University,
Faculty of Management Marketing in Economic Affairs, Rm. Vâlcea
iordache72@yahoo.com

Abstract

In a period of world financial crisis which hinders the common development of businesses and strongly affects human and material resouces, all companies are concerned with buying behaviors changing. On the other hand, business environments realize that surviving over the crisis period depends on maintaining relations with customers and partners.

The business world had registered deep changes lately, so that managers and entrepreneurs have had to make hard efforts for a permanent adjustment to the market, to be able to face sudden changes in customers' behavior, in the clients' and suppliers' attitude, the reaction speed making the difference between winners and losers.

As the granted budgets are less and less creativity can lead to a significant increase of market quota, to identifying some clear opportunities, good ideas can launch or save a business.

Key words: crisis, crisis marketing, planning, cause related marketing
J.E.L. classification: M14, M21, M30, M31, M37

1. Introduction

Marketing bidget is among the first supposed redictions during economic crisis, sometimes being even eliminated. This is an error, it must not be eliminated but directed towards actions with the best conversion rate in sales, that one which brings more money than had been invested. „In crisis situations, not investing in marketing or severly cutting down budgets is like exiting that market", considers Werner, L.R. (1991), saying that on a long-term basis companies which, during crisis periods, choose to increase the amounts of money invested in marketing will obtain great benefits and will compansate expenses.

According to analysis "Lessons from past recessions", realised by Simms, J. (2009) for customers affected by crisis, marketing and communication investment should be continued for customers affected by crisis so that the post-recession period should be strong enough.

In this context, it is necessary a better market analysis for identifying the customers needs and desires during crisis period, their reactions, their offerts so that companies can review their portfolio and adjust their marketing strategy for an efficient use of budget (Köksal, M. H., Özgül, E., 2007). Strategies and tactics should be reflected in sales market quota and benefit increase.

That is why the company should take into account the 5 "P"'s: product, price, promotion, position in the personal distribution system and to make permanent marketing research able to reflect the local and world trends, changes in the environment where it activates, elements which can be changed into opportunities and threatenings, to evaluate the team's performance, the possibility of attracting and recruiting specialists.

2. Coordinates of marketing activity during crisis periods

Marketing activity planning should lead to an improvement of budgets (from all points of view – strategy, communication, implementation) because the sales team is important, but one can do nothing with it

unless they offer consummers the reason for buying that product. Otherwise they risk some war of prices as the difference between competitors in terms of prices becomes imposible (Roberts, K., 2003).

In such a situation it is not about technology but about new models of business, policies and strategies, receptivity and adjustment to changes, taking chance of opportunities. (Porter, M.E., 1985).

The crisis period identifies through some rules for the company's marketing activity:

1. ***The company should concentrate more on the custmers' needs.*** Present customers are more important than potential customers, that importance being given by the fact that it is less expensive to invest in programs for making customers loyal than to attract new customers. Keeping customers can assure succes and economic increase, and generate repeated sales with minimum investments. Nothing can value more in this period than the customer, the company can change a part of its customers into brand ambassadors, situation in which it should know how to define value for its consummer and to react in crisis periods (Köksal, M. H. and Özgül, E., 2007).

2. The crisis period ***is not a good moment for launching new products, new packing or a new advertising concept.*** Looking for new solutions or promoting new products are elements of strategies for an increasing economy. In this period, the company should be in direct contact with customers, should study their interaction with the product or the service in order to plan its strategy and the actions. *Valuing new consumming habits of the population* concerning communication environments, investing in efficient solutions of mass media, identifying new environments where they can apply creative communication means as well as traditional supports, mass media where they can negotiate certain conditions according to the company's marketing activity main objectives. In this context, the Internet may be used, whose audience is more and more growing and it allows approaching some new marketing solutions with low budgets and televisions which is, in some authors' opinion - Ferrell, O.C., Hartline, M.D., (2002): „During crisis periods, TV channels audience may increase....., taking into account the fact that it is a cheap form of entairnment. ".

The best solution for companies is to find channels and ways of communication cheaper not to give up marketing activity. There are more types of advertising that can be applied in such periods, such as, printing the company's logo on promotional goods that people use every day, the creative use of these can consolidate the brand and keep the company's name in the customers' mind. At the same time they can use social networks,"viral marketing" which is certainly very fashionable, as it may be considered even the supreme recognition of creativity. In this period money are directed, mainly, between 30% and 70% towards Internet promotion, catalogues, fairs and events, and up to 30% towards marketing, telemarketing, direct mail and e-mail.

3. ***The company should communicate trust and safety*** and the brand and communication should hold for safety, protection and social responsibility. (Harts, S., 2008). The company is called to build trust through quality and promptitude, sustainability, the report quality-price, performance, to add value in order to stay competitive on a dominant market of tough competition. In crisis conditions some important companies, such as Apple and Adidas understood that they should exceed advertising conventions limits and communicate succes.

4. ***Employees training is very important in the relationship with customers.*** They should be competitive in solving customers' problems and for a proper attitude their motivation is alos necessary for making them loyal.

5. ***Marketing programs should be centered arounf best services and loyal customers.*** And not around prices reduction which should be means of advertising used just occasionally. (Kotler, K. & Keller, K.L., 2006). It is said that 20% of customers generate 80% incomes. They should be made loyal because buying habits cannot be changed very, a loyal customer does not give up the company just for finding bettwe offers if is well treated.

6. ***Using marketing research during crisis periods,*** period in which consummers look for better offers, cheaper products, becomes a necessity. In USA 61% of companies use

reductions, bonuses and discounts in this period, and 57% of customers admit that these methods motivate them to (Kotler, P. & Armstrong. G., 1996). In this context, the company should make a program for listening to, understand and answer and monitor customers' satisfaction. It should also see if it has a favorable environment for customers that there is a strong operational structure able to underline activities of high priority and the company's perspective.

7. ***Optimizing the company's internal process,*** developing operational and strategic marketing, management in the selling process,turning general objectives into temporar objectives which have permanent assessment which allows problems identification and the process improvement.

8. ***Improving the quality of the product/service*** because during this crisis period there is a conflict of perception and not of reality so that all that matters is differentiation and a better products' positioning in order to put together perception and reality. Marketing positions not only the product or the service but the whole business. A difference by inovation imposes the right prices even during crisis periods. A constant underlining of the competitive advantage, especially if the company can maintain a balance in the price policy, has a better image and keep its incomes (Porter, M.E., 1985). One should be always smarter than competitors.

9. ***Knowing the market where the company works*** allows competitors identification. Their force and capacity, the market representing the best source for data gathering, the basis for making a marketing strategy. All these will have in view the fact that more and more consummers will cut down expenses during crisis periods even if for some categories of products the sales are constant. Research proves that consummers cut down expenses made on: electronic products, clothes, gas, entertainment, fast-food, holidays, cigarettes and then they choose cheaper household products.

10. According to Nielsen Media Research, most research show that those companies which apply efficient marketing measures during crisis periods can increase their sales up to 250%, while those which choose to cut down budgets do not exceed an annual increase of 19%. In such periods one should be different, should be creative.

The conclusion is that during crisis periods, making budgets more efficient involves making customers loyal and attracting customers by building a strong brand image by reducing the number of posters showing in big letters „REDUCTION", well known by customers so far. In order to be successfull, the company should be able to satisfy its customers in a more attractive way than ist competitors

3. Promotional objectives – means for making more efficient the promoting activity during crisis periods

Anti-cyclical actions are very important when the economy drops down. If most competitors want to give up their business, by cutting down marketing and promotion budgets, the company can take advantage for a better promotion of the product. In the past, many companies which held or increased their advertising budget during crisis periods took advange of sales and of a bigger market quota (Simms, J., 2009).

These anty-cyclical actions are not a „trick". While advertising expenses are very high in periods of good economic conditions, a certain „advertising inflation" install at the same time. The consummer receives numberless advertising messages, most times identical, so that he will finally choose according to his own principles and not on the advertising message. The advertsising demand being very high its price is also very high. Consequantly besides the fact that the company will have a very low advertising price during the crisis period, it will also take advantage of an increase in the marketing campaign and the competitor's promoting actions will decrease. We can thus state that promoting actions during crisis periods have a better ROI (return of investment) than the actions undertaken during economic growths.

The promotional objectives are among the most efficient advertising ways. In comparison with the printed materials, TV commercials and other conventional advertising means, using promotional objects has the most acceptance value among customers, their attraction for such objects being very high.

Studies show that over 80% from the customers who have received promotional presents and who appreciate them remember them over a longer period of time (Edelman Goodpurpose Study, 2009). The same studies show that 73% of them think they receive too little promotional objects – the dream of any marketing employee.

More than half of the interviewed peoplr said that they keep the received promotional objectives for more than one year and that they often watch the commercial meant for such objects, informs Adavenue.

Advertising Speciality Institute made public a study which showed that promotional objects have an average of cost/exposure of 0.004 dollars, in comparison with 0.033 dollars and 0.019 dollars for printed materials and TV advertising. The reason of the reduced price for exposal does not consist only in the fact that promotionals are a regular exposure element but also in the reduced prices for promotional presents. For exemple, an advertising package has 1038 exposals in one month.

By using such best options regarding promotional objects, advertising budget will be even more efficient not only for helping the company to face this dificult economic period, but also for consolidating and increasing the market quota.

For most companies, 80%, of promotional materials are used for increasing sales, while 40% consider that their role is for increasing notoriety and brand.

60% of the companies appreciate that the promotion activity by promotional materials leads to an increase of 5-20% of sales. 32% from respondents are waiting for an increase of 21-50% of sales as a consequence of promoting products/services by means of promotional materials, while only 8% wait for an increase of over 60% in sales volume, says Capital newspaper.

4. Cause Related Marketing – a strategy for attracting buyers during crisis period

Cause Related Marketing– CRM is a creation process, maintaining and developing some stable relations with consummers by making relationships with philantropic associations. It consists of more aspects: rational, emotional, moral, the result being an increased loyalty towards the brand and /or the company on the whole (Kotler, P. & Armstrong. G., 1996).

CRM is a CSR type of initiative by which a company engages to donate a certain amount to a cause according to the sales of a certain period. Usually, the company works with an ONG, towards which it delivers the money. We can mention two famous exemples: Pampers – Unicef "*1 package = 1 vaccine"* also developped in Romania and Yoplait "*Save Lids to Save Lives*" Komen fundation.

As it can be seen, CRM associates a charitable cause with a company or with a product for generating incomes for that cause and image and/or sales for the company. Most times, it takes such forms as: payment for sold product, sponsorships, strategical partnerships.

The advantages brought by a CRM campaign are multiple: the company increases its sales, creates an emotional relation between brand and consummers making a great step towards their loyalty. Customers will have the satisfaction that they have contributed to a cause aqnd they will come back to that product after the campaign is over.

According to specialists, between two products of the same quality and price, 80% of consummers will choose that one which sustains a good cause (Ferrell, O.C., Hartline, M.D., 2002).

According to the investigation made by Worthington Di Marzio (Consummmers, society and business") and Cone Communications (the study oriented towards reason determination for motivating consummers changing the brand), it has been said:

• for 86% of consummers the company's image is more positive if they see the real effort of the company in solving social problems;

• 61 % from consummers are ready to change the company which sells en detail if it is associated with a social activity;

• 64% from consummers consider that they can pay 5% more expensive when the goods are associated with a social activity;

• 20% from consummers agree to pay more when the goods are associated with a social cause .

Taking into account the specific side of marketing programs related to a cause, it is usefull to know that consummers are ready to pay more for products and services, offered by a company, if that company is associated with a social activity.

According to global research Good Purpose made by Edelman (2007), we can draw several conslusions:

• almost 7 from 10 consummers (68%) say that during recessions would be loyal to a brand if it will support a social cause

• 8 from 10 consummers are willing to change their habits for contributing in a positive way for a cause

• over 60% say that it is very important for a company to maintain CSR programs (corporatist social responsibility) during recessions.

On the other hand, some specialists say that CRM is not the best form of supporting a social cause. From the consummer's point of view, an argument would be that one should not ask for an intermediary for making donations. Without these CRM capmpaigns many causes would be anonymous.

But a CRP is not suitable for any type of company. It is advisable to initiate a CRM campaign if:

• the products address a large number of customers, so that the contribution should ne consistent

• the company has extended distribution channels

• it should differentiate its products and the competitive products.

Because the final point of a CRM campaign consists in sales increase, the marketing department should offer support for realizing tha campaign plan, establishing the target markets, making and implementing the communication mix, applying the assessment means.

When they choose the cause towards which the money will be given, one should have in view its appeal for a great number of people. Thus, they preffer causes such as: major health problems (cancer, AIDS) (cancer, SIDA), children problems (education, family violence, discrimination, serious social problems (natural disasters, people without shelter, poverty) environment problems.

The company can choose to donate a fix amount of money for each acquisition of the product, a percentage from the product price, a direct proportional sum, or a percentage from the net income resulted from the product sales.

Of course, this list is not exclusiviste. They can imagine more types of programs. Important is the contribution made by the company for a cause.

5. Conclusions

During crisis periods, making budgets more efficient involves making customers loyal and attracting customers by building a strong brand image by reducing the number of posters showing in big letters „REDUCTION",well known by customers so far. In order to be successfull, the company should be able to satisfy its customers in a more attractive way than ist competitors.

It is very important to understand that the company is not in opposition with the marketing environment, it is even a component of this environment, that is it has a positive influence on it. They should also have in view that the marketing environment is not a hostile one, restrictive, dangerous but it offers chances, occasions, favorable situations for maintaining the position on the market.

6. Bibliography

[1]. Barwyse, P. & Styler, A. (2002). Marketing expenditure trends. London Business School Marketing Report, London UK.

[2]. Consumers looking to partner with brands for social change, Global Study Says (2007), Edelman Goodpurpose Study

[3]. Ferrell, O.C & Hartline, M.D. (2002). Marketing Strategy 4th Edition. Thomson South-Western, United States of America.

[4]. Harts, S., (2008), Marketing changes, London, Thomson

[5]. Hooley, G., Piercy, N.F. and Nicoulaud, B. (2008). Marketing Strategy and Competitive Positioning. 4th Edition. Pearson Prentice Hall, United Kingdom.

[6]. Köksal, M. H. and Özgül, E. (2007). The relationship between marketing strategies and performance in economic crisis. Marketing Intelligence & Planning, Vol. 25, No. 4, pp. 326-342.

[7]. Kotler, K. & Keller, K.L. (2006) Marketing Management 12th Edition. Pearson Prentice Hall, United States of America.
[8]. Kotler, P. & Armstrong. G. (1996) Principles of marketing, 7th Edition. Prentice Hall Inc.,United States of America.
[9]. Mutually beneficial marketing takes flight, New findings from the Year-3 (2009), Edelman Goodpurpose Study
[10]. Porter, M.E. (1985). Competitive Advantage, The Free Press, New York.
[11]. Roberts, K. (2003). What strategic investments should you do during a recession to gain competitive advantage in the recovery? Strategy & Leadership, Vol. 31, No. 4, pp. 31-39.
[12]. Simms, J. (2009). Lessons from past recessions. Haymarket Business Publications Ltd, pp. 26-30.
[13]. Werner, L.R. (1991). Marketing Strategies for the recession. Management Review, Vol. 80, No. 8, pp.29-30.

National Strategies Necessary to the Development of the Rural Romanian Economy

Ispas Simona
i_sximyy@yahoo.com

Abstract

Knowing, examining, ameliorating and developing the rural area, these are all activities of vital importance to a country, by the size of the rural area, expressed through the surface owned, as well as by the population weight occupied in productive activities, of socio-cultural services, of habitat and tourism. In the Report on the European Charter of the rural area, the board of agriculture and rural development of the European Council estimates that the rural area of Europe represents 85% of its total surface and affects, directly or indirectly, more than half of the European population.

The rural Rumanian area also includes most of Romania's surface, having, according to the statistics, a share of 93,7%. The importance of the rural area in Romania can be easily proved through the numerical stability of the rural population during 80 years. Thus, in the 20th century, in Romania, while the total of the country's population grew by ten million of inhabitants, the rural population maintained, with little fluctuation, around the size of 10 to 12 million inhabitants.

With all the rapid urbanization, as a result of the industrialization without precedent in the 21st century, considering the diminution of the occupied population in agriculture, sylviculture and pisciculture (without, however, diminishing also the rural population) and the diminution of the relative share of the agriculture in the internal gross profit, the importance of the rural area must not diminish, but on the contrary, needs to be more and more studied, examined and submitted to a complex development process.

The share of the rural population and of the surface occupied by the rural area, as well as the importance of rural life to a country, turn the aspect of the rural development and management into a problem of high proportions and of both national and international importance.

Key words: economical development, rural area, structural instruments, budget, politics of development
J.E.L. classification:E20,R51,P11

1. Introduction

Our concern is the issue regarding the agriculture and the rural development in the light of Romania's integration in the European Union, because we are facing a big dilemma of compatibility (which we are exemplifying through one specific group of agricultural products of high importance: cereals) between the new Community Agricultural Politics, adapted to the actual state of the agriculture in the European Union (high technical performance, material consumption and more and more raised prices, the existence of important stocks of agricultural products with important economic consequences on the economy of farms) and the status of the Rumanian agriculture, which should have other objectives.

2. Rural Romanian economy

The rural development is a concept and an integrated action, which involves a multidisciplinary, intersector and territorial (regional) methodological approach. All the orientations included in the new CAP reform have found their correspondence in the financing mechanism of the agriculture and the rural development, included in the new European agricultural model defined by Agenda 2000, according to the Agreement from Berlin, in March 1999. With this document, the new agricultural community politics balances the allocation of structural European funds system on two pillars of the (1) agricultural market and of the (2) rural development.

The agricultural areas that need to get accepted in the program of financial support are of two kinds: unfavoured areas (ecologically, geographically), areas dropped behind (economically undeveloped) and rural areas in difficulty.

The most extended unfavoured area can be found in the mountain regions and it spreads on a surface of approximately 750.000 ha of farmland (mainly natural leas), having 3,5 million inhabitants and around one million agricultural households. In the last few years, the Board of the Mountain Area made some huge efforts in order to convince the Romanian authorities to pay attention to the mountain area. Unfortunately, the project of the mountain's Law, which consists in a series of important previsions regarding the development of the rural mountain households, didn't get elected for the Parliament's debates. Through this law project, by economic, social, ecological and geographical principles, one can delimit the mountain area from the rest of the rural areas. For these areas (regions), we need facilities for the development of the agro-touring mountain households, for the raising of animals, for the extension of the specific pomiculture and of the traditional activities of wood processing, picking fruits and processing the berries, the revitalization of the household crafts so on and so forth.

Apart from the mountain areas, in Romania also exist other unfavoured rural regions, such as: the Danube Delta, the Moldavia's plateau, (Barlad-Vaslui-Iasi-Botosani region), some areas in the Transilvania's plateau and in the Meridional and Oriental Subcarpathians, the sands in the south of Oltenia. In these areas, first of all, a complex program of forestation is imposed in order to ecologically rebalance the regions, as well as severe programs of fighting against the soil erosion, by reorganizing the agricultural holdings and the parcels, correlated with a system of biological agriculture. After complex researche made in some areas (the plateau of Vaslui and the sands of Oltenia), we can see the need for some complex programs to thwart the desertification. In case no one will intervene with vigorous measures of expelling the negative factors, the desertification will get installed irreversibly or with huge costs of ecological rebalance.

The desertification is a physical phenomenon, as well as it is an economic and a social one. I have identified the phenomenons of physical desertification in the case of the sands in the west of Romania and in Oltenia and in the case of the strongly eroded plateaus. The economical and social desertification is a complex phenomenon that usually gets installed in the peripheral regions, with reduced population and precarious conditions of development.

The social development must be studied in order to establish some economic and financial politics of discouragement. By drastically reducing the economic activity, these localities don't have the economic potential of self administration and development anymore. A main topic brought in discussion is the delimitation of the areas (regions) dropped behind. The second matter refers to the undertaking of some complex field studies in order to know, starting from the inside, the aspects that cause the underdevelopment. And, last but not least, based on this, the establishment of programs regarding the reorientation of the agro-alimentary production, the extension of the small and medium enterprises complementary to the agriculture or downstream and upstream the agriculture, the extension of the non agricultural economy or complementary to the agriculture.

The state, by financial and fiscal politics, has the possibility to support the rural development of the rural regions. The politics of supporting the areas dropped behind can be applied through:

❖ **The implementation of economic and financial politics, based on multi-annual programs and budgets.**

Goal: the insurance of the strategy's implementation's continuity and of the national budgetary politics in the agricultural field with the one of the European Union, considering also the constraints and the limitations of the European regulation.

Ways of action:

This strategy should describe an organic law of orientation and support of the agriculture which could ensure credibility, stability and continuity to this kind of strategy.

- Applying efficient schemes for financing the agriculture in order to fully absorb the European funds and to ensure the co-financing from the state budget, through investment projects.
- The increment of the subsidies, for the priority domains, at a level similar with the other countries of the European Union, until the moment of convergence with the European program of subvention.
- Creating a unitary system of accessing and warranting the production credits and the investment credits.

Financial support of the investments in:

- Notable agriculture, in order to reduce the addiction to the importations .
- The consolidation of the private familiar agricultural farm and the offer of facilities to young agriculturists, which would assure products for the market.
- The development of depositing systems and grading the cereals, the missing link between the agricultural producers and the merchants.
- Service and processing units, a bigger gross added value being the result from agro-industrial and non agricultural activities (creating industrial and agro-touring village micro-areas).

These will ensure, during a period of crisis, both the growth of the gross value added by processing the agricultural and non agricultural local raw stock, and creating some new jobs and revitalize the localities.

❖ Stimulating de consolidation process of the farms

Goal: Forming a functional and notable agricultural structure

Ways of action:

- Stimulating the volunteer amalgamation of the lands and of their efficient exploitation.
- The consolidation of the agricultural market
- Supporting the transformation of the semi-subsistence farms, with real potential of production, in commercially viable exploitations
- Supporting the association between farmers in the purpose of valorizing the products
- Supporting the construction of commercial agricultural modern farms in the sense of raising their competitive aspect

❖ Accelerating the process of rural development

Goal: integrated rural development by the diversification and the amplification of the economical, ecological and social functions, of the rural communities and by creating a modern economical and social infrastructure.

Ways of action:

- The development of the infrastructure and of the social services in the rural space
- Supporting the young farmers' accommodation in the rural space.
- Restoring the villages and conserving the local customs and traditions.
- Stimulating the activities of specialized tourism in the rural area.
- Rehabilitating, maintaining and promoting the natural historical sites.
- Program of adapting the workforce and the public administration from the villages to the actual changes, in the sense of training traditional professions and services.
- The correlation of the investment for the rural space – by programs which are complementary with those of other organs of the central and local public administration.

❖ The development of mountain economy

Goal: The controlled, judicious exploitation of the mountain resources, in the local community and in the society's service.

Ways of action:

The mountain economy represents one of the economical and social problems of the country: 73,3 thousand square miles of forest, 24 thousand square miles of natural leas and 5 thousand square miles of arable land, 2,1 millions of inhabitants and 1,2 millions of households.

- The balanced socio-economic development of all mountain areas and human habitats by traditional works, pluriactivity, complementarity and value added;
- Extending the forest surfaces, afforesting the lands with reduced agricultural potential and creating forest plantations in order to protect the agricultural surfaces in the

areas that are exposed to drought and desertification.

- The development of forest economy
- Investments in order to rehabilitate the natural leas

Romania disposes of 4,9 millions ha of leas and 1,5 millions of natural hayfields, but 90% proportioned in the hill and mountain area.

- The development of the infrastructure and of the mountain tourist economy,
- The development of the ecological mountain agricultural economy.

❖ **The reorganization and the revigouring of agricultural research and professional development**

Goal: raising the impact of the research politics – development and innovation in economy.

Ways of action:

- The orientation of the research objectives towards the European priorities: durable agriculture with protection of the natural resources; alimentary security; conserving and using biodiversity; conserving the landscape;
- Raising the quality of scientific research, starting with the research infrastructure and the value of the human capital;
- Starting scientific researches in priority areas on medium and long term, which could answer both consumers' demands and enrichment of the world scientific inheritance;
- Multinational and multidisciplinary study in the sense of globalization and of adherence to the European Community in order to achieve some common goals;
- Focusing on niche areas, there where Romania will have critical masse and leader performances;
- Managing research problems and innovation problems based on results, for the durable development of the agricultural industrial and forest sectors.
- The development and the professional reconversion of the population in the rural space, in professions connected to the rural space.
- Adapting the professional education process and agricultural space to the needs of the Agriculture.

3. Conclusion

Rural development and rural management represent one of the most complex subjects of the contemporaneity, due to the fact that, in its essence, it assumes the act to accomplish a balance between the demand of conserving the rural economic, socio-cultural space of the country, on one hand, and the tendency to modernize the rural life, on the other hand. At the same time, the rural development and the rural management find themselves at the confluence between the tendency of expansion of the urban side, of the aggressive development of the industry based on the rural space and the demand for maintaining, as mush as possible, the rural side at its actual dimensions.

Last, but not least, the rural development and management must tend to modernize, to europenize as an area of enclosure, at each country's level, to set up as a main goal the maintenance and the conservation of the national character of the rural space and culture, and there where severe local, regional, or national destructions (like the case of the ex-communist countries and in some super-industrialized areas in the Occidental Europe) are produced (physical or socio-cultural destructions), reconstruction solutions to be brought or, eventually, of restoring those areas, in the sense of resetting them to the rural standards.

4. References:

[1] Romanian Academy, "*Knowing Romania – member of the European Union*" Economica Editure, 2007

[2] Akroyd, David H. "*Agriculture and rural development planning: A process in transition*", Ashgate, 2003

[3] Moga, Toader; Radulescu, Carmen Valentina, "*The complex development of the rural space: 1st part*", ASE Editure, 2004

[4] Stanciu, Violeta Claudia; Sandu, Costache, cons. st , "*Durable rural development*" A.S.E., 2004

[5] Branzan, Oana ; Csorba, Luiela, "Rural development" *Commerce magazine* v.7, n°7, p.61-62, July, 2006
[6] The European Parliament – "Agriculture and rural development : guidebook", *Office for the Official Publications of the European Communities*, 2009
[7] Popescu, Nicolae Iulian "Romanian Agriculture after the integration in the EU." *Economic Tribune*, v.16, n°30, p.82-83, 2005

The Usage of Web Mining in E-commerce

Istrate Mihai
"Constantin Brancusi" University of Targu-Jiu
mihaifrance@yahoo.com

Abstract

Recently, the web is becoming an important part of people's life. The web is a very good place to run successful businesses. Selling products or services online plays an important role in the success of businesses that have a physical presence, like a retail business. Therefore, it is important to have a successful website to serve as a sales and marketing tool. One of the effective used technologies for that purpose is data mining. Data mining is the process of extracting interesting patterns from large databases. Web mining is the usage of data mining techniques to extract interesting information from web data. This paper presents the three components of web mining: web usage mining, web structure mining and web content mining and the main data preprocessing tasks for web usage mining.

Key words: E-commerce, Data mining, Web mining
J.E.L. classification: M0

1. E-commerce and retail websites

In e-commerce instead of having your business in a limited physical place and a limited sector of customers who are usually near to your store or business, you have it in the web. In e-commerce websites you have the ability to sell, advertise, and introduce different kinds of services and products in the web. E-commerce websites have the advantage of reaching a large number of customers regardless of distance and time limitations. Furthermore, an advantage of e-commerce over traditional businesses is the faster speed and the lower expenses for both e-commerce website owners and customers in completing customers transactions and orders.

Because of the above advantages of e-commerce over traditional businesses, a lot of industries in different fields such as retailing, banking, medical services, transportation, communication, and education are establishing their business in the web. But creating a successful online business can be a very difficult and costly task if not taking into account e-commerce website design principles, web engineering techniques, and what e-commerce is supposed to do for the online business. Understanding the requirements of both e-commerce website owner and customer is an important aspect in building a successful e-commerce website. There is a lot of information need to be defined before starting building the e-commerce website such as identifying business goals and how the website will target those goals, if the website supposed to attract new customers or increase the sales of current customers, identify if the proposed website will increase the business overall profit, and identify the most suitable tools and techniques need to be used/followed in order to target those requirements.

Retail websites aim to inspire, reflect a good image about the business and improve it online. An important factor in having a successful retail website is to know your competitors. On one hand, by identifying their points of strongness and trying to get benefit of them by improving those strongness points and adopting powerful strategies. On the other hand, identifying weakness points of your competitors and avoid them is a good practice in having a successful retail website.

2. Web mining

The usage of data mining to maintain websites and improve their functionality is an important field of study. Patterns extracted from applying data mining techniques on web data can be used to maintain websites by improving their usability through simplifying user navigation and information accessibility and improving the content and the structure of the website in a way that meets the requirements of both website owner and user which will consequently increase the overall profit of the business.

Web mining is the use of data mining techniques to extract useful patterns from the web. Those extracted patterns are used to improve the structure of websites, improve the availability of the information in the websites and the way those pieces of information are introduced to the website user, and to improve data retrieval and the quality of automatic search of information resources available in the web. Web mining can be divided into three major categories: web usage mining, web content mining, and web structure mining.

2.1 Web Usage Mining

Web usage mining or web log mining is the process of applying data mining techniques to web log data in order to extract useful information from user access patterns. Web usage mining tries to make sense of the data generated by the web user's sessions or behaviors. The web usage data includes data from web server access log, proxy server logs, browser logs, user profiles, registration data, cookies, and user queries. Web usage mining tries to predict user behavior while user interacts with the web and learns user navigation patterns. The learned knowledge could then be used for different applications such as website personalization, business intelligence, usage characterization and adaptive websites. There are two approaches for web usage mining process:

- Mapping the log data into relational tables before an adopted data mining techniques is performed
- Using the log data directly by utilizing special preprocessing techniques.

The Web usage mining process consists of three phases: data preprocessing, pattern discovery, and pattern analysis. Pattern discovery is that set of methods, algorithms, and techniques used to extract patterns from web log file. Several techniques are used for pattern discovery such as statistical analysis, clustering, classification, and sequential pattern mining. After patterns are discovered they need to be analyzed in order to determine interesting and important patterns, besides the removal of redundant patterns. Pattern analysis has several different forms such as knowledge query mechanism, visualization techniques, and loading usage data into a data cube in order to perform Online Analytical Processing OLAP operations.

A web server log file records users transactions in the web. Usually, the web log file contains information about the user IP address, the requested page, time of request, the volume of the requested page, its referrer, and other useful information.

The web log file can have different format, but there is a common log file format that is mostly used. The common log file has the following format:

remotehost rfc931 authuser [date] "request" status bytes

where *remotehost* represents remote hostname (or IP number if DNS hostname is not available), *rfc931* represents the remote logname of the user, *authuser* represents the username as which the user has authenticated himself, [*date*] represents dateand time of the request, *"request"* represents the request line exactly as it came from the client, *status* represents the HTTP status code returned to the client, and finally *bytes* represents the content-length of the document transferred.

The WWW Consortium (W3C) presented an extended format for web server log file that is able to record a wide range of data to make an advanced analysis of the web log file. Web log file is the main source of data analysis in web mining but a lot of preprocessing efforts need to be performed in order to prepare the web log file to be mined.

2.2 Web Content Mining

Web content mining is mining the data that a web page contains. The contents of most of the web pages are texts, graphics, tables, data blocks, and data records. A lot of research has been done to cover different web content mining issues for the purpose of improving the contents of the web pages, improving the way they are introduced to the website user, improving the quality of search results, and extracting interesting web page contents.

Web content mining is still a large field. It constains:

- structured data extraction;
- sentiment classification, analysis and summarization of consumer reviews;
- information integration and schema matching;
- knowledge synthesis;
- template detection and page segmentation;

A large amount of information on the Web is contained in regularly structured data objects which are data records retrieved from databases. Such Web data records are important because they often present the essential information of their host pages, lists of products and services.

Two of the most used methods for extracting structured data are *wrapper induction* (given a set of manually labeled pages, a machine learning method is applied to learn extraction rules or patterns) and *automatic extraction* (given a set of positive pages or given only a single page with multiple data records, generate extraction patterns).

2.3 Web Structure Mining

Links pointing to a document indicate the popularity of the document, whereas links coming out of a document indicate the richness or the variety of topics covered in the document. Web structure mining describes the organization of the content of the web where structure is defined by "hyperlinks between pages and HTML formatting commands within a page".

Understanding the relationship between contents and the structure of the website is useful to keep an overview about websites. One of the approach allows the comparison of web page contents with the information implicitly defined by the structure of the website. In this way, it can be indicated whether a page fits in the content of its link structure, and identify topics which span over several connected web pages. Thus supporting web designers by comparing their intentions with the actual structure and content of the web page. Other studies deal with the web page as a collection of blocks or segments. By partition the web page into blocks and by extracting the page-to-block, block-to-page relationship from link structure and page layout analysis, a semantic graph can be constructed over the WWW such that each node exactly represents a single semantic topic, this graph can better describe the semantic structure of the web. Structure within a web page can be used to help machines understand pages.

3. Web Usage Mining Techniques

In this section, we discuss data mining techniques that are mostly used in web usage mining such as *statistical analysis techniques, clustering, classification, association rule mining,* and *sequential pattern mining.*

Statistical analysis is the process of applying statistical techniques on web log file to describe sessions, and user navigation such as viewing the time and length of a navigational path. Statistical prediction can also be used to predict when some page or document would be accessed from now. It makes use of the N-grammer model which assumes that when a user is browsing a given page, the last N pages browsed affect the probability of the next page to be visited.

Clustering is the process of partitioning a given population of events or items into sets of similar elements. In web usage mining there are two main interesting clusters to be discovered: usage clusters, and pages clusters. An approach is to cluster web pages to have a high quality clusters of web pages and use that clusters to produce index pages, where index pages are web pages that have direct links to pages that may be of interest of some group of website navigators.

Classification is dividing an existing set of events or transactions into another predefined sets or classes based on some characteristics. In web usage mining, classification is used to

group users into predefined groups with respect to their navigation patterns in order to develop profiles of users belonging to a particularclass or category.

Association rule mining is the discovery of attribute values that occur frequently together in a given set of data. Association rules mining techniques are used in web usage mining to find pages that are often viewed together, or to show which pages tend to be visited within the same user session. A re-ranking method with the help of website taxonomy is to mine for generalized association rules and abstract access patterns of different levels to improve the performance of site search. Another approach for predicting web log accesses is based on association rule mining. Association rule mining facilitates the identification of related pages or navigation patterns which can be used in web personalization.

In s*equential pattern mining* a sequence of actions or events is determined with respect to time or other sequences. In web usage mining, sequential pattern mining could be used to predict user's future visit behaviors. Some web usage mining and analysis tools use sequential pattern mining to extract interesting patterns such as SpeedTracer and Webminer.

4. Data Preprocessing for Web Usage Mining

Before data mining techniques are applied to web log file data, several preprocessing steps should be done in order to make web log file data ready to be mined. Web log file contains data about requested URL, time and date of request, method used, etc. The main data preprocessing tasks are data cleaning and *filtering, path completion, user identification, session identification,* and *session formatting.*

Data cleaning is the first preprocessing task. It involves the removal or elimination of irrelevant items that are not important for any type of web log analysis. Elimination of irrelevant items can be accomplished by checking the suffix of the URL name to filter out requests for graphics, sound, and video hits in order to concentrate on data representing actual page hits. For example, all log entries with filename suffixes such as gif, jpeg, and jpg can be removed. Another cleaning process is removing log entries generated by web agents like web spiders, indexers, or link checkers. Filtering out failed server requests, or transforming server error code is also done. Merging logs from multiple servers and parsing the log into data fields is also considered a data cleaning step.

Path completion preprocessing task fills in page references that are missing due to local browsing caching such as using the back button available in the browser to go back to previously visited page.

User identification is a complex step due to the existence of local caches, corporate firewalls, and proxy servers. If the agent log shows a change in browser software, or operating system, a reasonable assumption to make is that each different IP address in the log file represent a different user. If a page is requested that is not directly reachable by a hyperlink from any of the pages visited by the user, a heuristic assume that there is another user with the same IP address. Another assumption can be made is that consecutive accesses from the same host during a certain time interval come from the same user. In some cases it is difficult to identify users, for example, when two users use the same machine and the same browser with the same IP address and look at the same set of pages.

Session identification. A user session is defined as "the set of pages visited by the same user within the duration of one particular visit to a website". Session identification is dividing the page accesses of each user into individual sessions. One approach to identify user sessions, is by using a timeout threshold that is if the time between pages requests exceeds a certain limit, then the user is starting a new session. Another approach assumes that consecutive accesses within the same time period belong to the same session.

Session Formatting. A final preprocessing step could be formatting the sessions or transactions for the type of the data mining technique, or algorithm to be applied. The Webminer, for example, formats the cleaned web server log data in order to apply either association rule mining or sequential pattern mining.

5. Discussion

From previous, it is clear that making changes and adaptations to websites with the help of extracted patterns using different data mining techniques is very effective, but doing that in the maintenance phase can be costly and time consuming and suffers from different drawbacks. In commercial companies which are companies that sell different kinds of products on the web, in order to make an effective maintenance to their websites, the companies have to wait some period of time, for example one year, in order to have a representative log file that reflects customers transactions in their website and can give a clear image about their behavior. This amount of time is considered very big especially for the companies in which the time factor plays an important role in their success strategy, and have many competitors who can attract their customers if they have no solid marketing strategies in order to keep their customers as loyal as possible.

On the other hand, most businesses gather information about internet customers through online questionnaires. But, many customers choose not to complete these questionnaires because of the amount of time required to complete them as well as a lack of a clear motivation to complete them. Several companies use cookies to follow customers through the WWW, but cookies are sometimes detected and disabled by web browsers and do not provide much insight into customer preferences. This is because customers are feeling that their profiles are not secure so a number of customers choose to give incorrect information about themselfs.

Furthermore, in web mining different strategies are implemented to identify sessions such as defining a time threshold that a session should not exceed or assuming that consecutive accesses within the same time period belong to the same session. In some cases, it is difficult to identify users, for example, when two users use the same machine and the same browser with the same IP address and look at the same set of pages. We can conclude from that, that those session and user identification strategies can not give a guarantee that those identified users and sessions represent the actual users and sessions.

The problem of building an ill-structured website for some company/business can be solved by applying data mining techniques such as clustering, classification, and association rule mining on the contents of the information system of the company/business. Then, from the extracted patterns, the information needs to be considered in the website building process is gained and invested during the design phase in the process of website design which yields to a better designed retail website. The main advantage of this method is that it reduces maintenance time and budgetary costs for websites if they are built taking into account the extracted interesting patterns from the transactions database of the company/business. This approach also permits the sales manager to focus on the core business and gives him a better view about his products and customers which is very helpful in designing retail websites.

In conclusion, patterns extracted from applying web mining techniques on web data can be used to maintain websites by improving their usability through simplifying user navigation and information accessibility and improving the content and the structure of the website in a way that meets the requirements of both website owner and user which will consequently increase the overall profit of the business.

6. References

[1] S. Ananyan, M. Kiselev, *Automated Analysis of Unstructured Texts*
[2] Michael Goebel, Le Gruenwald, *A Survey of Data Mining and Knowledge*
[3] Stefan Conrad, Martin Mauve, *Data Mining for Retail Website Design and Enhanced Marketing*
[4] Bing Liu, *Web Content Mining*
[5] Christopher J. Hazard, *Data Mining and Web Logs*
[6] Asem Omari and Stefan Conrad, Web *Usage Mining for Adaptive and Personalized Websites*
[7]Margaret H. Dunham, *Data Mining Introductory and Advanved Topics*
[8]A. McDonald and R. Welland, *Web Engineering in Practice*
[9] M. Istrate, *Web Content Mining*

The Effects of the Present Crisis on the Entreprises in Serbia

Ivanovic Djukic Maja
Faculty of Economics, Niš, Serbia
Maja.djukic@eknfak.ni.ac.rs
Zivkovic Suzana
Megatrend Faculty Zajecar, Serbia
suzana.zivkovic@fmz.edu.rs

Abstract

The global economic crisis has had the bigist influence on the most developed countries in the world, but underdevloped countries, like Serbia were not avoided either. Impact of the global economic crisis in Serbia, is reflected in the withdrawal of foreign capital, declining confidence in the financial sector, declining consumer purchasing power, reducing exports, the liquidation of a large number of companies and the like. In such circumstances, enterprises are facing many problems. The strategic measures wich have been implemented by management of Serbian companies for overcoming the global economic crisis, are explained in this paper.

Key words: global economic crisis, strategic management, Serbia
J.E.L. classification: M10

1. Introduction

The current global economic crisis was created as a result of mortgage crisis in the U.S. and which has spread worldwide. The crisis was initially swept the most developed countries in the world (which have the highest participation in the global financial market), but it has not bypassed less developed countries and developing countries. From financial crisis spread to the real sector. Purchasing power of the people has reduced, it caused the reduction of sales and production of many companies. It caused the dismissal of workers.

„Vicious circle" that these events caused led to the collapse of many economies in 2008 and 2009. But in a lot of countries the end of crisis was on the horizon near the beginning of 2010, so we can talk about the consequences which it had left and the changes that took place on the global stage.

It is estimated estimated that the crisis has caused harm to the global economy in the value of 300 billion U.S. dollars. Financial sector suffered the biggest losses, but also companies from other sectors have large losses.

In the opinion of Raman, P.A., the global economic crisis has led to changes at three levels [1, p. 131]:

- developing countries are becoming more and more important markets,
- government has implemented a number of measures by which has been shaping the economic realities in many countries,
- competition becomes more intense, especially in developing countries.

Statistics show that the global economic crisis has had the bigist influence on the most developed countries worldwide. The balance of power in the global marketplace has changed during the crisis and in post-crisis period, for the benefit of developing countries (China, India, Brazil, Russia, which currently record the highest growth rates of GDP). So that developing countries are becoming more and more important markets, and their share in world product increases.

The global economic crisis has led to much greater state interventionism. Governments in many countries impose a number of measures that dictate the rules of conduct businesses. Among these measures, great attention is paid to measures of increased financial prudence, measures to revive economic activity and increasing economic stability (2).

Competitive struggle on markets has became more pronounced, because the companies are fighting for lower income of

consumers. Competition becomes more intense, especially in developing countries, because the enterprises has met the global competition to local market [1 p. 131-132].

It can be concluded that the global economic crisis has created an environment that carries a huge number of negative consequences on corporate performance, such as following:

- difficulty in providing cash creates liquidity problems,
- increase the cost of capital, which accompanied the increase in raw material prices which led to cost growth,
- drop in purchasing power, which leads to a drop in demand by firms and reduce sources of income.

In such circumstances there is a large number of problems in business strategy implementation. Therefore, management of many companies has implemented a variety of measures to overcome the crisis, whilesome businesses are forced to liquidate. Measures wich have been implemented by management of Serbian companies for overcoming the global economic crisis, are explained in this paper.

2. Impact of the global economic crisis on Serbia

Impact of the global economic crisis in Serbia, is reflected in the withdrawal of foreign capital (Serbia, its economic development as soon as integration into the global open market, based on foreign direct investment). Decline of investment and decline of trust in the banking system leads to a decrease in foreign currency liquidity. Reduced supply of foreign currency creates a depreciation and in the short term creates inflationary pressures (When the „dinar"- national currency, weakening agains to the convertible currency, prices of imported products become higher in the national currency, causing inflation). Uncertainty, the withdrawal of capital and inflationary pressures have caused the decline of consumption and aggregate demand, the spiral will slow down economic activity.

The effects of the financial crisis spread from the financial sector to other parts of the economy through lack of capital, tightening credit conditions, (rising interest rates, shortening the repayment period, etc.).

Banks have sufficient funds for lending to companies in the form of loans, while companies have a bigger problem with the collection of its receivables. The consequences are: illiquidity, the decline of production, slowing business cycle of companies, reducing exports and slowing economic growth.

Reduction in exports due to falling demand for final products in the European market, adds to the slowdown of economic development. Serbia especially in suffers from reduced demand in the European market, becouse mainly exports raw materials and semi-finished non-ferrous metals, iron, steel and agricultural products. For example, the biggest Serbian exporter, U.S. Steel (which has 13% in the structure of domestic exports), has temporarily halted production at several plants, from January 2009. Decline in demand for steel and metal, is strongly influenced by the domestic mills to stop production and to work with very low capacity.

So the economic crisis has left an impact on the whole economy of Serbia. It was necessitated a number of changes in the business of Serbian companies. In this paper first will be analyzed strategic options that are offered to companies in crisis.

2.1. Strategies for companies in crisis

The effects of the crisis led to many problems in business, so many of them fell into crisis, so it was necessary to formulate a new strategy for the changed conditions of crisis or to make the adaptation of existing strategies. Each of these activities involves a detailed analysis of external and internal environment. Objectives of the external environment anlysis is to identify market segments and consumer groups who will be interested in the product; companies in crisis period. Also, Objectives of the external environment anlysis is predicting the risk of the external environment which will further endanger the operations of enterprises. Objective analysis of the internal organizational environment is to identify the elements that are most seriously affected by the crisis (3, p. 20).

Scientists in the field of strategic management suggest several strategic options for companies in crisis (4, p.p. 224-225):

- the strategy of sustainable growth,
- turnaround strategies,
- end-game strategies
- liquidation-the strategy of last resort

The strategy of sustainable growth means slow growth and cautious business in accordance with the anticipated problems that may arise under the influence of the crisis. One variant of this strategy is the strategy breaks. During a break is to consolidate resources, reorganization of the business in order to increase efficiency, narrowing the product range and so on. That means retaining the current competitive position, thanks to the same level of quality with the support of marketing activities (5, p. 287).

Turnaround strategies are desirable for companies that are before the emergence of the global economic crisis operated successfully, but due to lower purchasing power, increased operating costs due to the increased cost of money and capital markets went into crisis. The task of management of these companies is to identify the key weaknesses that threaten the survival of the company and accordingly provide a combination of measures that would allow overcoming the crisis. Successful turnaround strategy can involve any of the following actions (4, p.p. 224-225):

- Salling of assets,
- Cutting costs,
- Boosting revenues,
- Combination efforts.

Salling of assets is a measure that is implemented in situations where the company lacks cash for further investments, and it has land, equipment, inventory that does not carry any income. Directly by selling these resources frees all elements of property that is not needed for current operations, and they blocked the money the company may release funds needed to continue operations (6, p. 232).

Cutting Costs should be done if the cost structure flexible to allow radically changes or when the efficiency of business operations is unsatisfactory. These measures include the elimination of all products and activities that create little value, disposal of all capital investment is not necessarily realized in the current period, modernization of facilities to increase productivity by reducing the number of employees, suspension of marginal products, reduce administrative costs, eliminating the production of elements which are cheaper to buy and so on. Many diversified companies have a huge number of production lines, very often they are only marginally profitable. The crisis usually comes to the elimination or sale of any such dealings.

Boosting revenues is the measure which should be implemented when it is not possible cutting costs as soon as a firm does not use the full capacity. Boosting revenues can be affected by: providing additional services to customers, providing various postpaed services (deferred payment, loan, etc..), lowers prices, if there is a high price elasticity or increasing prices, if price elasticity is small. Management in times of crisis, often using a combination of several of these measures.

End-game strategy implies a gradual decrease of work, and even sacrificing market position to increase the flow of money in the near future and current earnings. It can be implemented in various ways. Management can do folloving action: increase prices selectively, reduce costs at the expense of quality, without the price cuts, elimination. This strategy is mainly used by companies wich cash flow reduced for some reason, but their managers do not want to present it to shareholders. Also this strategy is used by companies that are gradually withdrawing from certain sectors or jobs (5, p. 287).

Liquidation is the strategy of last resort. This strategy is applied in situations where the organization is completely exhausted. This measure are mainly used companies that were operating before the crisis on the verge of profitability and successful companies that have felt the strongest effects of the crisis.

3. Impact of the global economic crisis on the companies in Serbia

Companies in Serbia are faced with negative impacts of economic crisis. This requires different measures as soon as formulation a new strategy in some cases. Companies pay most attention to the provision of cash, because it is a liquidity

crisis. Company very often delay a planned investment, rationalize operations, reduce costs, sell assets, etc.in order to preserve the liquidity. Here will be listed some strategic moves that have implemented enterprise managers in Serbia for overcoming negativ efects of crises.

Impact of the crisis were felt first Serbian enterprises whose participation in the global market, the largest, the drop in consumer demand from abroad, poskupljanje raw materials, problems in collecting receivables that arise as a consequence of increased illiquidity. For example, the company Tigar Pirot, which represents one of the biggest exporters, the management is even more in 2007. Began to analyze the possible impacts of the crisis on business operations and implement precautionary measures.

In the company „Tigar Pirot" most attention is paid to the provision of cash and its rational investment, since the cost of money in the market increased. Management predicted that, due to the reduction of available money in the market to get a rise in interest rates, and that because of the large job losses (caused by the liquidation of many insolvent companies) to get to the fall of purchasing power. As these problems can

negativly affect company cash flows (endanger liquidty), provision of free funds identified as key potential problem in this company. For that reason management decisided salling immovable property, which is not used for performing basic functions, in function of providing quality cash at good price that will allow normal operation of the company during the crisis (7).

The management also estimated that customers in foreign markets, due to a higher level of vigilance, to strive for keeping small stock in the company which would cause reduced demand products of the company out of season, as soon as higher demand products of the company during the season. It is encouraging date that a large number of dealer returning from the Far East market, dissatisfied with the service, supplies and rising prices in the last two years, looking for stable partners with quality products in Serbia.

The company has conducted business reorganization, apart from providing cash that will block the supply of finished products that are productive offseason, and sell in the season, to prepare for this situation. Also, trought infrastructure investments have created conditions for significant growth in productivity, especially in leading the footwear. Management is aiming the maintenance and improvement of product quality during the crisis period.

Decline in purchasing power, as the consequences of global economic crisis, has had the strongist influence strongest influence on the candy industry (due to lower purchasing power most of the income is spent on basic food products, while reducing consumption of other products). A lot of companies in this field effects of the crisis began to feel in the second half of 2007 through the growth of prices of raw materials. Impact of the crisis became even stronger during 2008. As soon as 2009. due to lower purchasing power, difficult collection of receivables negative impact on operations was much more pronounced. The management of that companies is mainly implemented various measures of internal rationalization, cutting costs etc. For example in the „Concern Bambi Pozarevac" carried out a cost-cutting, and planned investments for business development were delayed for a period after the crisis.

This company has had serious problems with obtaining cash due to difficulties in collecting receivables. Management of „Bambi" tried to cooperate with banks accelerate collection of receivables from its debtors. The company has used state subsidized loans for liquidity late 2009.

A similar situation exists with the brewer. Total beer production in Serbia has been reduced compared to pre-crisis period, due to decreased consumption of consumers and reduce inventories by customers. For example, the company „Carlsberg Serbia" seeks the maintenance of market share, but real output and sales show lower values. Difficulties in collecting receivables has created many problems in that company, but the company successfully maintains its cash flows for liquidity loans. This is achieved thanks to the efforts of management, which in cooperation with banks is helping its borrowers to timely pay claims. In addition is done very carefully and investing regularly service their obligations. Significantly is

reduced business risk, so that the bad debt, minimized (stocks are valued on the books at a very low level, while respecting all the requirements of accounting standards, which makes it possible that in future, just selling stocks achieve solid margins).

The measures that the management in that company implemented during the crisis mostly embroidered to rationalize the cost, which is not done at the expense of quality. In „Carlsberg", are implemented measures to increase productivity and efficiency through ongoing internal programs of excellence of quality business.

This includes increasing the efficiency of operating costs, which can be reduced while maintaining product quality. Also from the beginning of the crisis is applied LEAN manufacturing concept in dealing with the exclusion of unnecessary processes and costs, to increase productivity and quality.

In addition to these similar measures taken other big companies in Serbia. In addition to large, the crisis has left a huge impact on small and medium enterprises in Serbia, which occurred due to the liquidation of many of these organizations, and the number of newly established enterprises declined.

4. Conclusion

Although the crisis occurred in the financial field, it is overflowing in the real sector, in particular suffers from price increases of bank loans, which affects the growth of operating expenses. If the company decides to reduce the volume of lending, it has a direct impact on reducing the liquidity of the company. Chain is continued by reducing consumption, which causes a reduction in demand. Reduction in demand makes it difficult for business enterprises, or lead to their liquidation, so that companies that were before the crisis successfully operated come in a very difficult position which requires a series of measures or a complete change of business strategy.

Experts in the field of strategic management for the emergency conditions suggest several possible alternatives: the strategy of sustainable growth, turnaround strategies, end-game strategies, liquidationthe strategy of last resort. While the partial measures in the framework of these strategies mainly related to: Salling of assets, Cutting costs, Boosting revenues, Combination efforts.

Companies in Serbia were most affected by difficulties in obtaining financial resources (due to difficulties in collecting accounts receivable, interest rate hikes and tightening of conditions of the loan), the problems of sales (due to lower purchasing power), inflation and so on. Management of Serbian companies is mainly carried out various measures for the provision of cash by selling assets, postponing major investments for the period after the crisis, and many enterprises have begun to use subsidized liquidity loans approved by the state. The paper lists examples of some Serbian companies („Tigar Pirot", „Bambi Banat", „Carlsberg Serbia") and specific measures that their managers have taken to overcome the crisis.

5. References

[1] Raman, P.A., "The New Frontiers", Harvard Business Review, July-August 2009, pp. 130-137
[2] Stefanovic S., Ivanovic-Djukic M., Podrška preduzetništvu u Niškom regionu u cilju povećanja konkurentnosti i prevazilaženja ekonomske krize, Ekonomski fakultet Nis, oktobar 2010.
[3] Marks, S., Meuse, P., Resizing the pain of layoffs, Divestitures and closing, Organizational Dynamics, vol. 34, p.p. 19-36, 2005
[4] Thompson J., Strickland A., Crafting and Executing Strategy: Text and Readings, Irwin McGraw-Hill, New York, 2001.
[5] Djuričin D., Janošević S., Menadžment i strategija, Ekonomski fakultet Beograd, 2005.
[6] Hambrick, D., M. Schester, Turnaround strategies for matuindustrial product business units, Academy of Management Journal, 26 (2), 231-248
[7] www.tigar.pirot.rs
[8] www.bambi.concer.rs
[9]http://www.emportal.rs/vesti/srbija/73480.html 19.12.2008.
[10] www.srbija.gov.rs/vesti/vest.php?id=102563
[11]http://webrzs.stat.gov.rs/axd/index1.php?SifraVesti=311&Link

A Study of the Localization of MTL-Algebras

Jeflea Antoneta
"Spiru Haret" University of Constanta
antojeflea@yahoo.com

Abstract

In this paper we develop a theory of localization for MTL-algebras using the notion of multiplier. The concept of maximal lattice of quotients for a distributive lattice was defined by J.Schmidt taking as a guide – ine the construction of complete ring of quotients by partial morphisms introduced by G.Findlay and J.Lambeck. The central role in this construction is played by the concept of multiplier (defined for a distributive lattice by W.H. Cornish). J.Schmidt used the multipliers in order to give a non-standard construction of the maximal lattice of quotients for a distributive lattice.

Key words: MTL-Algebras, multiplier, maximal lattice
J.E.L. classification: C02

Definition A MTL-algebra is a residuated lattice satisfying the preliniarity equation:
(MTL) $(x \to y) \vee (y \to x) = 1$
Since a MTL-algebra is a residuated lattice the rules of calculus for residuated lattices are also true for MTL-algebras.

Proposition For a residuated lattice, the following conditions are equivalent:
(i) $A \in MTL$
(ii) A is a subdirect product of linearly ordered residuated lattices
(iii) For every $x, y, z \in A$ we have:
(mtl-c1) $x \to (y \vee z) = (x \to y) \vee (x \to z)$
(iv) For every $x, y, z \in A$ we have:
(mtl-c2) $(x \wedge y) \to z = (x \to z) \vee (y \to z)$

Corollary Let $A \in MTL$. Then for every $x, y, z \in A$ we have:
(mtl-c3) $(x \wedge y)^* = x^* \vee y^*$
(mtl-c4) $x \bullet (y \wedge z) = (x \otimes y) \wedge (x \otimes z)$
(mtl-c5) $x \wedge (y \vee z) = (x \wedge y) \vee (x \wedge z)$
(mtl-c6)
$x \vee y = ((x \to y) \wedge ((y \to x) \to x)$

We denote by A the universe of a MTL-algebra and by B(A) the Boolean center of A

Definition A nonempty subset $S \subseteq A$ is called $\wedge$-closed system in A if $1 \in A$ and $x, y \in A$ implies $x \wedge y \in S$
If P is a prime ideal of the underlying lattice $L(A) = (A, \wedge, \vee)$ (that is $P \neq A$ and if $x, y \in A$ such that $x \wedge y \in P$, then $x \in P$ or $y \in P$) ,then $S = A / P$ is a $\wedge$-closed system.
We denote by $S(A)$ the set of all $\wedge$-closed system of A (clearly $\{1\}$, A$\in S(A)$) .
For $S \in S(A)$, on A we consider the relation θ_S defined by $(x, y) \in \theta_S$ iff there is $e \in S \cap B(A)$ such that $x \wedge e = y \wedge e$

Lemma The relation θ_S is a congruence on A
For x we denote by x / S the equivalence class of x relative to θ_S and by $A[S] = A / \theta_S$ .By $p_S : A \to A[S]$ we denote the canonical map defined by $p_S(x) = x / S$, for every $x \in A$.
Clearly, $A[S]$ become a MTL-algebra, where $\mathbf{0} = 0 / S$, $\mathbf{1} = 1 / S$ and for every $x, y \in A, x / S \wedge y / S =$
$(x \wedge y) / S, x / S \vee y / S = (x \vee y) / S,$
$x / S \otimes y / S = (x \otimes y) / S,$
$x / S \to y / S = (x \to y) / S$
So, p_S is an onto morphism of MTL-algebra.

Theorem If $A^{'}$ is a MTL-algebra and $f : A \to A^{'}$ is an morphism of MTL-algebras such that $f(S \cap B(A)) = \{\mathbf{1}\}$, then there is an unique morphism of MTL-algebras $f^{''} : A[S] \to A^{'}$ such that the diagram

$$\begin{tikzcd} A \arrow[r, "p_S"] & A[S] \arrow[dr, "f"'] & \\ & & A^{'} \end{tikzcd} \qquad A[S] \xrightarrow{f^{'}} A^{'}$$

is commutative (i.e. $f^{'} \circ p_S = f$)

Definition The theorem allows us to call $A[S]$ the MTL-algebra of fractions relative to the $\wedge$-closed system S.

Definition By partial strong multiplier on A we mean a map $f : I \to A$, where $I \in I(A)$, which verifies the next axioms:

(smMTL1) $f(e \bullet x) = e \bullet f(x)$, for every $e \in B(A)$ and $x \in I$

(smMTL2) $x \bullet (x \to f(x)) = f(x)$, for every $x \in I$

(smMTL3) If $e \in I \cap B(A)$, then $f(e) \in B(A)$

(smMTL4) $x \wedge f(e) = e \wedge f(x)$, for every $e \in I \cap B(A)$ and $x \in I$

By $dom(f) \in I(A)$ we denote the domain of f; if $dom(f) = A$, we call f total

Definition For $I_1, I_2 \in I(A)$ and $f_i \in M(I_i, A), i = 1,2$ we define

$f_1 \wedge f_2, f_1 \vee f_2, f_1 \otimes f_2, f_1 \ \alpha \ f_2 : I_1 \cap I_2 \to A$ by

$(f_1 \wedge f_2)(x) = f_1(x) \wedge f_2(x), (f_1 \vee f_2)(x) = f_1(x) \vee f_2(x), (f_1 \otimes f_2)(x) = f_1(x) \bullet [x \to f_2(x)] = f_2(x) \bullet [x \to f_1(x)], (f_1 \ \alpha \ f_2)(x) = x \bullet [f_1(x) \to f_2(x)]$

for every $x \in I_1 \cap I_2$.

Lemma $f_1 \wedge f_2 \in M(I_1 \cap I_2, A)$

Lemma $f_1 \vee f_2 \in M(I_1 \cap I_2, A)$

Lemma $f_1 \otimes f_2 \in M(I_1 \cap I_2, A)$

Lemma $f_1 \ \alpha \ f_2 \in M(I_1 \cap I_2, A)$

Proposition $(M(A), \wedge, \vee, \otimes, \alpha, \mathbf{0}, \mathbf{1})$ is a MTL-algebra

On the MTL algebra $M_r(A)$ we consider the relation ρ_A defined by $(f_1, f_2) \in \rho_A$ iff f_1 and f_2 coincide on the intersection of their domains.

Lemma ρ_A is a congruence on $M_r(A)$.

For $f \in M_r(A)$ with $I = dom(f) \in I(A) \cap R(A)$, we denote by $[f, I]$ the congruence class of f modulo ρ_A and $A^{''} = M_r(A) / \rho_A$

Theorem $A^{''}$ is a MTL- algebra , where for $[f, I], [g, J] \in A^{''}, [f, I] \wedge [g, J]$
$= [f \wedge g, I \cap J], [f, I] \vee [g, J]$
$= [f \vee g, I \cap J]$,
$[f, I] \otimes [g, J] = [f \otimes g, I \cap J]$,
$[f, I] \ \alpha \ [g, J] = [f \ \alpha \ g, I \cap J]$,
0 = [0, A] and **1= [1, A]**.

Remark If we denote by $F = I(A) \cap R(A)$ and consider the partially ordered systems $\{\delta_{I,J}\}_{I,J \in F, I \subseteq J}$ (where for $I, J \in F, I \subseteq J, \delta_{I,J} : M(J, A) \to M(I, A)$ is defined by $\delta_{I,J}(f) = f_{/I}$), then by above construction of $A^{''}$ we deduce that $A^{''}$ is the inductive limit $A^{''} = \varinjlim_{I \in F} M(I, A)$

Definition Let be A a MTL-algebra. A MTL-algebra F is called MTL-algebra of fractions of A if:

(fr-MTL1) $B(A)$ is a MTL subalgebra of F;

(fr-MTL2) For every $a^{'}, b^{'}, c^{'} \in F, a^{'} \neq b^{'}$, there exists $e \in B(A)$ such that $e \wedge a^{'} \neq e \wedge b^{'}$ and $e \wedge c^{'} \in B(A)$.

Definition $Q(A)$ is the maximal MTL-algebra of quotients of A if $A \underline{\pi} Q(A)$ and for every MTL-algebra F with $A \underline{\pi} F$ there exists a monomorphism of MTL algebras $i : F \to Q(A)$.

Theorem $A^{''}$ is the maximal MTL-algebra $Q(A)$ of quotients of A.

A remarkable construction in ring theory is the localization ring A_F associated with Gabriel topology F on a ring A. Using the model of localization ring, is defined for a bounded distributive lattice L the localization lattice L_F of L with respect to a topology F on L and prove that the maximal lattice of quotients for a distributive lattice is a lattice of a localization (relative to the topology of regular ideals); analogous results we have for lattices of fractions of bounded distributive lattices relative to $\wedge$-closed systems. The main aim of this section is to develop a theory of localization for MTL-algebras.

We recall that if $(P,\leq)$ is an ordered set, a nonempty subset I of P is called order ideal if, whenever $x\in I, y\in P$ and $y\leq x$, we have $y\in I$; we denote by $I(P)$ the set of all order ideals of P.

For a MTL-algebra A we denote by $Id(A)$ the set of all ideals of the lattice L(A).

Definition A non-empty set F of elements $I\in I(A)$ we be called a topology on A if the following axioms hold:

(top1) If $I_1\in F, I_2\in I(A)$ and $I_1\subseteq I_2$, then $I_2\in F$ (hence $A\in F$);

(top2) If $I_1, I_2\in F$, then $I_1\cap I_2\in F$.

Remark

1. F is a topology on A iff F is a filter of the lattice of power set of A; for this reason a topology on I(A) is usually called a Gabriel filter on I(A).
2. Clearly, if F is a topology on A, then $(A, F\cup\{\phi\})$ is a topological space.

Let F be a topology on MTL-algebra A and we consider the relation θ_F of A defined in the following way: $(x,y)\in\theta_F \Leftrightarrow$ there exists $I\in F$ such that $e\wedge x=e\wedge y$ for any $e\in I\cap B(A)$.

Lemma θ_F is a congruence on A

Definition Let F be a topology on A. A F-multiplier is a mapping $f: I\to A/\theta_F$ where $I\in F$ and for every $x\in I$ and $e\in B(A)$ the following axioms are fulfilled:

(mMTL1)
$f(e\otimes x)=e/\theta_F\wedge f(x)=e/\theta_F\otimes f(x)$;

(mMTL2) $x/\theta_F\otimes(x/\theta_F\to f(x))=f(x)$.

We shall denote by $M(I,A/\theta_F)$ the set of all the F-multipliers having the domain $I\in F$ and $M(A/\theta_F)=\bigcup_{I\in F}M(I,A/\theta_F)$. If $I_1, I_2\in F, I_1\subseteq I_2$ we have a canonical mapping $\varphi_{I_1,I_2}: M(I_2,A/\theta_F)\to M(I_1,A/\theta_F)$ defined by $\varphi_{I_1,I_2}(f)=f_{/I_1}$ for $f\in M(I_2,A/\theta_F)$. Let us consider the directed system of sets $<\{M(I,A/\theta_F)\}_{I\in F},\{\varphi_{I_1,I_2}\}_{I,I_{21}\in F, I_1\subseteq I_2}>$ and denote by A_F the inductive limit (in the category of sets) $A_F=\varinjlim_{I\in F}M(I,A/\theta_F)$. For any F-multiplier $f: I\to A/\theta_F$ we shall denote by $(\hat{I},f)$ the equivalence class of f in A_F.

Let $f_i: I_i\to A/\theta_F$, (with $I_i\in F, i=1,2$), F-multipliers. Let us consider the mappings $f_1\wedge f_2, f_1\vee f_2, f_1\circ f_2, f_1\to f_2: I_1\cap I_2\to A/\theta_F$ defined by

$(f_1\wedge f_2)(x)=f_1(x)\wedge f_2(x)$,

$(f_1\vee f_2)(x)=f_1(x)\vee f_2(x)$

$(f_1\circ f_2)(x)=f_1(x)\circ[x/\theta_F\to f_2(x)]$

$=f_2(x)\circ[x/\theta_F\to f_1(x)]$,

$(f_1\to f_2)(x)=x/\theta_F\circ[f_1(x)\to f_2(x)]$,

for any $x\in I_1\cap I_2$, and let

$(\hat{I}_1,f_1)\therefore(\hat{I}_2,f_2)=(\hat{I}_1\cap I_2, f_1\wedge f_2)$,

$(\hat{I}_1,f_1)\Theta(\hat{I}_2,f_2)=(\hat{I}_1\cap I_2, f_1\vee f_2)$,

$(\hat{I}_1,f_1)\otimes(\hat{I}_2,f_2)=(\hat{I}_1\cap I_2, f_1\circ f_2)$,

$(\hat{I}_1,f_1)\,\alpha\,(\hat{I}_2,f_2)=(\hat{I}_1\cap I_2, f_1\to f_2)$.

Lemma $f_1\wedge f_2\in M(I_1\cap I_2, A/\theta_F)$

Lemma $f_1\vee f_2\in M(I_1\cap I_2, A/\theta_F)$

Lemma $f_1\circ f_2\in M(I_1\cap I_2, A/\theta_F)$

Lemma $f_1\to f_2\in M(I_1\cap I_2, A/\theta_F)$

Definition The MTL-algebra A_F will be called the localization MTL-algebra of A with respect to the topology F.

Main remark To obtain the maximal MTL-algebra of quotients Q(A) as a localization relative to a topology F we have to develop another theory of multipliers (meaning we add new axioms for F-multipliers).These two new axioms are:

(mMTL3) If $e \in I \cap B(A)$, then $f(e) \in B(A/\theta_F)$

(mMTL4) $(x/\theta_F) \wedge f(e) = (e/\theta_F) \wedge f(x)$, for every $e \in I \cap B(A)$ and $x \in I$

Analogous as in the case of F-multipliers if we work with strong F-multipliers we obtain a MTL-subalgebra of A_F denoted by $s - A_F$ which will be called the strong localization MTL-algebra of A with respect to the topology F.

Conclusion

I hope that I convinced the reader that the theory of MTL-algebras is a mathematically interesting theory, with connections with other algebras of fuzzy logic.

Bibliography

[1] Jeflea A. *Localization in the category of MTL-algebras*, Ph. D. Thesis

[2] R. Balbes, Ph. Dwinger, *Distributive Lattices,* University of Missouri Press, 1974

[3] D. Busneag, D. Piciu, "Localization of pseudo BL-algebras", Rev. Rou. de Math pures et apliquees, Tome L,No.5-6 (2005),495-513

[4] D. Busneag, D. Piciu, "Localization of BL-algebras", Soochow Journal of Mathematics, Volume 32, No1 (2006),127-159

[5] K. Blount, C.Tsinakis, "The structure of residuated lattices", Internat.J.Algebra Comput., 13.no 4(2003), 437-461

The Public Healthcare Expenses in Romania – Time Series Analysis

Lăcătuş Viorel-Dorin
Cuceu Ionuţ Constantin
Văidean Viorela-Ligia
"Babeş-Bolyai"University Cluj-Napoca
viorel_lacatus@yahoo.com
ionutcuceu@yahoo.com
vaideanviorela@yahoo.com

Abstract

The purpose of our paper is to analyze the public healthcare expenses of Romania in relation to different exogenous explanatory variables. The only strong correlation we could determine statistically is that of the healthcare expenses and the GDP. All time series data were processed in Matlab and Mathcad. Results have been interpreted and commented.

Key words: public healthcare expenses, time series data, simple regression, correlation.
J.E.L. classification: I10, C20.

1. Introduction

Healthcare is regarded as a set of state measures for preventing illnesses, for strengthening and reconstruction of health, prolongation of life and work ability of people. Article no. 33 from the Romanian Constitution guarantees the population's right to healthcare.

Although population's health depends on the combined effects of several factors, certainly if health sector performance improved, it would help to improve population's health, ideally in conjunction with other favorable changes.

Unfortunately our country's healthcare system has been under financed. Although after the 1998 healthcare reform, our healthcare system switched from being financed from the state budget to an entirely new system, the social health insurances, the change resulted in an only upmost 1% increase of the Gross Domestic Product (GDP) percentage spent on the health sector and it was not felt upon the quality of the medical services provided through the system.

The spending on social services, including healthcare spending, generally decreased less than the GDP. The majority of Eastern European countries spent less than 6.5 percent of GDP on health in 2007, and this downward trend was kept especially after the financial-economical crisis. As Romania's GDP started to decrease after 2008, this decrease affected all public sectors, including the public healthcare expenditures.

2. Materials and methods

The great majority of researchers of the domain like Kleiman [7], Culyer [2], Gerdtham and Jönsson [4] and Hitiris and Posnett [5] studied the correlation between the healthcare expenditures of a country and its GDP, as follows:

HealthExpenditure = f (GDP)

Hoffmeyer and McCarthy [6] even considered that "there's a single statistically well-determined factor that influences healthcare expenditures of a nation, i.e. their correlation to the Gross Domestic Product".

Several authors tried to find some other explanatory variables for the healthcare expenses of a state, and the ones that succeeded are Hitiris and Posnett [5] and Di Matteo [3], on the weight of population aged 65 and above in the total population of a country, relating:

HealthExpenditure = f (GDP; Pop>65 years / TotalPop)

Wilson [8] considers that "The economists haven't developed a formal theory that would explain and foresee a nation's per capita healthcare expenses" and "In the absence of a theory, the empiric research of the domain are based on ad-hoc thinking and depend on the availability of data", an opinion to which we subscribe as well.

2.1.Time Series Analysis

The connections between mass economic phenomena are characterized by the fact that one phenomenon or another vary under the influence of a complex range of factors, some of which having a crucial influence and others being of a secondary importance.

For complex relationships, in which the dependent variable may be influenced by several independent variables, the correlation can not be limited to a single significant factor of influence, but it must include other independent variables with significant influence on the analyzed dependent variable. The joint influence of these variables is measured by multiple correlation indicators.

Moreover, for multiple links, factorial variables have different influences upon the resulting variable; some greatly influence the effect phenomenon, and therefore they should be taken into account in the calculation of regression and correlation parameters, while others exert a less important action and may be neglected. Correlation methods simplify the calculations and conclusions, because it is very difficult to quantify the set of all causal factors acting upon a socio-economic phenomenon or process.

The methods and statistical techniques for quantification, factor analysis, estimation and testing are represented by an extensive and varied set of statistical and mathematical methods and tools. Among these, the most significant methods and instruments are applied upon the available input data in one form or another, in order to explicit the factors and consequently for getting information necessary to support decision making.

2.2. Simple Regression Modeling

In order to model the public healthcare expenses of our country, we have considered the most often used indicator in descriptive and empirical studies, namely the GDP. Taking as a starting point the previous literature on the modeling of this sector by using time series analysis, we tried to verify the hypothesis of whether there exists a dependency (correlation) between the GDP and the public healthcare expenses of our country, in absolute terms and in real terms, anticipating a relatively strong and direct correlation.

From the quarterly execution reports of Romania's General Consolidated Budget for the 2006-2009 period we have taken the nominal values of the public healthcare expenses dependent variable. The nominal values of the quarterly GDP, an exogenous variable, were retrieved from the Tempo database of the National Institute of Statistics (NIS), for the very same period. These quarterly data were processed using two specialized programs: Mathcad and Matlab, to obtain a simple linear econometric model, of the form:

$$\mathbf{y_t = ax_t + b + \varepsilon_t,}$$

where y_t = public healthcare expenditure (million lei) $\overset{not}{=}$ HCE;

x_t = Gross Domestic Product (million lei) $\overset{not}{=}$ GDP;

εt = residual variable

3. Results and discussion

In testing the relationship between yt and xt the null hypothesis was rejected and its contrary was accepted, therefore we've established that there exists a relationship between yt and xt at population level. The computation of the estimators of the model's parameters was done with the least squares method, resulting in the following regression:

HCE= - 307.42385 + 0.034331 * GDP

The interpretation of this regression is as follows: at an increase of one unit in GDP, the HCE would increase by 0.03433 units.

Then the normality distribution of the random variable (residual) εt was tested, and with a 95% probability, we may say that the residual variable ε is normally distributed. The relationship between GDP and ε was tested and the null hypothesis was accepted, so there is no connection between GDP and ε at population level. When testing the autocorrelation of errors with the Durbin-

Watson test, we obtained the value DW = 1.99113, that is very close to 2. When testing the homoskedasticity of the model, we obtained that the intensity of the influence of the GDP exogenous variable upon the HCE endogenous variable does not differ significantly with time, so the model is homoskedastic. And when testing the validity (the significance) of the model's parameters, the null hypothesis was rejected and its contrary was accepted, so the *a* parameter is significantly different from zero at the population level. These testes were further applied for absolutely all the regressions studied in this paper.

We obtained a correlation coefficient of 0.75618, which confirms the strong relationship between the endogenous and exogenous variables. Obviously, as the values of R^2 get closer to the value of 1, the sample data get better adjusted by the regression model.

Secondly, these time series data were then deflated denoted by RHCE for the real healthcare expenses, respectively RGDP for real gross domestic product, and processed using the same specialized programs. The simple linear regression is as follows:

$$\mathbf{RHCE = - 267.765 + 0.03411 * RGDP}$$

By analyzing the results we obtained, we got that the corresponding assumptions of the least squares method are verified. Also, the estimators of the model's parameters are significantly different from zero for a 5% significance level, and the model was also significant for the same significance threshold.

For this model as well we may notice that the RGDP is a key factor that influences the variation in healthcare expenses. We obtained a correlation coefficient of 0.75032, which confirms the strong relationship between the endogenous and the exogenous variable. The interpretation of the regression is as follows: at an increase of one unit in RGDP, the real healthcare expenses RHCE would increase by an average of 0.03411 units.

We tried to model the same time series, both for the nominal values and for the real values, with a second degree polynomial (parabolic regression) having the form:

$$\mathbf{y_t = ax_t^2 + bx_t + c + \varepsilon_t}.$$

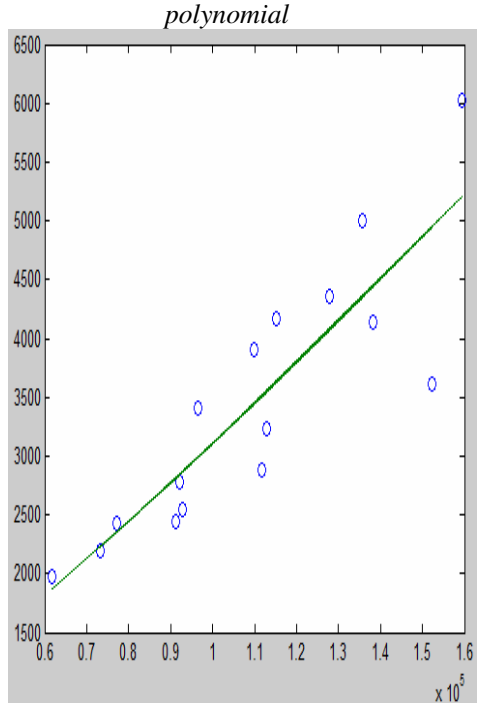
Thus, we obtained the following equation:

$$\mathbf{HCE = 3.01716*10^{-8} * GDP^2 + 0.02761 * GDP + 44.5246}$$

and the correlation coefficient R^2 increases to 0.75667.

When plotting this second degree polynomial model in Matlab we may notice that the original experimental HCE values are marked in blue while the regression curve is represented in green. Nominal quarterly values of Romania's GDP are represented on the abscise axis while the nominal quarterly HCE are represented on the ordonate axis.

Figure no.1. Representation of HCE function of GDP through a second degree polynomial



Source: Authors' processings in Matlab

By subsequently modeling the polynomial regression with a third degree polynomial, respectively a forth degree polynomial, the values of R^2 are enhanced to 0.75694 and 0.77684 respectively.

Furthermore, we modeled the series of real (deflated) values) by a second degree polynomial. The following equation was obtained:

$$\mathbf{RHCE = 6.79395*10^{-9} * RGDP^2 + 0.03269 * RGDP – 198.02834}$$

and the correlation coefficient R^2 increases a little bit to 0.75034. By increasing the degree of the regression polynomial, the value of the correlation coefficient increases as well.

According to the research performed by L. Di Matteo (2005), a populational variable was tested as well, the most representative being the share of population aged 65 and above in the total population (denoted P), the annual data provided by NIS being adjusted to the subperiods according to the Institute's monthly news releases. The obtained regression lines are given by:

$$\mathbf{HCE = -1.51102*10^5 + 1.04149*10^4 * P},$$

with R^2 = 0.3621 indicating an average strength relationship, and

$$\mathbf{RHCE = - 1.41616 *10^5 + 9.76202*10^3 * P},$$

with R^2 = 0.3664 indicating a medium magnitude relationship.

We've also tried a complete new explanatory variable as we have tried to model the public healthcare expenses as a function of the number of doctors and the number of hospitals in Romania, knowing that about half of the total public healthcare expenditure is allocated to those state hospitals, and aproximatively 80% of these amounts represent wage costs, according to Ciumaş and Văidean [1]. As the number of public hospitals was kept relatively constant over the recent years, we have considered as a potential exogenous variable the number of doctors per one thousand inhabitants (D), data taken and adjusted to subperiods from the same sources.

Thus,

$$\mathbf{HCE = - 25766.6 + 1.31229*10^4 * D},$$ with R^2 = 0.301782, indicating a medium to weak strength of correlation, and

$$\mathbf{RHCE = - 24139.8 + 1.23007*10^4 * D},$$ R^2 = 0.305367 indicating a medium to weak magnitude of correlation.

4. Conclusions

Summing up, the results obtained by international researchers were confirmed by our results on the case study of our country's quarterly public healthcare expenses for the 2006-2009 period, explicated to a great extent by the quarterly GDP. Other strong correlation variables were not found.

The effects of the present crisis upon the decrease in nominal and real GDP were felt upon the public healthcare expenses of our country, too.

As we have previously emphasized the importance of simple and multiple linear regressions, the correlation between the above presented healthcare expenses and the exogenous variables may be checked by using a multifactorial linear model as well, that being the object of our future research.

Nevertheless, the healthcare activity has a major influence upon the development of the national economy and GDP increase. It assures the basic need of the man to be healthy and of the society to have a healthy population. At a macro economical level, it contributes to the work force reproduction and general welfare specifically.

5. References

[1] Ciumaş C., Văidean V., The Financing and the Efficiency of Resource Usage in the Social Health Insurance System, The Proceedings Of The International Conference Competitiveness And European Integration, Finance Section, Editura Alma Mater, Cluj-Napoca, 2007.

[2] Culyer A.J., Cost containment in Europe, în Health Care Systems in Transition. OECD, Paris, 1990

[3] Di Matteo L., The macro determinants of health expenditure in the United States and Canada: assessing the inpact of income, age distribution and time, Health Policy 71, pag 23-42, 2005

[4] Gerdtham U.G., Jönsson B., Conversion factor instability in international comparisons of health care expenditure, Journal of Health Economics 10 (2), pag.227-234, 1991

[5] Hitiris T., Posnett J. The determinants and effects of dealth expenditure in developed countries, Journal of Health Economics 11 (2), pag.173-181, 1992

[6] Hoffmeyer U.K., McCarthy T.R., Financing Health Care, vol.1, Kluwer Academic Publishers, Dordrecht, 1994

[7] Kleiman E. (1974), The determinants of national outlays on health, în vol. The Economics of Health and Medical Care, edited by Perlman M., Macmillan, London

[8] Wilson R.M. Medical care expenditures and GDP growth in OECD nations, American Association of Behavioral and Social Sciences Journal 2, pag. 159-171, 199

Assessing the Connection between Fiscal Policy and Private Consumption in Four Euro Area Candidates

Leonte Alexandru
The Academy of Economic Studies, Bucharest
alexandruleonte@yahoo.com

Abstract

The study of private sector response to fiscal policy decisions is a topic of macroeconomic research which has drawn much attention throughout the years. This paper studies the connection between budget deficits and private spending in Romania and other three euro area candidate countries, Hungary, Poland and the Czech Republic. Our results show a rather weak connection between the dynamic of the fiscal policy variables (government spending or fiscal deficit) and the dynamic of private consumption for all countries except Poland, which indicates that a fiscal stimulus has a good chance of being effective in this country. Also, we found that the dynamic of public debt is significantly and positively related to private consumption for all countries except Romania.

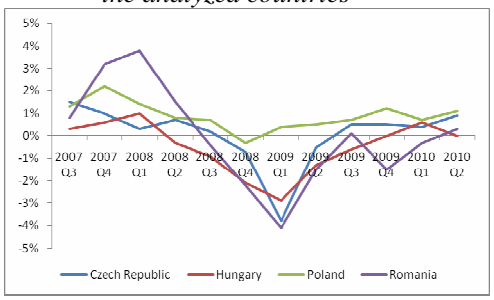
Key words: fiscal stimulus, Ricardian behavior, Keynesian behavior, fiscal multiplier, economic crisis
J.E.L. classification: E21, E62.

1. Introduction

The study of private sector response to fiscal policy decisions is a topic of macroeconomic research which has drawn much attention throughout the years. Recently, in the context of the economic crisis, a number of issues in the area of fiscal policy are being revisited and reevaluated. The need for such endeavors is straightforward: fiscal policy has the key role in restoring economies which are being affected by the economic crisis back on a track of sustainable growth.

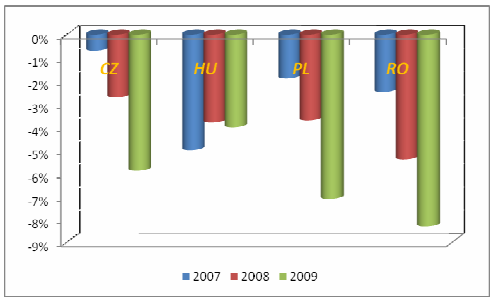
This paper studies the connection between budget deficits and private spending in Romania and other three euro area candidate countries, Hungary, Poland and the Czech Republic. These countries have recently experienced economic slowdowns of substantial proportion, with the exception of Poland (see figure 1), and rely on fiscal policy measures to restore economic growth (see figure 2).

Figure 1. Quarterly economic growth in the analyzed countries



Source: Eurostat

Figure 2. Budget deficits in the analyzed countries



Source: Eurostat

Conventional economic theory (for example, the textbook IS – LM model) states that an expansionary fiscal policy, achieved either through an increase in government spending or a tax cut, triggers a boost in economic activity and an increase in private consumption. This is commonly known as the "fiscal multiplier effect". Other studies have revealed different relations between fiscal policy and private consumption. According to [4], two main theories contradict the fiscal multiplier effect doctrine. One is the Ricardian equivalence

proposition, which states that an expansionary fiscal policy has no effect on output or private consumption, because the rational individuals will anticipate a future tax increase to finance the current expansion. This would correspond to a zero effect fiscal multiplier. Another non – Keynesian hypothesis argues for a "negative fiscal multiplier effect", stating that an increase in private consumption can be triggered by a fiscal contraction, because this would lead to an improvement of individuals' expectations regarding fiscal policy sustainability and their lifetime income. In [2] this hypothesis is used to explain the economic evolution of Ireland and Denmark in the 1980s. In the current context it is important to determine which of the three hypotheses applies and what is the magnitude of the multiplier effect.

Starting with the seminal contribution made by [1], there has been a significant number of papers analyzing this topic, still only a few focus on developing economies (a more recent example is [4]).

Another way to study Ricardian vs. Keynesian behavior of agents is to look at the relation between the fiscal deficit and the current account deficit of an economy, like in [3]. A significant and direct relation between the two denotes a twin – deficit situation, corresponding to Keynesian behavior (a fiscal stimulus increases the disposable amount of money and encourages imports), whereas a weak or reversed relation is a signal for Ricardian behavior.

Both approaches place a key role on the individuals' expectations regarding the sustainability of fiscal policy, and there is widespread consensus that the main economic indicator which bares information on this issue is public debt (some of the papers that reach this conclusion are mentioned in the literature review of [3]). Either a low and constant level of debt or a gradual decrease of this indicator are signals which indicate sustainable fiscal policy and encourage Keynesian behavior, whereas high levels of debt correspond to Ricardian behavior.

This paper contributes by assessing the connection between fiscal policy and private consumption in the four euro area candidates, testing whether or not public debt holds information about this connection.

2. The model

We study the effect of fiscal policy on private consumption using simple and multiple regressions. In each equation, the dependent variable is private consumption. As independent variable, we use, in turn, two fiscal policy indicators, namely government spending and the budget deficit. All the variables are expressed as percentage deviations from the value in the previous period. Initially we have 41 observations covering the period 2000Q1 – 2010Q1. Because we lose one observation when computing percentage deviations, we end up with a sample of 40 observations. All data comes from the Eurostat.

First we regress private consumption against government spending. To account for the lags in the transmission mechanism of fiscal policy, we test for a contemporaneous as well as a lagged relation between the two variables, using in turn 0, 1 and 2 lags of government spending. Tables 1 and 2 show the adjusted R – square and F – statistic indicators of the regressions.

Table 1. Ajusted R – square indicator of the private consumption against public spending regressions

	0 lags	1 lag	2 lags
CZ	<0	<0	<0
HU	4.37%	<0	<0
PL	27.81%	<0	0
RO	<0	<0	<0

Source: My own calculations in Eviews

Table 2. F – statistic test results of the private consumption against public spending regressions

	0 lags	1 lag	2 lags
CZ	0.65	0.48	0.70
HU	0.10	0.99	0.62
PL	0	0.68	0.30
RO	0.45	0.72	0.97

Source: My own calculations in Eviews

Results show a statistically significant connection between private and public consumption in the case of Poland, if the

independent variable is public spending in the current period. Annex 1 shows the estimation results for that regression equation. They indicate a Keynesian response (an increase) of private consumption following a contemporaneous public spending increase, which means that in the current economic context, a fiscal stimulus is likely to have the desired effect in Poland.

Next, we repeat the analysis, this time using government deficit as independent variable (also expressed as percentage change from the value in the previous period). Tables 3 and 4 summarize the adjusted R – square and F – statistic results.

Table 3. R – square indicator of the private consumption against fiscal deficit regressions

	0 lags	1 lag	2 lags
CZ	<0	0	0
HU	<0	<0	<0
PL	<0	<0	<0
RO	<0	<0	<0

Source: My own calculations in Eviews

Table 4. F – statistic test results of the private consumption against fiscal deficit regressions

	0 lags	1 lag	2 lags
CZ	0.66	0.32	0.26
HU	0.85	0.76	0.35
PL	0.46	0.77	0.68
RO	0.94	0.58	0.34

Source: My own calculations in Eviews

We can see that none of the equations are valid, so regressing private consumption against government deficit (both expressed as percentage changes from the values in the previous period) reveals no significant statistical relation between the two variables, for any of the four countries. This suggests that an increasing fiscal deficit may not have a significant impact on private consumption, and thus it may not have the effect of restoring economic growth.

The final part of our investigation is concerned with the role of public debt in the relation between private consumption and fiscal policy. We rely again on regression analysis, keeping the same dependent variable, namely private consumption, while the independent variables are government spending and public debt (from the same period as the dependent variable). Each variable is expressed as percentage deviation from the value of the previous period.

Table 5 summarizes the adjusted R – square and F – statistic results for these four regressions.

Table 5. R – square and F – statistic results for the regressions that include public debt

	CZ	HU	PL	RO
R - sq	8.27%	11.92%	55.48%	<0
F stat	0.07	0.03	0	0.47

Source: My own calculations in Eviews

We can observe that for the Czech Republic, Poland and Hungary, the regressions are valid. Annexes 2a, 2b and 2c summarize the regression estimates. We can see a direct and statistically significant connection between the evolution of public debt and the evolution of private spending. This is somewhat contrary to previous findings, which suggest that an increase in debt causes fiscal policy to be perceived as unsustainable and thus leads to Ricardian behavior. Still, the individual perception is influenced by the dynamic but also by the level of public debt. Taking into account that all the countries that are analyzed are in compliance with the Maastricht debt criterion (except Hungary, which experienced growth of public debt in the context of the economic crisis – in 2009 central government debt was 72,7% of GDP, coming from 61,3% in 2007 and 68,2% in 2008 – source: OECD), we can conclude that only in Romania fiscal policy is perceived as unsustainable.

3. Conclusions

In this paper we analyzed the connection between fiscal policy and private consumption in four euro candidate countries, trying to determine whether or not a fiscal stimulus would be effective in boosting private consumption and thus restoring economic growth. Our results

showed a rather weak relation between the dynamic of the fiscal policy variables (government spending or fiscal deficit) and the dynamic of private consumption for all countries except Poland, which indicates that a fiscal stimulus has a good chance of being effective in this country. Also, we found that the dynamic of public debt is significantly and positively related to private consumption for all countries except Romania, which shows that fiscal policy is perceived as being sustainable in these countries. [4] reaches similar results, both models used in the paper rejec the hypothesis of Ricardian equivalence for Poland and Hungary, while in the case of the Czech Republic and Romania, the second (extended) model could not reject the hypothesis.

4. Bibliography

[1] R. Barro, "Are government bonds net wealth?", *Journal of Political Economy 82,* 1974,pp. 1095 - 1117

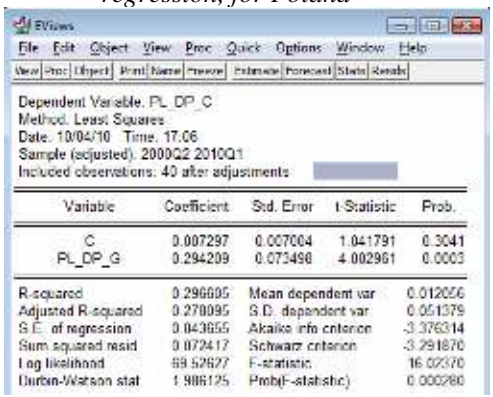
[2] F. Giavazzi, M. Pagano, "Can severe fiscal contractions be expansionary? Tales of two small European countries", *NBER Macroeconomic Manual 5*, 1990, pp. 75 – 111.

[3]C. Nickel, I. Vansteenkiste, "Fiscal policies, the current account and Ricardian equivalence", *European Central Bank Working Paper No. 935*, 2008

[4] G. Reitschuler, "Assessing Ricardian equivalence for the New Member States: Does debt – neutrality matter?", *Economic Systems 32*, 2008, pp. 119 – 128.

5. Annexes

Annex 1: Estimation results for the private consumption against public spending regression, for Poland



EViews

File Edit Object View Proc Quick Options Window Help

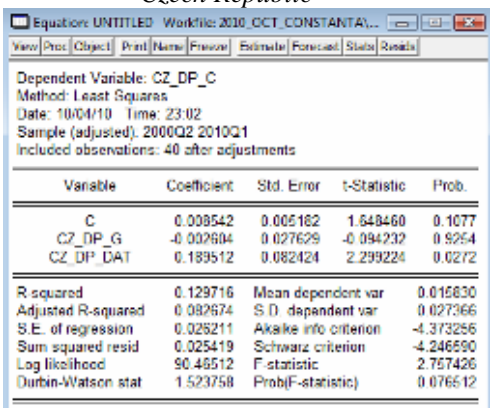
View Proc Object Print Name Freeze Estimate Forecast Stats Resids

Dependent Variable: PL_DP_C
Method: Least Squares
Date: 10/04/10 Time: 17:06
Sample (adjusted): 2000Q2 2010Q1
Included observations: 40 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.007297	0.007004	1.041791	0.3041
PL_DP_G	0.294209	0.073498	4.002961	0.0003

R-squared	0.296695	Mean dependent var	0.012056
Adjusted R-squared	0.278095	S.D. dependent var	0.051379
S.E. of regression	0.043655	Akaike info criterion	-3.376314
Sum squared resid	0.072417	Schwarz criterion	-3.291870
Log likelihood	69.52627	F-statistic	16.02370
Durbin-Watson stat	1.986125	Prob(F-statistic)	0.000280

Annex 2a: Estimation results for the regression that includes public debt for the Czech Republic



Equation: UNTITLED Workfile: 2010_OCT_CONSTANTA\...

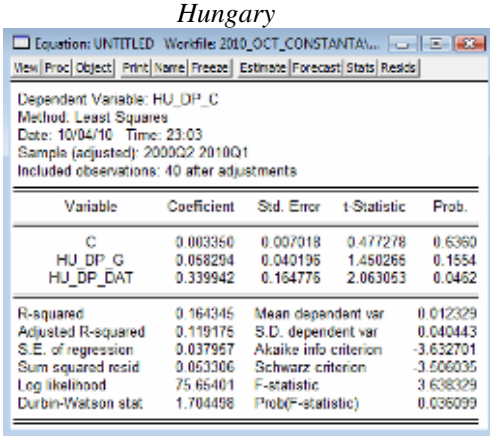
View Proc Object Print Name Freeze Estimate Forecast Stats Resids

Dependent Variable: CZ_DP_C
Method: Least Squares
Date: 10/04/10 Time: 23:02
Sample (adjusted): 2000Q2 2010Q1
Included observations: 40 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.008542	0.005182	1.648460	0.1077
CZ_DP_G	-0.002604	0.027629	-0.094232	0.9254
CZ_DP_DAT	0.189512	0.082424	2.299224	0.0272

R-squared	0.129716	Mean dependent var	0.016830
Adjusted R-squared	0.082674	S.D. dependent var	0.027366
S.E. of regression	0.025211	Akaike info criterion	-4.373256
Sum squared resid	0.025419	Schwarz criterion	-4.246590
Log likelihood	90.46512	F-statistic	2.757426
Durbin-Watson stat	1.523758	Prob(F-statistic)	0.076512

Annex 2b: Estimation results for the regression that includes public debt for Hungary



Equation: UNTITLED Workfile: 2010_OCT_CONSTANTA\...

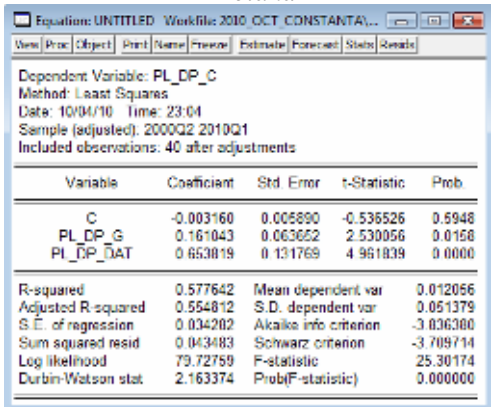
View Proc Object Print Name Freeze Estimate Forecast Stats Resids

Dependent Variable: HU_DP_C
Method: Least Squares
Date: 10/04/10 Time: 23:03
Sample (adjusted): 2000Q2 2010Q1
Included observations: 40 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.003350	0.007018	0.477278	0.6360
HU_DP_G	0.058294	0.040195	1.450265	0.1554
HU_DP_DAT	0.339942	0.164776	2.063053	0.0462

R-squared	0.164345	Mean dependent var	0.012329
Adjusted R-squared	0.119175	S.D. dependent var	0.040443
S.E. of regression	0.037957	Akaike info criterion	-3.632701
Sum squared resid	0.053306	Schwarz criterion	-3.506035
Log likelihood	75.65401	F-statistic	3.638329
Durbin-Watson stat	1.704498	Prob(F-statistic)	0.036099

Annex 2c: Estimation results for the regression that includes public debt for Poland



Equation: UNTITLED Workfile: 2010_OCT_CONSTANTA\...

View Proc Object Print Name Freeze Estimate Forecast Stats Resids

Dependent Variable: PL_DP_C
Method: Least Squares
Date: 10/04/10 Time: 23:04
Sample (adjusted): 2000Q2 2010Q1
Included observations: 40 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.003160	0.005890	-0.536526	0.5948
PL_DP_G	0.161043	0.063652	2.530056	0.0158
PL_DP_DAT	0.653019	0.131769	4.961839	0.0000

R-squared	0.577642	Mean dependent var	0.012056
Adjusted R-squared	0.554812	S.D. dependent var	0.051379
S.E. of regression	0.034202	Akaike info criterion	-3.836380
Sum squared resid	0.043483	Schwarz criterion	-3.709714
Log likelihood	79.72759	F-statistic	25.30174
Durbin-Watson stat	2.163374	Prob(F-statistic)	0.000000

Global Food Crisis and Recession

Lepojevic Vinko
Jankovic-Milic Vesna
Faculty of Economics, Nis, Serbia
vinko.lepojevic@eknfak.ni.ac.rs
vesna.jankovic-milic@eknfak.ni.ac.rs

Abstract

The global economic crisis put attention away from high food prices. A billion people all around the world got hungry because of the recent big rise in food prices and decades of bad economic politics. Last financial crisis makes these people life much difficult. During 2007 and 2008 the world faced dramatic increases in global food prices, causing economical and political instability and social problems, both in developed and poor countries. The sudden food price jumps scared people that the world will return much back than they could ever imagine. That is not punishment for the poor but even rich and stable countries.

Key words: food crisis, food prices, food production, economic crisis
J.E.L. classification: Q11

1. Introduction

After watching the cycles of feast and famine in West Africa we can have some clearly ideas about what drives food prices in her part of the world - war, floods, droughts. But at least they tend to be predictable. Then, in 2007, a dynamic took hold that neither fickle weather nor the greed of cynical middlemen could adequately explain. the cost of a bag of wheat flour doubled within a few short weeks. In some countries which already driven by poverty and rebellion, the price of staples like corn and soya sailed into the stratosphere. Odd, because it hadn't been a particularly poor harvest year

With the global supply of cereal grains falling to 40-years lows, and with consumption trending ever upward, the earth's supply of food is suddenly under pressures unknown in half a century. Two weeks ago, wheat prices hit an all-time high of almost a thousand US$ per ton, while corn, driven n part by demand from the bio-fuel industry, climbed to $300/t, more than double the average price before 2007. The political repercussions have been swift, and in some cases violet. In Mexico, about 70.000 people hit the streets to protest the doubling and tripling price of tortillas. Chinese officials are warning that rising rice and corn prices could lead to civil unrest in rural areas. Even the food-rich West is starting to feel the pinch. In September, rising pasta prices, a direct function of the soaring value of wheat, sent Italians flooding city squares in Rome, Milan and Palermo to demonstrate. In the United States, the skyrocketing cost of chicken and cattle feed is hitting the pocket-books of consumers at all point of the economic spectrum. This escalation has been sudden enough to start a heated debate about exactly how much cause there is to panic. Is the recent price bump due, as some argue, to passing or localized phenomena, like Australian droughts of the biofuel fad? Or is it rooted in longer-term forces that augur sustained and potentially disastrous shortages?

Water is scarce, fossil fuels are prohibitively expensive, fish stocks are near collapse and the world adds 80 million people every year. To that, you can now add global warming, which agronomists say is drying up vulnerable countries where farmlands depends on rain.

Asian consumers are moving toward the higher-protein, better- tasting, meat-laden diet westerners have enjoyed for decades. Producing all that beef, pork and eggs requires vast quantities of grain that might otherwise be used to feed people. On the amount of grain fed each year to cattle in the United States, you could feed 850 million people Asia and Africa.

The question now for developed world is whether we're seeing a permanent end to an era of relatively cheap food – a shift that could force wrenching change in households across the western world. For others, the challenge is more pressing, , the stakes much higher: can we avert a disastrous food short age in places where needing a few dollars more represents the difference between dining and going hungry?

2. The causes and consequences of food crisis

The current global food crisis is a result of combination of many factors including:

- big jump of oil prices
- US dollar depreciation
- increase of biofuel production
- favouring of big food producers over small food enterprises during the years
- growing food demand from prosperity economies
- the failure to develop just global trade system
- failure of third world governments to monitor prices in a transparent way and storage enough quantity of food before the crisis reached emergency level
- speculative investments which has deepen the crisis.

The effect on world population:

- Almost a billion already poor people have problem to afford basic foods and they are going hungry.
- Families from poor countries, which already spent most of their income on food, have now choice of take less food or switching to cheaper food.
- As hunger rises civil protests rise too - in many countries people are forced to confront with a police.
- Many workers are losing their jobs and incomes are decreasing as the chain effect of the food crisis.
- Hungry people are moving in search of food and even some countries are prepared for evacuations.
- Cheap staple and subsidized food imported from developed countries causes prices which are above local purchasing power, while affordable local produce is going down.
- Around 1 billion people (over 2 third women) already affected by chronic hunger are suffering severe illness.
- There is a recognized food crisis in at least 40 countries
- Only one half of produced food is for feeding people.
- Developing countries could face an increase of one third in food import bills this year if trends persist what is too much.

The Mitchell report to the World Bank says up to 65 percent of the rise in prices is related to biofuels factors.

Întregul conținut al lucrării (text, ilustrații, grafice, tabele) va fi organizat pe două coloane şi încadrat în marginile prezentului şablon. Vă rugăm să nu depăşiți parametrii fixați ai coloanelor !

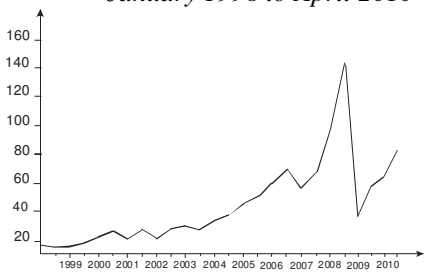
3. On the stabilisation way of global food crisis

The global prices for the major food products have decreased almost just as dramatically as they had increased. Expressed in US dollars per metric tonne, and based on prices in July 2010:

- the price of rice fell from its May 2008 peak by 60 %;
- the price of corn fell from its June 2008 peak by 45%;
- the price of wheat fell from its February 2008 peak by 55%.

Oil prices have also declined dramatically. Expressed in US dollars per barrel, oil prices dropped by about 65% from their July peak in 2008 (based on the price of Brent crude oil).

Figure 1. Oil prices, January 1998 to April 2010



Source: http://www.wtrg.com/prices.htm

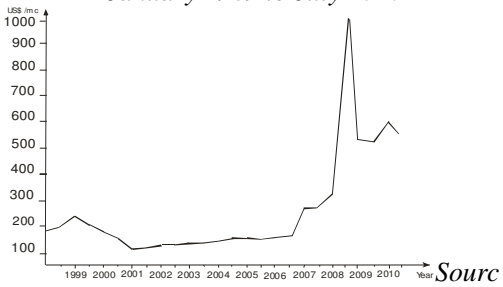
Figure 1 shows that the present oil price appears to be above ten-year average more than 20%.

International prices of grain are still high compared to their historical averages:

- the price of rice in July 2010 is 45% above its ten-year average;
- the price of corn in July 2010 is 40% above its ten-year average;
- the price of wheat in July 2010 is 30% above its ten-year average.

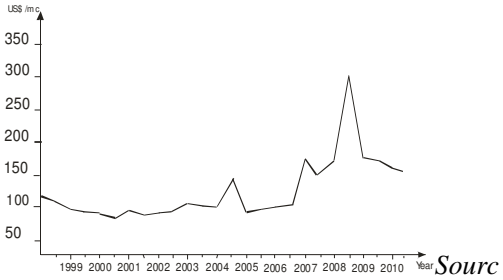
Figures 2 through 4 illustrate how prices remain high despite having declined.

Figure 2. Rice prices, January 1989 to July 2010



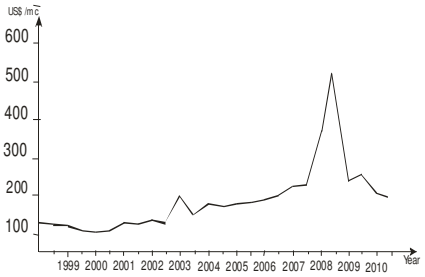
Source: Source: FAO International Commodity Price Database

Figure 3. Corn prices, January 1994 to July 2010



Source: FAO International Commodity Price Database

Figure 4. Wheat prices, January 1998 to July 2010



Source: FAO International Commodity Price Database

The decline in international food grain prices accompanies the dramatic fall in international commodity prices resulting from the unfolding global economic slowdown. The pass-through of international food grain prices to domestic prices varies across countries, depending on factors such as currency movements (thus also the exchange rate and monetary policy), domestic physical infrastructure, market structure, and government policies to stabilise prices. In particular, governments intervened in food markets – through export controls, import tariff reductions, and food price subsidies – in varying degrees to try to blunt the impact of the international food price spikes. But, domestic food prices spiked because of the large magnitude of the international food price increases.

Accounts and news reports from many parts of the world indicate that food (and even fertiliser and transport) prices have remained "sticky" in many countries, suggesting that food prices faced by low-income and poor consumers are still relatively high. This is now compounded by falling household incomes due to the economic slowdown transmitted through, among other channels, lower remittances, loss of employment, and lower investments. In addition, the factors that led to the food price shocks in 2008 remain largely unresolved. Biofuel policies, low global ending stocks, and thin international food grain markets are among the factors that have yet to be addressed. Most critically, lack of investments in the agricultural sector remains a challenge.

Droughts in Russia, Ukraine and Kazakhstan - from where comes around quarter of world wheat exports, are leading to fears of supply shortage and super-charging prices. Government of Russia made matters worse by slapping a ban on wheat exports from mid-August.

The sharp movements in commodity prices in a short period of time add to the challenges faced by governments and households. The low prices at the end of 2008 discouraged the planting of new crops in 2009. In Kansas for example, farmers seeded nine million acres, the smallest planting for half a century. Wheat plantings this year are down about 4 million acres across the US and about 1.1 million acres in

Canada. So even discounting drought related losses, the US, Canada, and other food producing nations are facing lower agricultural output in 2009.

Europe, the only big agricultural region relatively unaffected by drought, is set for a big drop in food production. Due to the combination of a late plantings, poorer soil conditions, reduced inputs, and light rainfall, Europe's agricultural output is likely to fall by 10 to 15 percent.

4. Conclusion

In short, food policy is shaping up to be one the 21st century's political battlegrounds-a fraught landscape on which poor countries backslide into malnourishment and wealthier global pie.

The question is how to restore a state of balance at a time when prices are so unstable. Overall food production actually is going up, it's just being badly outpaced by demand, and modifying demand is an extremely difficult thing to do. While fully 1.1 billion people in the world are "over-nourished" by World Health Organization standards. China, too, shows little inclination to change course: far from urging people to consume less meat, thereby easing pressure on grain supplies.

On the supply side, the most promising solutions are also most prone to organized opposition. Irrigation projects are meeting growing resistance from critics, who point to the sanitization of reservoirs or the depletion of groundwater needed for human consumption as reasons to forgo sprinklers. Genetic engineering offers the prospect of drought-resistant, herbicide-tolerant wheat and corn. But last summer, activists in France spent their days trampling biotech crops in an expression of anger toward what they see as an enormous risk to the environment and human health.

The better hope may lie in improving agricultural techniques-especially in countries where intensive farming is just taking root. As much as 70 per cent is being wasted due to misapplication. In the case of Chinese rice, only 30 per cent of ammonia fertilizer ever gets to the roots of the plant to be absorbed. Smil V. actually sees higher fertilizer prices as good news, believing it will force farmers to apply it more efficiently, improving yields per acre and making better use of water. It's classic cased of allowing market forces to do their work, and if it succeeds, fears that millions of lives are in jeopardy may prove unfounded.

If not, countries great and small are in for a long period of soul-searching. For 9.950 years of civilization, one thing societies understood was that food was hard, that food was important and often scarce. There seems to have been this great forgetting in the last 50 years-a kind of hubris that told us food was easy and would perpetually be in surplus. In the world, a healthy anxiety about that assumption has finally begun to set in. But we may yet feel the humility that comes from looking across the globe at the misery of others, realizing that a lighter wallet is a lot easier to bear than a chronically empty stomach.

4. References

[1] "Chiang Rai farmers protest", *The Nation*, Bangkok, 15 May 2008, http://tinyurl.com/5lmfh4

[2] "Food crisis turns banks into field hunters", *Sabah*, Turkey, 5 15 May 2008, http://tinyurl.com/5y28co

[3] GRAIN, "Making a killing from hunger", Against the grain, 8 April 2008, http://www.grain.org/articles/?id=39

[4] Getting out of the food crisis, *LRAN*, Friday 27 June 2008 www.landaction.org/spip/spip.php?article321

[5] Pimentel D, "Sustainability of meat-based and plant-based diets and the environment", *American Journal of Clinical Nutrition*, Vol. 78, No. 3, 660S-663S, September 2003.

[6] Smil V, "Global Catastrophes and Trends: The Next Fifty Years", *Mit Press*, Cambridge, MA, 2008

Legal Restrictions and Freedom of Decision of the Administrative Authorities in Some European Countries

Lisievici Brezeanu Alexandru Petru
Braşoveanu Florica
"Ovidius" University of Constanta, Faculty of Law
floriordache@yahoo.com

Abstract

The EU enlargement to 27 countries, foreshadowed in the early 90s, has no precedent in history, representing a challenge both for Member States and for the candidate.

This paper wants to research institutions of local autonomy and state sovereignty and mutual relations in the twelve Member States legal systems, administrative-territorial status of local authorities and local problem diversification and internal development of local autonomy.

Romania's aspiration to join the European Union was the natural expression of the identity of ideals, values and principles, its vocation as a democratic country, deeply rooted traditions, culture and civilization, the single European space. Romania has had and continues to suffer because of the slowness with which public administration was adapted to the requirements imposed by European Union accession process.

Key words: European Administration Local Autonomy Freedom
J.E.L. classification: K11

1. Introduction

Our country has totally engaged in this ambitious endeavor. In this context, it started a comprehensive structural and functional reform of public administration in order to increase flexibility, efficiency and consistency of the administrative, reduce bureaucracy, eliminate failures and overlapping skills and enhance compatibility with the administrations of EU countries.

One of the most beautiful definitions of administration, most filled with meaning and message is found in French doctrine and, according to it,administration is the sacralization of public interest

A summary of the main features of administrative law in France, should highlight the crucial role played by the State Council, whose jurisprudence has drawn administrative law, particularly through the development of basic legal principles.

In theoretical terms, the French administrative law has evolved following the tasks and objectives of the administration. The aim to ensure effective and continued functioning of the administration, is a major objective.

2. The Matter Seat

The strong position occupied by the executive and the principle of strict separation of powers means that for the purpose of legal protection, the actions aimed at meeting the obligations are normally inadmissible, and the level of supervision exercised by the judicial review of administrative action, tends to be lower compared with German law. This applies both in terms of number of decisions and the extent to which the material is subject to review various cases.

French administrative procedure is particularly directed towards an objective of general surveillance, though it also seeks to impose subjective rights of citizens. This explains why the right to legal action is not subject to any onerous conditions and even the laws of a general purpose abstract and does not affect the citizen can be questioned. This is why the establishment of an action has no suspensive effect.

German administrative law has been particularly shaped by the Constitution. The legislature, in particular through the declaration of the law on administrative procedure, the courts and academic authors have all contributed to the concrete expression of the essential provisions of the Constitution.

Finally, it can be concluded that the main features of British administrative law, namely, the absence of an independent body governed by public law which normally, it is distinct from private law on the one hand, on the other hand, the absence of a separate administrative court system of ordinary judicial body, survived only in a much diluted form.

The legislators, inspired by the reform proposals of various committees and tribunals, headed by leading figures such as Lords Denning, Dioplock and Reid have developed a body of administrative law which is entirely comparable with the continental system of administrative law, even if not and so sophisticated and customized it. Judicial protection against the administration is in charge of "Queen's Bench Divisional Court "which therefore has come to act as the administrative division of the High Court. Eventually, this system of administrative law and legal protection they provide is characterized by a particular emphasis placed on procedural safeguards.

It remains to be seen whether the proposals for reform and greater constitutional and administrative law are achievable. These proposals relate in particular to: enacting a bill of rights, which enjoy special status, the establishment of a Constitutional Court, other parts of the codification of civil law, administrative law separately, adopted a list of principles of good governance and the establishment an independent administrative tribunals.

Regarding the principle of legality of administration in some European countries, we conclude that it is a cardinal element in the practice of bourgeois liberal democratic constitutional state. The idea of the state governed by law is the principle underlying the organization of the constitutions of all European countries.

Whatever the name given or the form taken, state powers are limited by law in all countries, in order to protect civil FREEDOMS. Under the influence of the democratic principle, acts of Parliament have become the most significant legal constraint on the scope of influence of the state.

In all European countries, the dominance of law was further developed to become a broader set of legal constraints on government.

The fact that the principle is expressed in a variety of different ways, is due to the role of parliaments that have established various constitutional legality of the administration activities.

The differences become apparent only when we study which decisions can be made only by State or based on written laws. In all European countries that we have reviewed, legal restriction applies wherever liberty or property are violated. Here we see the common heritage of the conceptual tradition of liberal bourgeois constitutional motion.

French Constitution has that characteristic feature in that it gives only a limited number of powers to the Parliament and assigns to the executive a general right to make regulations in other fields. However, in France, the classical forms of intervention in civil liberties are subject to legal restriction. The same thing applies to Portugal, although the Portuguese Constitution limits the legislative powers of the autonomous government through parliamentary agreement requirement.

This is not the case for other European countries, besides the royal prerogatives. Generally speaking, the legal restriction is applied by the administration of the composition rules, in Germany there was even a qualified legal restrictions under which the content, scope and size of delegated authority should be defined by law.

The emergence of formal legal flaws in government action is closely related to the development of a proper judicial procedures. I Recall that the french"contentieux administratif" had a great influence on the concept of legal protection in a number of other European countries.

Britain is an exception; because of its independent legal system, it almost inevitably had to go in a different direction. But the German system of administrative law, in spite of some loans from its neighbor France, formed his own standards and verification of administrative behavior.

In terms of legal restrictions and the discretion of administrative authorities, in some European countries, a first observation is that every legal system allows some room to the executive for decision-making. From this point of view, all systems of administrative law have some similarities. In any case, keep in mind that freedom of action is not just a matter of administrative practice, because, in essence, it achieves a problem of principle, namely the inter-relationship that prevails between the state authorities.

The fact that freedom of administrative action has strong roots in individual constitutional systems, set clearly defined limits of various approximations for any future national laws governing the use and control of freedom of action. It is expected that constitutional separation and balance of powers between parliament, government and courts, which in some cases, has undergone a development process that lasted centuries and has contributed to various theories about the freedom of action, will prove resistant to change and will hamper efforts to achieve a convergence of the various laws of administrative law. Relationship management with the courts determine, in particular, how great the freedom enjoyed by the executive in making a decision is. The various systems of legal protection are also crucial in determining the extent of freedom of administrative action.

As I pointed out, the French administrative law principles in the development and determination of whom the State Council has played a crucial role, exerted a significant influence on the administrative law systems throughout Europe.

However, administrative law has appeared in a forced and under pressure from comparative law, the "kernel" of its national isolation.

A perspective which obviously extends beyond the borders, was established only after the founding of the European Community.

European Community law is primarily made up of rules of administrative law, derived mainly from the law governing public management. In this respect, the European Union, the European Court of Justice described as a community based on law, could be more precisely called a community based on European administrative law.

The problem of the creation and evolution of a European administrative law should not be understood simply in the narrow sense of isolation in a single unified administrative law of the European Union in application of Community law, but in a broader sense, to pursue further development and convergence of administrative law systems in Europe. In future, national unity will remain able to resist trends, even if similar difficulties and requirements on government acting both in the Member States and the European Union, together with national requirements which, ultimately, are as pressing as the ones of the EU.

3. Conclusions

In principle, Community law is applied by Member States in the authority they hold. The need for uniform application of Community law in all Member States can not be alone sufficient to constitute the need for a comprehensive centralized administration. Existing administrative structures and characteristics of the Member States, the fact that they are closer to both situations, and the people they manage, the European Economic Community Treaty structural, all these advocate for unlimited extension of the direct application of the law Community, at the expense of indirect application.

As for the indirect application it should be stated that, to the extent that the law,as presented, it requires that the application in the central areas of EU policy remains in charge of the authorities of member states, we must ask whether the Union, even if it must take over the application process itself, should not, at least, regulate it.

Both the Council of Europe and European Commission should use common rules in order to achieve, through legislation, a unified administrative law, as to give sufficient attention to national characteristics, but which also correspond to the structure and objectives of the European Union.

4. References

[1] Ioan Alexandru, *Compared Administrative Law*, 2nd edition, revised, Lumina Lex, Bucureşti, 2008;
[2] Ioan Alexandru, *Administrative Law in the EU. Compared Administrative Law*, Lumina Lex, Bucureşti, 2007;
[3] Ioan Alexandru, *Government crisis-theories and relations*, Lumina Lex, Bucureşti, 2007;
[4] J. Rivero, *French administrative law and administrative law*. Foreign pages of doctrine;
[5] Victor Duculescu, Constanța Călinoiu, *European Constitutional Law*, Lumina Lex, Bucureşti, 2008;
[6] Simona Cristea, Gabriela Bârsan, *Administrative Litigation*, Universul Juridic, Bucureşti, 2007;
[7] Victor Duculescu, Constanța Călinoiu, Georgeta Duculescu, *Comparative constitutional law. Treaty* (vol.1+2), ediția IV revised Editura Lumina Lex, Bucureşti, 2008;
[8] Corneliu Manda, Ana-Livia Nicu, Cătălin Silviu Săraru, *European Administrative Law,* Editura Lumina Lex, Bucureşti, 2008;
[9] Victor Duculescu, Constanța Călinoiu, *Constitutional law and Political Institutions,* Editura Lumina Lex, Bucureşti, 2008;
[10] Dacian Cosmin Dragoş, *Administrative Litigation Law. Comments and explanations,* Editura C.H.Beck, Bucureşti, 2009;
[11] Augustin Fuerea, *European Community law. General Part*, Editura All Beck, Bucureşti, 2003;
[12] Antonie Iorgovan, *Administrative Law Treaty*, vol. I-II, ediția a 4-a, Editura All Beck, Bucureşti, 2008;
[13] Rozalia-Ana Lazăr, T*he legality of an administrative act. Romanian law and comparative law*, Editura All Beck, Bucureşti, 2004;
[14] Ioan Muraru, *The ombudsman,* Editura All Beck, Bucureşti, 2007;
[15] Genoveva Vrabie, Marius Bălan, *State and political organization in Romania*, Institutul European, Iaşi, 2008;
[16] Verginia Vedinaş, *Administrative Law,* Editura Lumina Lex, Bucureşti, 2007;
[17] Radu Carp, *Strategies and proposals to reform the public administration perspective of European integration*, Journal of Public Law nr.2/2008;
[18] Augustin Fuerea, *Romania's Accession Treaty to the EU. Procedural issues*, Journal of Public Law nr.2/2007;
[19] Romeo Paul Postelnicu, *The place and role in the prefect's public administration system in Romania* , Journal of Public Law nr.2/2008;
[20] Ioan Muraru, Elena Simina Tănăsescu, *Constitutional and political institutions*, vol. I-II, Editura All Bek, Bucureşti, 2008

Effects of Economic Crisis on Human Resources Management of Romanian Organizations

Luț Dina Maria
„Dimitrie Cantemir" Christian University,
Faculty of Touristic and Commercial Management, Timişoara
dinalut@yahoo.com

Abstract

The economic phenomena that manifest in the world today, affect the labour market in Romania and, implicitly, human resources management in the Romanian organizations.

In the last two years, the Romanian market for human capital has suffered significant changes. Employment activities have seen a drastic decline, which led to an artificial saturated labor market. Forecasts for employment activity are retained in most industries and companies, not just domestically, but also internationally.

This paper highlights some of the effects of economic crisis in human resources in Romanian organizations and also proposes some solutions for human resource development in this context of world crisis.

Key words: economic crisis, human resources management, Romanian organizations.
J.E.L. classification: M54; J24; O15

1. Introduction

The downturn began in the U.S. since 2007, has risen so strongly that it led to a financial and economic crisis that exceeds in scope, according to experts, the Great Depression of 1929 [4]. Some authors even speak of a new economy called crisis-based economy. In this economy, the succession of speculative bubble – crisis – recession is understood as a normal phase of the economic cycle [3].

The current economic crisis has hit several countries. As such, Romania was not bypassed. The crisis has affected many sectors, such as construction, real estate, food, textile, automotive and metallurgical. Economic phenomena that manifest in the world today, affect the labor market in Romania and, implicitly, human resources management inside Romanian organizations.

2. Effects of economic crisis on human resources management of Romanian organizations

In the last two years, the Romanian market for human capital has suffered significant changes. Employment activities have seen a drastic decline, which led to an artificial saturated labor market.

Year 2009 ended the market euphoria of human resources, which for years has burdened companies with the size of personnel costs, low productivity and limited options for selection. For most companies, 2009 was the year when they regained control of recruitment strategies that have resulted in restructuring, re-evaluations of staff and spending cuts. This year, all human resource policies have changed and stabilized. In these circumstances, the role of HR department and HR manager is to find solutions to reduce and optimize costs, especially given that key employees should be motivated by opportunities for development. Thus, the role of human resource manager had to turn to creativity.

The year 2010 maintain employers' human resource agenda. Most companies still feel the need to cut personnel costs. This can be achieved by eliminating redundancies or reducing the salary package.

Forecasts for employment activity are retained in most industries and companies, not just domestically, but also internationally. Many areas are already severely affected: real estate and construction, banking sector, construction machinery manufacturers in the area, mainly those of exporters and producers of industrial areas of light industry. Follow areas and industries whose development

depends on those already listed: the production and distribution of building materials, design, finishes, furniture and accessories, financial services, durable goods and services, industries producing industrial parts and subassemblies. Specialists consider that Romania is going through a tough time for recruitment, and then we should expect a rebound, but no sooner than 2011.

Therefore, the last two years marked by cost efficiency. The labor market in Romania has changed its strategy. For the first time in 15 years, employers are turning to experienced people, people with 20 years experience in a field, and are not interested in people just getting started or unemployed. Under these conditions, Romania is faced with excess labor in a market with fewer applications. Migration, especially to Western Europe is not a solution, anymore. Restructured employees or candidates who will hardly find a job, will focus by less influenced sectors of the global crisis, will invest in private affairs, or will migrate to the Middle East, for example, where there is still a significant demand of labor.

The latest Deloitte Romania survey, done at the CEO level in 2010 [6], shows that under the financial crisis, the employees have changed much. The main changes occurred in the work and commitment to the company, assuming expanded responsibilities, accepting a lower salary level or without certain benefits, increased loyalty, the greater attention to avoiding misconduct and disciplinary violations, importance level of real training, close monitoring of financial indicators pertaining to each item and the list goes on. According to research, the biggest problems facing organizations in terms of human resources are: linking employee compensation with performance, rare leadership skills, motivating employees etc.

One of the least auspicious effects of the period we are going through is cutting budgets for human resources. The immediate consequence of this measure is the decision of employers to not invest at all or in part in the training of its employees, which struck full training business activities. A recent study shows that in 2009, over a quarter of employers on the Romanian market have decided to eliminate the training programs for employees.

The over 4.2 billion euro that Romania receives from European Union and from the government, until 2013, as structural funds for human resource development, could be a leverage to stop the decline of the training market. Already, three of the most important companies on the local market training, such as Human Invest, Codecs, Ascendis, came into contact with European projects.

Although organizations have reduced or eliminated training budgets and staff professional development, the demand for coaching services increased in the first three months of this year. Whether it's life coaching, through which managers seek to find balance in a personal or executive coaching - advisory service for managers who want to achieve certain business goals, people who have power inside companies are willing to spend thousands of Euros of his own pocket to become more competitive. In the context in which many companies have reduced their training budgets or even dropped its offer employee training programs, coaching can become, in some cases, a much cheaper option, with better results for employers. In some cases, companies prefer to form their own coach, to be always at your disposal, but also because it represents a less expensive option than an external provider of coaching. Usually, an internal coach is recruited from within the human resources department.

3. Solutions regarding human resources development in the context of economic crisis

Whatever the time that the economy goes, human capital remains an important resource for organizations and employers still need to grow and develop employees. Therefore, some organizations have begun to seek solutions to offset somewhat drastic cost-cutting policies imposed by the fragile economic climate. In this context, the European funds could only be a good solution to avoid cutting a significant part of staff development budget, which is the first budget in tough times is thinning.

Between 2007 and 2013, European Union offers for Romanian companies, grants amounting to over 4.3 billion euro to develop human resources. Of these, much can be accessed to cover expenses such as those

with dedicated staff trainings. Since 2008, companies can obtain funding from the EU, through the Sectoral Operational Programme for Human Resources Development [7].

In 2009, companies were available to 40 million Euros allocated by the EU, the share of training and support for Romanian companies and employees. In this segment are included, among others, the trainings. Although a lot of investments are required from companies requesting funding, EU funding may cover the costs of trainings at a rate of up to 95%, spending on employee development thus reducing considerably. General training provides qualifications that can help employees and when they move to other firms or fields of work and substantially improve the employability of the employee. Instead, offer specific training qualifications are only a small extent or not at all applicable to other firms or fields.

Despite the benefits, not many companies are considering this possibility. Those who have taken that step, are satisfied and plan to try again in the future. To obtain financing with EU funds, companies must prepare an eligible project to justify and explain in detail, how the money will be used to develop human capital.

Although chances are small that the funds obtained to finance training programs to be worth millions of Euros, savings can be made as would be considered by any company which has begun to develop strategies to reduce costs. This is especially true because in any organization that wants to face the crisis, the workforce must be a quality. The success of an organization depends on the value of employees.

The outsourcing is another saving solution for a company in the development of human resources in the current economic crisis, especially when economic growth is not obvious or even predictable. Its importance is directly related to the risks assumed by a company less prolific period, risks, as we know, is in turn very easily translate into money - preferably win, not lost. Most times, however, companies do not have the knowledge and infrastructure needed to achieve similar standards to those of a company dedicated to human resource industry, with hundreds of projects throughout the active and who has gained experience in various environments business.

Any activity undertaken in the area of human resources can be outsourced to a dedicated service provider. One such provider has the role of an external human resources department with the ability to perform all functions. A consultant may propose retention programs, training and evaluation, outsourcing the administrative activities, advisory and / or professional employee orientation or training, staff development programs and extensive organization in terms of human resources. Basically, a company that has no specialists in human resources can benefit from decades of experience and development of good practices in this area, by working with a provider of integrated human resource services.

There are some situations where, for companies, outsourcing may not be the most inspired version. There is more information that should be considered to determine if a timely decision in this regard. These information related to the specific of the business, appropriate timing and area in which outsourcing brings maximum benefits and other specific details of each project. There is no clear typology of the client for which outsourcing is the best option. Most often, the outsourcing option is preferred by multinational companies with a large number of employees who already have international experience in outsourcing of processes necessary for proper functioning.

On the other hand, there are local companies that have quickly realized that for them, at some point in time, outsourcing is the best option. Also, the number of employees can not be considered a criterion: there are companies with a small number of employees who have opted to outsource certain processes in the human resources field.

A good provider of these services seriously considering all the advantages and disadvantages of outsourcing processes and advise the client in choosing the best. The results of such analysis are related to its starting basis and always involve open communication, based on the beneficial relationship for everyone. If you look on the market for outsourcing services providers, we see that most are companies with a prior

serious development in countries of Western Europe. Although the current situation and obviously affect Western Europe, major providers of outsourced human resources still manage to consolidate its position in markets where it operates, innovating and streamlining processes.

Experts consider that the outsourcing often provides benefits that are directly reflected in profitability by substantially reducing the cost of human resources (in some cases up to 20%) and, especially, by raising the professionalism in the area mentioned. Running programs is closely linked with the specifics of each project. Depending on "where we are" and "where we want to go", are the most effective ways that can be drawn up by the professionalism and profitability for all parties involved.

4. Conclusions

Extension of the global crisis is the main threat to Romanian companies.

Companies that have managed to survive last year, go through, perhaps, the worst period in the year 2010, because now they are felt with maximum intensity, the population crisis. The authorities have predicted a falling unemployment rate up to 7.3% by the end of 2010 [5]. This projection is based primarily on improved global and regional economic conditions, in the second half of 2010, but only provided that the Romanian economy can connect to this global trend.

More forecast shows that Romania will probably get out of recession in 2011. Until then, business leaders expect to see the effects of anti-crisis measures will implement the Government, because they are in close contact with the smooth running of the business and employee motivation. Many managers consider that these government incentives as a catalyst for recovery.

In the past two years, under pressure from the economic downturn, companies have begun to restructure, and the process will likely continue this year, aiming to streamline assets, risk management and talent development. Cutting costs and focusing on operational efficiency and performance can help companies regain control amid the economic downturn. In this context, human resource plays an important role, as many experts have noticed [2].

To complete the cycle of restructuring, companies must focus on human capital development. Otherwise, companies may face a new problem: replacing lost employees as the economy recovers. If most of the radical restructuring measures were already taken, the big challenge now is to care for highly trained employees. With the talent becomes increasingly scarce, retention and motivation of their valuable employees should be a priority for any organization. Emphasis must be placed on the value and employee training, and less on their numbers.

Current economic crisis is not the only challenge of the XXI century. According to some experts [1], it is envisaged a new era, an era that will redefine the risks and opportunities of the XXI century. Radical and complex changes taking place globally will transform individuals, society, markets, consumers and business.

5. References

[1] Canton, J., *Provocările viitorului. Principalele tendințe care vor reconfigura lumea în următorii 5, 10, 20 de ani,* Editura Polirom, Iaşi 2010;
[2] Malița, M., Georgescu, C., *România după criză - reprofesionalizarea,* Editura Compania, Bucureşti, 2009;
[3] Roubini, N., Mihm, S., *Economia crizelor,* Editura Publica, Bucureşti, 2010;
[4] Soros, G., Buffett, W., Volcker, P., *Criza economică şi profeții ei,* Editura Litera, Bucureşti, 2010;
[5] http://www.anofm.ro;
[6] http://www.cariereonlin. Ro
[7] http://www.fonduri-structurale.ro.

Joint Ventures – An Alternative and Efficient Form of Economic Organisation

Manea Ioana Livia
Popa Ioana-Anda
"Al. I.Cuza" University of Iasi
Ioanna02manea@yahoo.com
a_oboroceanu@yahoo.com

Abstract

The joint ventures are now a quite often used form of organization for some economic activities, which make them mutually beneficial. They are based on the joint venture contract. This form of organization does not require registration and association formalities, detemines no new legal person, being a flexible contract, negotiated and agreed by the parts of the contract. These parts (individuals / entities) may estabish any kind of rules to determine their mutual rights and obligations. The size of the benefit or the loss that are generated of the outgoing of the joint activity is determined in percentage or due to the contribution of each partner in this contract.

Key words: Association, venture, joint venture, contribution rate, association statement
J.E.L. classification: K29, M41

1. Introduction. Legal and Conceptual Delimitation

The joint venture is a contract between two or more persons individuals and / or legal entities which contributes with certain goods, services, money (contribution) to the outgoing of one or many common business activities, and each part of this type of contract attends to the benefits and losses of proposed activities. Under the Commercial Code, Article 251 - the joint venture occurs when a trader or a company provides to one or many persons or companies a part of the profits and the losses of one or more operations or even the entire trade.

According to the Civil Code, Article 1491, the joint venture is a type of company.

The company is a contract of two or many persons which agrees to develop together an activity, having the purpose to share the benefit that it may be obtained.

According to the Tax Code, Article 7, the joint venture is an association without legal personality and it is not a separate taxable person in the sense of income tax and corporation tax.

We may conclude that joint venture does not create a new legal entity and it doesn't have its own individuality and heritage and therefore it can not acquire its rights or obligations.

The paper which establises a joint venture is the association contract, in a written form [Commercial Code Article 256], that contains the following items:

a. The parts of the association contract:

The joint ventures have two categories of partners:

- The main partener/ associate/ member (the manager member) is represented by a legal person which is guarding for the fulfillment of the association members' obligations to third parties partners; he will lead the association accounting and will have the obligation to make payments of taxes and fees due by the association to the general consolidated budget of the state, to the state social insurance budget;
- The secondary partner or partners (participants)

b. The type of activity and the location of association:

The association agreement should be noted about the activity that it will be developed by the association. Also, it must be mentioned in

the joint venture contract the location where the association operates.

c. The contribution of each member of the association represents the element which establishes the distribution of the profits or the losses between the participants. This contribution may be represented by cash, different kinds of goods and services (motionless or movable goods, tangible or intangible, including receivables) or industry contribution (licensing, know-how, trademarks) [Civil Code, Article 1492].

The contribution of these two types of partners can be regarded from different point of view according to on their category as it follows:

-The contribution of the main/ manager member - according to the present legislation, there is not a transfer from the patrimony of main member to the common one of the association. It remains the owner of that property in the same conditions as were before the partenership.

-The contribution of the secondary partner / participant – this one loses its ownership of property for the elements which represents a contribution to the association, making the transfer of his estate patrimony in the patrimony of administrator associate [Commercial Code, Art. 254 - "The participants have no ownership of the goods which are a contribution in the association, even if they were purchased those goods".]

The transfer of the ownership of goods is performed on the moment when the participants agree and establish the contract of the future association. This operation has an onerous character, because each member obtains a part of the benefits of association.

d. The participation of each partner to profit or loss in the association. Each joint venture agreement must include a reference to the participation of each partner to the result related to the future common activity.

Usually this is determined by a percentage rate. The way in which the parties agree to share the results of their common activity is determined and agreed by the contract of association.

In the condition of an absence of a contractual clauses about this matter, it applies the default specifications of article 155 of the Civil Code, according to which "When the contract does not determine the gain or loss of each partner, then that part will be proportional to the amount of money brought in the company."

e. The conditions for the ending/ closing the association.

The joint venture contract ends according to general rules set forth in Civil Code Art. 1523-1531, as it folowes: when the period of the contract is finished, through the dissolution of business, due to the death of one associated member, throught the willingness of one or more associates to not continue the work due to the failure fault obligations of either party, through the interdiction or the insolvency of one of the partners.

2. The Operation of the Association

The joint ventures offer differnt kinds of rights and obligations according to the type of each partner, as it follows:

a) The obligations of the main partner:

- Organizing and accounting management will be highlighted separately in the analytical accounts according to the business combination
- To determine the outcome of activity carried out in association and its distribution.
- To represent the Association in the examinations made by tax authorities
- To release invoices, tax bills and any other evidence to highlight and record revenue and expenditure activity carried out within the Association. They will be highlighted separately on its own balance in the analytical accounts.
- To make payments to the state budget, social insurance budget, local budgets and other taxes and contributions of the association due for their work.
- To draw up monthly statement of income, expenditure and outcome of activities carried out within the Association.
- Other obligations according to the application of the Tax Code, Title three Income taxes.

b) The main member rights:

- to manage the association under the contract clauses
- to participate in profits / losses

c) The secondary member rights:

- Is informed about the management of its contribution on the association:

- Receives monthly the statement on the results of association
- Collects the obtained benefits
- It will have returned the contribution when the association is closed if it is specified on the Association contract

d) The obligations secondary partner / participant:

- To bring as its own contribution - goods, services, cash, for a good development of the common business;
- To comply with the terms of the Association contract.

3. Tax Treatment of Association

The annual profit or loss obtained during the achievement of the common activity of the member of the association is distributed to them according to each contribution determined by mutual agreement of the association contract.

In case of a change about the participation rates during the year, for the annually distribution of results - it will proceed as follows [GD Nr.44/2004, pc.188]:

- We determine an intermediate result at the end of the month when it has changed the rates on gross income and expenses according to their registration in the accounts;
- The intermediate results is allocated according to shares of each participation until these were changed;
- At the end of the year, the intermediate result previously calculated is deducted from the annual result obtained is deducted, and the difference is assigned to partners, depending on the participation rates.

When we talk about a joint venture between a juridical person and an individ- it occurs specifications about the income tax and the VAT, as it follows:

a) The tax regulations about the corporate tax / income tax:

- The association between an individual and a legal person which paies the corporate tax: the resident individuals associated with Romanian legal entities for revenues both in Romania and abroad in association without legal personality are required to pay income tax. In this case the tax payable by the individual, in is calculated and retained at the state budget is paid by Romanian legal person [the Tax Code, Article 13, letter e]. Tax payable by individuals resident taxpayers associated with Romanian legal persons and detained by juridical person responsible is determined by applying the tax rate of 16% [Tax Code, Art.17], the proportion of profits which is attributed to each partner combination. Responsible person is bound to declare and pay quarterly income taxes until the 25th of the month following the quarter for which the association distributed outcome.

-The association between persons which are paying corporate tax: the second member/ participant receives the resoult from the association, in rough shape, acording to the statement prepared by the main partner / manager association, being obliged to calculate tax on profits under tax rules in force [Tax Code, Title 2, Income tax].

b) The tax regulations relating to VAT:

In terms of value added tax, the joint venture is not a taxable person, and in this case the rights and the legal obligations due to VAT are made by the main member of the association [the Tax Code, Art 156, paragraph 5]. The legal rights and obligations are represented by the right to exercise the tax deduction for purchasing [Tax Code, Articles 145-147], the obligation to issue invoices, tax bills and flexibility to collect a fee for taxable transactions. These rules are applied if the main participant develops the revenues and the expenses, which regard the operation of the association, on behalf of its own under the Association bills and tax receipts issued, and after that the revenues and the are properly distributed to each member of the association.

If the partners act in their own name to third parties and to other associated members, each person will be treated as a separate taxpayer [the Tax Code, Art.127, alin.9] and those transactions are taxed separately [Tax Code, Title 6.79, paragraph 4].

The VAT statement is prepared and deposit by the partner who keeps the accounts of the Association. This statement includes elements about its own activity, and also about the operations of the association.

Invoices are issued on behalf of the company which is an official of the association. The buying and selling logs/ sheets are held separately by the company

which is responsible for association operations – the manager participant.

4. The Account Treatment of Association

The accounting of the settlements for the operations made the joint ventures is obtained by using the 458 bifunctional Account "Transactions of operations Ventures"; this account has the 2 following grade accounts [OMFP, No.3055/2009 for approval the regulations in accordance with European accounting directives]

• the 4581 account- entitled "The settlement of venture operations – passive": according to the economic content, it is an account of debts to associates, and according to the accounting function - it is a liability account, which keep track of expenses and income from the settlement operations ventures and amounts which are transferred between the co-participants. Is used only by the main participants of the association which make the association. The recived amounts from co-participants are recorded on credit and also the income from operations transferred to participate. The debit account is reffered to the amounts paid co-participants and costs related operations transferred to participate. The credit balance of this account represents the debts of the association member about its actions.

• the 4582 account, entitled "The settlement of ventures operation - active": according to the economic content, it is an account for the receivable amonts from the associates and accordind to the accounting function, it is an active account, which is used by the second member of the association to register the association statement. The debit offers the image of the amounts paid co-participants and revenues received by the transfer of operations to participate; the credit gives information the amounts received from the co-operation and expenses received from participants and costs of participation. The debit balance of this account represents the receivables entity on operations ventures.

The main partner / manager elaborates the accounting evidence of the joint venture operations, deliveries at the end of every month the share of the revenue and of the outgoing regarding the association operations accordind to the rate of each participation. The transfer of the assets and of the values, costs and revenues is established through the " association statement", which has the following characteristics (Gazette, Nr.3512/2008 on financial documents and accounting).

1. It represents a document that estebhises the expenses and the income from operations in the venture and the amounts paid between co-participants.

2. It is written every month by the unit which keeps the accounts of joint ventures, in duplicate, for each co-participants, regarding to the revenues and expenses upon it, for registration in their own accounts, according to rates specified in association contract. The expenditure and the revenue accounts will be grouped in classes of expenditure and revenue accounts, according to the general chart of accounts.

It must be also recorded, in the association statement, other transfers, representing the amount of money, the made profits, the depreciation of fixed assets and other amounts upon the transactions in the venture.

5. Conclusions

Given the above, on joint ventures, we conclude about advantages and disadvantages of this type of association:

a) Advantages of joint ventures:

• Joint ventures contract does not require formalities for registration and authorization, does not raise new legal enthities being a flexible contract, negotiated and agreed by the contracting parties;

• The parties may stipulate in the contract any type of rules to determine their mutual rights and obligations;

• Joint ventures may not be subject to insolvency proceedings;

• Goods brought as input about associate director does not suffer a property transfer in the association moment, and for the goods brought as the contribution by participating associations in can be provide such a clause in the contract;

• The size of benefit or loss is determined in percentage at the end of the contract and if it is missing is presumed to be proportional with the contribution made.

b) Disadvantages of joint venture:

• During the existence of the joint venture, secondary partner's lose at least the right of using his aporte goods;

• Main shareholder has unlimited liability to third parties for damages suffered by them as a result of the combination. Third parties are not interested by secondary partner person whose name remains unknown for the third parties. Parties may agree that the name of the partner remains secondary for third parties.

• The secondary associate has no direct control over the management that carries the main shareholder. His rights are established by agreement of association and refers mainly to the outcome of his share of the venture. They may be modified during the association, but the right of association management remains throughout the contract to the main shareholder.

6. References

[1] *Romanian Commercial Code* as amended from 1895, 1900, 1902, 1906, 1920, 1925, 1929, 1930, 1931, 1932, 1933, 1934, 1936, 1943, 1947, 1948, 1949, 1950, 1990, 1995, published in Official Monitor from 10 May 1887.

[2] *Romanian Civil Code*, promulgated on 4 December 1864, amended and updated

[3] *Low 571/2003*, corroborated with HG 44/2004 on Tax Code with application norms

[4] *Low 76/6 May 2010*

[5] *OMFP no.3055 from 29 October 2009* for approval of Regulations in accordance with European Directives published in MO no.766 and no.766 bis from 10 November 2009

[6] *OMFP no.3512* on financial and accounting documents published in MO no.870 bis from 23 December 2009

[7] republished *Accouting Low no.82/1991* MO no.454/18 June 2008

[8] *Fiscal Code rules* with application norms as amended by OUG 39/21 April 2010

[9] Paraschivescu Marius Dumitru, Radu Florin, *Managementul contabilitatii financiare,* Ed. Tehnopress, Iasi, 2008

[10] Pantea Iacob Petru, Bodea Gheorghe, *Contabilitatea financiara romaneasca conforma cu directivele europene,* Ed. Intelcredo, Deva, 2008

[11] Paraschivescu Marius Dumitru, Pavaloaia Willi, Olaru Gabriela-Daniela, *Contabiliate financiara*, Ed.Tehnopress, Iasi, 2007

[12] Tabara Neculai, *Modernizarea contabilitatii si controlului de gestiune*, Ed. Tipo Moldova, Iasi, 2006

[13]Colasse Bernard, *Fundamentele contabilitatii*, Ed.Tipo Moldova, Iasi, 2009

[14] Popovici Ilie, Valcu Vasile, *Contabilitatea armonizata cu directiele comunitatilor economice europene*, Ed. Danubius, Braila, 2007

[15] Marinescu Cristian, *Tratamentul fiscal al asocierii in participatiune*, Ed. C.H. Beck, Bucuresti, 2009

[16] Horomnea Emil, *Fundamentele stiintifice ale contabilitatii. Doctrina. Concepte. Lexicon.*, Ed. Tipo Moldova, Iasi, 2008

[17] Matis D. (coord) , *Contabilitatea finnaciara, reglementari contabile conforme cu Directivele europene, aprobate prin OMFP nr. 3055/2009,* Ed. Casa Cartii de Stiinta, 2010

Public Career. Replacing the Formal and Political Leaders

Marinescu Gabriela
„Gr. T. Popa" University of Iasi
marinescu.gabriela@ymail.com

Abstract

The social and ethical human resources management of the 50s was replaced by the safe institution, a place later on occupied by less predictable and stable institutions lacking the previous mass characteristic. The individuals expect more than a salary from their workplace. The modern institution cannot avoid suggesting rules of behaviour in the workplace although it is aware that instability and unpredictability begin to represent key elements of the human resources area. These elements are treated formally just like any other resources of which a certain institutional behaviour is expected. Will it work? An essential condition is the equidistant adherence to this behaviour.

The public domain, conceived as a desirable segment potentially able to normalize growth and maturation, allows for remarkable individual and collective evolutions by accepting lateral promotions as opposed to the exclusively vertical ones seen as inefficient and ineffectual in certain circumstances. The hierarchical positions are limited especially at base and middle levels, whereas lateral promotions represent a feasible alternative meant to encourage employee retention and loyalty as well as performance motivation by promoting them horizontally instead of vertically.

Key words: public career, formal and political leaders, management
J.E.L. classification: M 120

1. Introduction

Generally and permanently, the evolution of human resources towards successful careers cannot rely on universally accepted recipes. In exchange, there are scientific theories and instruments that combined with individual and group actions, may lead to the attaining of high performances in one's career. On a diversified and multi-polar labor market in a continuous change, the non-traditional evolution of careers for the public domain generally appears a feasible and necessary alternative with several premises:

- One scientific-pragmatic premise having in view the leveling of the managerial pyramids concomitantly with the increase of the number of positions at the medium and basic levels and the increase of the training level of all those aiming at a successful career in the public sector; the orientation is natural on the background of the evolutions of the quasi-intrapreneurial management, reasonably effective and efficient. Sometimes there is no need for bosses but for group or project leaders, empathic, operative, proactive professionals, with out-of-routine and interesting activities
- An organizational premise with organization charts loaded with bureaucratic formal networks and positions called pompously, taken over as inheritance or created artificially and artistically;
- A human resource premise which already demonstrated that young people cannot advance sufficiently well in terms of their career in mammoth organizations with managerial and professional hierarchies, rigid and anachronous.

The management for the mankind of the 21st century gives the irreversible signal for individualism in a chaotic world. Individualism and attention are capitalized by intelligent organizations that cultivate their notoriety using non-traditionally individuals

even within a traditional but authentic culture.

Our attempt to follow the non-traditional evolution of the public's career is advantaged since the modern public institution becomes a place for a real and non-political profession in full expansion.

The paper intends to highlight with scientific arguments and qualitative analysis why the non-traditional evolution of successful career of the public profession is possible and necessary. We also underline the intrinsic relations among career, management, human resources within the permanently new context offered by the attention economy, an economy known to put to good use the most precious resource, the individual.

2. Study

„If the corridor above you is busy you may get out of the blocking by moving sideways"
(R. Kelley, Carnegie-Mellon Univ.)

At present, the evolution of the public career is less predictable and intelligible but also less circumscribed. Security is smaller, but chances are bigger for the competent, innovating, audacious and bold ones. The physiognomy of the world economy is completely new even compared to the previous decade and the relations that emerge, related to the career problems are especially complex and controversial, uncertain and risky. We also notice that, as far as the trend of the career or profession of public domain is concerned, the external relations become very important and the horizontal and crossed networks become more influential.

The public career and its problems shift their center towards continuous learning, professional and cultural multi-allegiance, specific competences and compulsorily interpersonal competences. Professional individuals, intuitive "actors", multiply intelligent - they all aim at attaining the contextual performances and the development of discernment.

The choice and development of a career belong to the managerial strategies oriented towards the exterior, strategies that integrate the individual purposes in the group's or organization's purposes. The position, perception as well as the attitude of the individual depends on the compatibility between what is wished (aptitudes, needs, preferences) and what the position offers (motivation, affirmation, constraints, opportunities); in short rights and obligations.

The orientation of career is a relatively stable model of talents, values, attitudes and occupational activities.

3. Analysis

Non-traditional careers in public sector

The goal of this analysis is to highlight the opportunities offered by the non-traditional evolution of the Romanian's public career.

Analysis objects:

Through the research "Success factors in the non-traditional evolution of public's career" we aimed at attaining the following objectives:

- Identification of opportunities and disadvantages offered by the non-traditional evolution of career
- Establishing the importance of success criteria in the non-traditional evolution of career;
- Identification of the particularities specific to the specialists in the public sector.

Analysis hypothesis:

The criteria according to which success is established in the non-traditional evolution of career, in the order of their importance, are:

- Annual income
- Power
- Influence of environment
- Personal satisfaction
- Level of education
- Experience in work
- Free time available
- Mobility in career
- Ethical behavior

Underlining the significant particularities of public career from the point of view of the criteria for success establishing in a non-traditional trend of career;

4. Establishing the analysis framework

a) Research method used

Research "is a qualitative study made by means of the group interview".

b) Data collecting instrument

The instrument used in the research was the focus group, a planned group discussion organized so as to obtain the perceptions related to the non-traditional evolution of career and deployed in a permissive environment; the discussion was relaxed and pleasant for the participants who shared their ideas and perceptions; the group members interacted synthesizing ideas and comments (in the 30's it was used by Lazarsfeld and Merton in researches effectuated during the Second World War). The method favored multiple perspectives and emotional processes within the group context.

The group was composed of 11 individuals, being a mixed one from the point of view of the relation between theorists and practitioners of public sector. All participants are graduated. We sought that the people selected were proactive, with high mobility, involved in connected activities during faculty and after graduation (didactic career, research, circles, associations, participants to symposia). By this choice we selected people from the public Romanian field motivated cognitively-emotionally.

The interview guide was made from a series of key questions meant to orientate the discussion so as to attain the research goal. As in any other research of the qualitative type, the adaptation of the guide was necessary in the developing discussion due to the new ideas promoted by the participants.

The entire focus-group was recorded on a video-camera and by the subsequent analysis we could synthesize the participants' information and opinions.

The discussion started by sharing the conceptions on the career in general, afterwards it continued by debating the importance of the criteria for the establishment of the success degree in a non-traditional evolution of career. Each of these criteria was analyzed following its applicability in the case of a public profession.

5. Analysis results

The group interview started with the presentation of the theme and free expression of opinions regarding the career. From the analysis of discussion we placed participants in the phases of exploration and consecration of career. The difficulties encountered in the exercise of profession (bureaucratic, formal, prejudices, rigidity, rejection of novelty, lack of trust, lack of precedent etc.) as well as the emotional aspects of the different work environments determine people to accept the changing of workplaces or the practicing of a job that does not have direct tangencies with the chosen profession. This phenomenon is favorable because it allows the increase of professional mobility and the degree of adaptability to diverse domains, but it is also negative since it minimizes the exercise of the career itself. From the point of view of our study, the analysis highlighted the possibility and necessity of the non-traditional evolution of the public career at least from two hypostases, namely:

- As a multidisciplinary and multifunctional profession, graduates from public sector prove technical competences in different fields. The network of social relations, formal and informal, that everyone forms helps them integrate quickly on an even partially specific labor market.
- As a managerial ability people suggest by their wholesome and interpersonal competences the substitution of leaders as hierarchic positions sometimes useless even dangerous, this resulting from the set of attributions that may be fulfilled successfully by the graduates in different fields. The consequences of a such dual optimistic approach are significant:

Less loaded organization charts: the peak of the managerial pyramid is reduced in the classical organization and the intermediate and basic managerial levels expand. The vertical advancement coherently opposes the horizontal promotion. The measure also allows the diminution of blockings and distortions from social, political, cultural, education, health etc. The organization charts get leveled and motivation is conceived according to competences and difficulty of the job and not according to the hierarchic level.

The evolution of the representative modern organizations demonstrates that people's value does not increase only if they occupy a managerial position. In many cases "the distance from management", extremely high for Romanians, associates the position and the hierarchic level to the power of the

individuals-natural persons, an appreciation not lacking truth.

The non-traditional approach of career questions the purely bureaucratic practices and proposes that the classical power relations to be replaced, partially by practices and professional relations of the social gender: women-managers, minorities, old or very young people.

The perspectives regarding the modern organizations converge to management open systems in terms of career and the change of paradigms and acceptance of alternations are the catalyst elements of the modern management systems. The non-traditional evolution of career and the substitution of leaders rely on networks of competent individuals and not on physical persons or bureaucratic structures. Management relies on self-control and individual responsibility, though accent shifts from person to the work group. The management systems are open, appreciative, in a continuous adaptation and interconnection.

The personal satisfaction is seen as a set of other criteria. It means the annual income and the status in an organization, the acknowledgment of efforts and the appreciation of family and friends.

This result shows that the personal satisfaction is the most adequate measure for a successful career. It is a strong stimulus in the deployment of one's activity at workplace and the chances offered by a horizontal evolution of career would increase considerably the attachment and devotion for the organization. The non-traditional management of career allows an organization to use optimally its employees' motivations, aspirations and interests so as to make them compatible with the objectives of the institution and community.

Personal satisfaction is perceived as the acknowledgement of efforts made at workplace. Consequently, managers should discover which way satisfies best each member of the organization. For some individuals it might be the material compensations, bonuses, for others might be the free time, holydays or the advancement on superior hierarchic positions, the increase of the responsibility degree, the implication in new activities. The acknowledgement of efforts may also mean simple thanks or the expression of appreciation in front of the other members of the organization, diplomas and prizes.

Status in an organization is a very important landmark for the personal satisfaction. "To be somebody" in an organization weighs pretty much for its aspect. Status may be translated by a strong image, a "personal brand" with impact on other employees. It may have several facets deriving from the formal power given by the hierarchic level, from the personal charisma or the expertise area. The exercised status imposes well defined positions for the individual it is attached to. It offers a reference framework and a norm, first of all by its formal conditions. Status involves a content determining precisely the others' behavior towards him/her, what is expected from him/her and what can be expected from others. Status supplies security having a stable and predictable character. From this point of view status is a protective system defining the individual's behaviors that will be approved by the milieu and the reactions it must expect from its part. In an organization, an individual may have concomitantly formal (prescribed) statuses and informal (non-prescribed) ones. Formal statuses are the product of official organization of groups whereas the informal statuses are the result of spontaneous relationships.

The appreciation of family and friends represents personal satisfaction, but it is not regarded as one of the main elements that might assure this. The agreement or critics of the family members and friends seem no longer to have a major influence on personal satisfaction. If the activity he/she deploys at workplace brings accomplishment, the young person feels satisfied and this is enough.

Personal satisfaction also means the appreciation of the work fellows. The work fellows are the people with whom individuals spend most of the day, with whom they must make routine tasks or solve critical problems. The combined behavior of teams creates the work environment that influences the satisfaction degree.

Analysis of the criterion "ethical behavior":

The ethical behavior does not seem, at first sight, to be very important criterion for the participants to the focus group, considering that the public domain in its essence supposes activities with ethical character towards the

human entity. Ethics, according to the moral philosophy and by the principle of justice becomes a regulator of the value system especially in the situations where resources are insufficient for the needs and responsibilities superior to rewards.

The social and ethical responsibility is an essential factor for the image of organizations with a major influence on stakeholders. The most important effects of the ethical behavior of a person are: the increase of attraction for employees, the trust in the relation with partners.

Analysis of the criterion "level of education":

The level of education represents for participants one of the main criteria for the establishing of success in the non-traditional career. Accent falls both on the education and competences acquired during faculty and on the ones obtained by continuous learning, practice, and experience on labor market.

The non-traditional evolution of career encourages the permanent training because organizations themselves learn continuously and adapt to the permanent changes administering carefully the most precious resource, the human capital.

Analysis of the criterion "annual income":

The annual income is one of the strongest motivations in one's career. It is accepted by everyone as being a landmark for the level of development, either regarded as the acknowledgement of value within the company or regarded as a resource for the satisfaction of personal needs.

Money is seen differently by the participants, even if it is the main incentive for the deployment of an activity. Starting from Maslow's pyramid of needs, money may be identified as the primary means for the immediate satisfaction of the needs for food, clothing, a dwelling place etc. At another level, money represents security, social status, power or prestige. As people's needs are in a continuous change, money also gets a different significance in time.

Thus, what an annual income for a successful career means is very different from an individual to another because it depends on the financial objectives established and also on the personal values.

Speaking of wages, J. Ridderstrale and K. Nordstrom, sustain that the modern organizations that accept non-traditional evolutions in career borrow knowledge from employees in the same way we borrow money from a bank. In this case, the interest takes the form of wages and if organizations borrow from the best ones – hard currency people - then interests are consistent.

As we already said, the income gained represents a basic factor for personal satisfaction. In the Romanian society and not only, money creates a competitive environment satisfying the need for fame and placing individuals by social classes.

The participants at the debate remarked the fact that in the Romanian society, after the revolution, people interpret the large income accumulated as being the consequence of corruption acts placing them at the same time in the category of people lacking education. From here results the attitude of rejection of a large part of employees due to the fact that for them the income gained represents one of the most important factors in their career.

Analysis of the criterion "experience in work":

As in the case of ethical behavior, the participants did not underline explicitly the fact that experience in work is a criterion for the definition of a successful career. They consider that work experience is very important, but it may not guarantee the increase of wages and promotion by the job position. If age may be a relatively old notion, work experience may become a disputable criterion in the sense of the years spent in that position.

Today's young people are opened to experiment new jobs so as to obtain success in their career. This is due to the influence of the domains newly appeared, the very diverse offer on the labor market as well as the influence of globalization, IT and last, but not least, the European culture more accentuated after accession.

Analysis of the criterion "free time":

Free time is a quite important aspect taken into account when participants defined success in a non-traditional career. This factor conditions the achievements at the familial level. Failure in this respect may give the feeling of non-fulfillment canceling the results obtained on the professional level.

Free time and career evolution need a larger and more detailed approach but this does not make the object of our study. The

general opinion of the group was the fact that the alternative of a non-traditional evolution of career offers jobs with a high flexibility of thee work hours, non-routine and non-traditional activities based on competences, innovation and courage.

Analysis of the criterion "power":

Power in organization is seen as a very important criterion though we did not notice a special propensity of participants for top managerial positions. The non-traditional evolution of career allows the delegation of formal power and the increase of informal power. It is not necessary to be on the top of the pyramid to be rewarded, but you are appreciated and motivated by results.

Analysis of the criterion „influencing environment":

As for the criterion "impact on environment" participants considered that in order to attain success in one's career, the organization they belong to must influence positively the employees, the third parties and the community. By their activity the individuals influence the organization, the community, the country or the entire region. This determines individual's notoriety and his/her acknowledgment on a large scale.

Analysis of the criterion „mobility in career":

Professional and spatial mobility is increasing and produces deep mutations in the practice of organizations but also in the managerial and occupational theory.

Mobility in career generates a contradiction. Although in the case of the criterion „annual income" participants expressed themselves in favor of a steady but sure income satisfying the momentary need, they are aware of the importance of mobility to assure a successful career.

This criterion is seen as an expression of the capacity of adaptation and an answer to the diverse current modifications on the labor market. The migration among companies may also mean the increase of notoriety acknowledged by these. This generates high income and access to superior positions. But it is desirable that this should occur after some events considered negative for a career forcing individuals to accept compromises.

Mobility in a career has its advantages and disadvantages in attaining success. On one hand, it assures the survival of the individual in a continuously changing market where the phrase "job for lifetime" does not exist any longer. Loyalty is important but it tends to manifest on a short term. The individual must be flexible and capable to adapt himself/herself to the constant changes of the environment.

6. Checking hypotheses

The main criteria to establish success in the case of the graduate from the public sector are the following:

- Personal satisfaction
- Annual income
- Power possession
- Level of education

The results of research invalidate the first hypothesis. These criteria are presented by the participants as being the first four the most important, the personal satisfaction representing the sum of all criteria A clear establishment of the degree of importance may be made by a quantitative analysis of the questionnaire type on a representative sample of students.

7. Conclusions

For those graduated from the public sector, the study conducted shows that analyzing the success in career is defined predominantly through personal satisfaction and professional mobility. Personal satisfaction is perceived as a sum of other criteria. It is the absolutely necessary condition to define success while also being the general goal of all actions undertaken along career.

Mobility in career is defining for the public profession in Romania and it would ideally match the non-traditional evolution of career.

Mobility in career is seen as an expression of the capacity of adaptation and answer to the different modifications on the public labor market. It has its advantages and disadvantages in attaining success in career. On one hand, it assures the survival of the individual on a continuously changing market, on the other hand it needs the acceptance of the state of fact and adaptation to the existing conditions.

The study underlined the expectations and availability of some graduates, surprised in Romania by a reluctant public market,

dysfunctional from the bureaucratic viewpoint, insecure yet, but increasing in terms of the new public profession.

8. Bibliography

[1] Applebaum, H., The Concept of work: ancient, medieval and modern, Albany: State University of New York Press, 1992

[2] Bowles, M. and Coates, G., Image and Substance: the Management of Performance as Rhetoric or Reality ?, Personnel Review, vol. 22, no. 2.

[3] Belbin, M, R., Team Roles at Work, Butterworth-Heinemann, Oxford, UK, 1993

[4] Coates, G., Performance appraisal as icon: Oscar-winning performance or dressing to impress?, International Journal of Human Resources Management, vol. 5, no. 1, 1994.

[5] Goleman, D., Mckee, A., Boyatzis, R., Inteligența emoțională în Leadership, Ed. Curtea Veche, Bucureşti, 2007

[6] Hochschild, A., The managed heart, University of California Press, 1983.

[7] Kanter, M., Management Frontier, Meteor Press, Bucharest, 2006.

[8] Marinescu, G., Modern Public Management, Technopress, Iasi, 2010.

[9] Morgan, G., Images of organisation, London: Sage, 1986.

[10]Mintzberg, H., The nature of Managerial Work, Englewood Cliffs, New York, 1980

[11]Ridderstråle, J., Nordstrȯm, K., Karaoke Capitalism, Management pentru omenire, Publica, Bucureşti, 2007

[12]Vlasceanu, M., Organizations and Organizational Behavior, Polirom, Iasi, 2003.

[13]Whyte, W. H., The Organization Man, Simon & Schuster, New York, 1956.

[14]Zani, B., Palmonari, A., Community Psychology Manual, Polirom, Iasi, 2003

Issues in the Implementation of Fiscal, Income and Monetary Policy in order to Adjust Aggregate Demand

Maşcu Simona
„Ovidius" University of Constanta
mascu_simona@yahoo.com

Abstract

The goal of this paper is to discuss the joint analyses of fiscal, income and monetary policy in modifying aggregate spending.

The paper is focused on the specific characteristics of aggregate demand depending on phases of economic cycle.

Through this paper I also intend to emphasize that the recent crisis involved a shortfall of aggregate demand, falling incomes, budget deficit, monetary difficulties in which it is necessary the implementation of proper macroeconomic policies tools.

In order to adjust aggregate demand in reaching the main goals of macroeconomic wealth which are price stability and economic growth, the fiscal, income and monetary policy need to be coordinated in adequate ratios. These measures imply good cost benefit analyses before applying the proper mix of policies.

Key words: aggregate demand, monetary policy, fiscal policy, income policy
J.E.L. classification: E52, E62, E63, E64

1. Introduction

The objectives of this paper are to raise questions, to argue about macroeconomic policy issues and to stimulate discussions about the intervention regarding global demand, not necessary to provide answers. The actual key question in the debate is not about the efficiency of fiscal, income or monetary policy regarding each of them but the effectiveness of them implemented all together in different ratios in adjusting aggregate demand.

The choice between fiscal policy, income policy and monetary policy as tools of stabilisation policy is an important and controversial topic. One basis for the decision is the flexibility with which these policies can be implemented and take effect. Not only monetary policy but also fiscal policy tries to influence aggregate demand to rich the main economic goals: price stability and economic growth.

Another debated issue in this study regards several measures that would be very valuable when stimulating aggregate demand in certain phases of the economic cycle. It is important to emphasize the evolution of aggregate demand brought on a recession time. Falling incomes would open up a budget deficit, and this would automatically induce Central Bank to open the monetary spigots. The economy would get a strong anti-recessionary stimulus from monetary policy. And this will lead to a lot of money creation with subsequent inflationary consequences. But if the fiscal part keeps employment budget balanced, and if the economy fluctuates around its employment norm, this should not be a major worry.

2. The policy arsenal

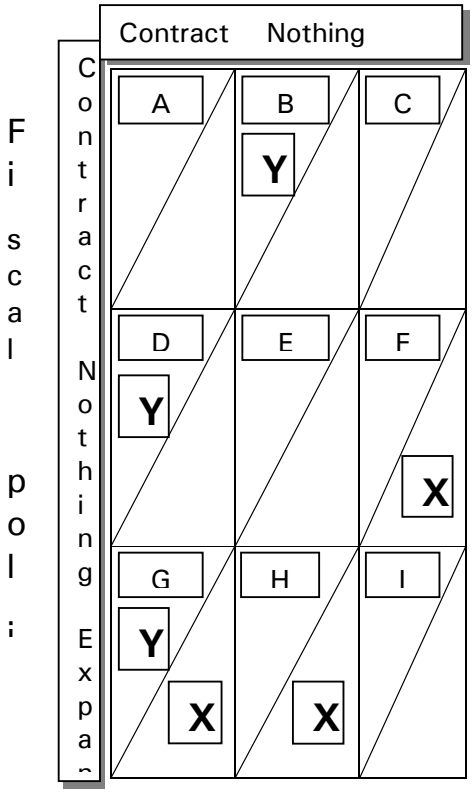
Economic policy makers have access to a variety of policy instruments. The challenge is to choose the right tools at the right time. The mix of tools required may vary from problem to problem.

Regarding on the monetary-fiscal policy mix where each authority, monetary and fiscal, has three strategies in adjusting aggregate demand: to expand aggregate demand, to contract aggregate demand, or to do nothing, it is necessary to study the combination of each situation. All the possibilities are summarized in Figure 1. The rankings of the fiscal authority are situated below the diagonal and the monetary rankings above. The fields marked with X indicate the best fiscal response to each monetary strategy and fields marked with Y indicate the best monetary response to each fiscal strategy. Box G explains the Nash

equilibrium applied to the coordination of monetary and fiscal policies.

It is well known that the Nash equilibrium concept is applied to games. Each player does what he would if he knew what the other player was going to do. It is equilibrium in the sense that the two resulting strategies are consistent with one another; once the game is played, neither player has any desire to change his decision. Not all games have a unique Nash equilibrium. The fiscal-monetary game to
be considered here does.

Figure 1. Coordination between fiscal and monetary policy



Source: Own remaking from "Issues in the Coordination of Monetary and Fiscal Policy", [1]

Box F suggests the situation in which the Central Bank is the leader and the
government follows their solution; this is the best Central Bank can do if constrained to the fiscal reaction function (the boxes with X). Similarly, box B illustrates the case in which the government is the leader and the Central Bank is the follower. In this example either leader-follower equilibrium is superior to the Nash equilibrium, though the leader has more to gain.

A complete lack of coordination between fiscal and monetary policy is shown in box E, where each authority ignores the other and shoots for its global optimum.

Achieving coordination between policies is more easily said than done. Government and central banks have reasons for disagreeing. This example illustrates that it what is necessary in this case is an agreement in which the authorities need to consult with one another enough to avoid outcomes that both parties view as inferior.[1]

Spending and household revenue are not two independent issues. That's why an interaction between monetary policy and wage formation in economies with strong labor unions is necessary in adjusting aggregate demand. For this reason labors union should adjust wages to prices so as to maximize their utility following changes in monetary policy. Also, the interplay of government and unions can create a persistent tendency toward inflation and unemployment simultaneously.

The adjustment of wages to changes in macroeconomic policy can be a major impediment to the effectiveness of the policies taken into account. Stabilization programs which intended to reduce inflation have frequently been endangered by the failure of the wages to decelerate with the prices, resulting in much higher real wages and unemployment than were expected initially.[2]

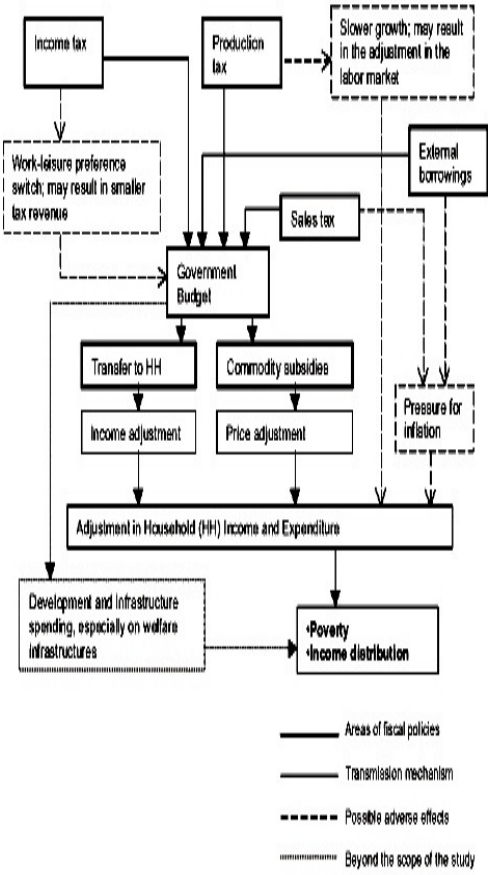
Correlated to income policy, fiscal policy influences demand pressure via both direct spending by the government and changes to private disposable income through the taxation and benefit system.

In these ways, fiscal policy affects demand and inflation pressure. While demand, and thus inflation pressures may originate from a range of different sources, the task of monetary policy is to respond so as to maintain an overall level of demand consistent with keeping inflation in one to two years' time within the target range. For example, if the government increases its net spending, all other things being equal, monetary policy needs to be tighter for a time, so as to slow growth of private demand and allow additional government spending.

Each fiscal instrument implies some adverse effects to the economy, which may lessen the effectiveness of its role. An

illustration of the role of different fiscal instruments and income policy on aggregate demand is summarized in Figure 2. [3]

Figure 2 The Effect of fiscal instruments and income Policy on aggregate demand



Source: The Impact of Fiscal Policy on Income Distribution and Poverty: A Computable General Equilibrium Approach, Yose Rizal Damuri ,

In order to achieve fiscal consolidation, sustained growth and efficient adjustments of aggregate demand countries may obey some useful recommendations.

First of all a credible medium-term fiscal plan with a visible anchor is necessary. Adjustments must be backed up by fairly specific spending, revenue projections and supported by structural reforms.

Secondly the fiscal adjustment must be used only if financing changes require it. The fiscal policy, but also monetary and income policy implemented must be based on permanent projections of aggregate demand. Another recommendation is focusing on fiscal consolidation tools that are conducive to strong and long term potential growth. In order to be equitable, the fiscal adjustment should be sustainable over time.

Coordinating fiscal, monetary and income policies with other countries is fundamental if the economic growth is to be maintained. Every country's internal demand has to be sustained by stronger external demand.

It is properly to coordinate monetary and fiscal policy. In conditions of recession, if fiscal policy is tightened, interest rates should not be raised as rapidly as in other phases of economic cycle. The use of an early monetary policy tightening in advanced economies is misplaced. [4]

Economists have different opinions regarding the use of policies in managing aggregate demand in the most efficient manner. Keynesians see in consumption and government expenditure the remedy for inadequate aggregate demand. The problem fundamentally responsible for the inadequacy of aggregate demand is excessive savings.

By contrast, Austrian analysis sees the solution in more saving as the foundation for more productive expenditure. It also sees in excessive private and public consumption, particularly public consumption, the most significant obstacle for the economy to recover in a period of recession. The issue is the distribution of spending between consumptive and productive activities.

3. Using macroeconomic policies in time of recession in order to adjust aggregate demand

Nowadays global economy faces a severe and lingering aggregate demand shortfall due to the exceptional severity of the recent crisis. The factors which led to this dramatic reduce of spending are: fall in wealth, severe disruptions of credit, devastation of state and local government budgets, much greater caution on the part of consumers and firms, and falls in output around the world. [5]

Another factor of a down economy can also be the consumer trust. It looks like a vicious circle. Fear of tomorrow makes people diminish spending, and that means weaker sales for businesses. Because of weak sales, companies reduce the revenue of employees and even make redundancies - which means, inevitably, less money for consumption. A Mintel Oxygen UK study

reveals that 71% of Britain reduces their spending from the beginning of the crisis, although only 40% say they are directly affected by the effects of the crisis.

The imperfect credibility of policy reforms is an important source of uncertainty. Public's perceptions are related to both the consistency of the adjusment program and the government's willingness to carry out the program knowing the social costs.

In these conditions, a considerable push in effective aggregate demand is fundamental in restoring spending and thus reviving the economic system. An increase in aggregate spending can be capable to reemploy idle men and machines and close the output gap. To pump up aggregate demand it is necessary to use monetary policy to regulate aggregate demand and use fiscal policy when there is a project worth spending money on.

There are several measures that would be very valuable when stimulating aggregate demand. The problem of using monetary policy in order to adjust aggregate demand is an extremely debated issue. On one side there is a group of economists who think that the central banks have enough tools to end up the recession. On the other side are Keynesian economists, who say that monetary policy cannot face the recession by itself; there is the need to use fiscal stimulus to get the economy moving again.

Monetarists argue that in given time monetary policy will work and other government meddling is probably a waste of money. In opposition, Keynesians point out that the central banks funds rate, which is the primary monetary tool, is already much reduced in most developed countries and other monetary strategies will not have the aimed effect.

They also find fiscal policy to have an important role as a direct intervention to poverty and income distribution. The advantage of this policy is that it can be targeted on specific groups in the economy, which are mostly affected by an economic shock. Taking into account that during a crisis period economy may experience negative growth, a more immediate action is required and there will be a need for a direct government intervention translated in fiscal policies.

Other targeted measures, beside rebalancing aggregate demand in order to revive the economy in recession conditions are: the provision of capital to banks to promote business lending, dealing with the budget deficit, financial regulatory reform, investing in education and innovation, steady effort to promote national products and services.

4. Concluding remarks

In this paper the challenge was to choose the most efficient ways to implement the policies needed in order to properly adjust aggregate demand at the right time considering that fiscal, income and monetary policies cannot be separated. The mix of tools required may vary in each phase of economic cycle, from problem to problem and from country to country.

The implementation of the policies should be preceded by good cost-benefit analysis, calculating the positive as well as the adverse effect. In such case, policymakers need a tool which enables them to precisely measure the net effect of a possible fiscal, income and monetary policy instrument.

The question about the efficiency of these policies in adjusting aggregate demand is justified by nowadays exceptional severity of the recent crisis. One of the causes of this shortfall of consumption is the consumer trust index.

Consumers may worry that taxes are going up, and so they may be holding onto their money instead of spending it. Businesses may worry that taxes, regulations etc, are getting worse, so they may not feel they can afford to drop prices even more to pull in more customers, they may not be investing and expanding. Prices may be high due to inflationary policy and this may be curbing demand as well.

Closely related, it is properly to coordinate fiscal, income and monetary policy. No one would dream of designing the human anatomy by disconecting the controls of the left and right sides of the body. [6]

Policymakers and economists in virtually all countries with separated monetary and fiscal policies believe that their countries suffer from fiscal deficits and real interest rates that are too high to promote a healthy level of private investment and adequate long-term growth of potential output.

5. References

[1] Alan S. Blinder, *"Issues in the Coordination of Monetary and Fiscal Policy",* Working Paper No.982, University of Cambridge MA 02138*,* September 1982, pp 33 – 47;
[2] J. Tobin, W. Buiter, *"Long run effects of fiscal and monetary policy on aggregate demand"*, Yale University, december 13, 1974, pp 1 – 2;
[3] Yose Rizal Damuri , Ari A. Perdana , *"The Impact of Fiscal Policy on Income Distribution and Poverty: A Computable General Equilibrium Approach"*, CSIS Working Paper Series, Jakarta, May 2003, pp 6-7;
[4] O. Blanchard, C. Cottarelli, "Ten commandments for fiscal adjustment in advanced economies", IMF Fiscal Affairs Department, June 28 2010;
[5] C. D. Romer *"Back to a Better Normal: Unemployment and Growth in the Wake of the Great Recession ",* Princeton University, Princeton, N.J., April 17, 2010, pp 6 – 15;
[6] W. D. Nordhaus , *"Policy Games: Coordination and Independence in Monetary and Fiscal Policies"*, Yale University, pp 139

The Influences of Ethics and Responsibility in Marketing on the Lifestyle

Micu Adrian
Cristache Nicoleta
Susanu Irinia
„Dunărea de Jos" University of Galati
mkdradrianmicu@yahoo.com
cristache.nicoleta@yahoo.de

Abstract

This paper details same aspects about romanians' life style and present tendincies. Starting from the fact that the role of marketing is to insure a higher life standard, it is necessary to analyze the double interference of two concepts, respectively the influence of marketing on the life style but also the influence of the life style on the companies' marketing.

This foray is dictated by the new context in which the clients' attitude has changed. Today, the clients are more different, more special than others, more exigent and with more judgment than those before them. Due to these changes, more and more companies direct and build their businesses and marketing strategies starting from the exterior to the interior; from the understanding of the clients' real needs and concerns (consumers or intermediaries) and their satisfaction to the clients' involvement in the conception, innovation activity of the new products.

Key words: ethics, life style, responsibility, consumption models.
J.E.L. classification: M310

1. Transparency and responsability in the marketing area

Nowadays, the life style is less predictable and having hundreds of TV channels, 24 hours a day, it is hard to say who will watch TV, what and when, how the companies can advertise efficiently and when to program the shows. The attitude towards brands and marketing has also changed. We live in the intelligent consumer's period who has probably studied more products and prices than the seller before involving himself in a transaction. Their motivations and aspirations are complex and have a personal character while their clearing up requires a lot of intelligence. In this context, the companies face difficulties in the consumers' division because, due to the higher and higher complexity of life, they are part of different segments, with different preoccupations. As the speed of communication, transport and contract of the financial operations has increased, the world diminishes quickly its dimensions; the markets have no boundaries, while the brands symbolize more and more a life style, not a certain product.

Transparency presupposes the fact that the promises must be respected. The consumers choose one brand or another according to the proved social responsibility and the company's attitude towards its own personnel than according to the products' quality. Even the trust in companies and their brands has suffered as a consequence of this fact. Little companies manage to have an irreproachable, perfect image. Although the marketing legislation expands in an alert rhythm as a result of the concerns expressed by citizens and authorities, the marketing specialists have also the obligation to take into account the general consequences of their approaches. The negative reaction to the arrogant, stupid marketing becomes more and more vast. That's the reason why the marketing specialists should pay more attention to the following problems [4]:

- **Intimacy** – in a world in which we are permanently aggressed by mass-media, telephones, mail, books and electronic mail, we try to protect our own information and existence.
- **Obligation** – we are encouraged, helped, convinced to spend more and more, to buy luxury products having acceptable payment conditions and credits by request.
- **Natural environment** – the huge quantity of waste material from packages, buying products excessively and pollution are a direct consequence of consumerism.
- **Health** – obesity has the proportions of an epidemic because of our weakness to sugar and fats and the companies which have high prices for nutritive food.
- **Children** – the advertising made for a large series of products for children, the irresponsible models offered to them and the uncontrolled desire promoted by them.
- **Integrity** – the need for honesty, morality and respect, ethics and positive models.

Responsibility should be the basic principle of the organizations and brands they offer. Marketing specialists should be the guiding force of a more responsible approach towards their own companies and clients and this responsibility should represent the main component of the brand. The four parts of the 'responsibility square' (fig.1) present both the internal challenges and the external ones, involving both physical changes and attitude ones; they should help the companies serve their markets and communities with open, not close 'eyes and ears'.

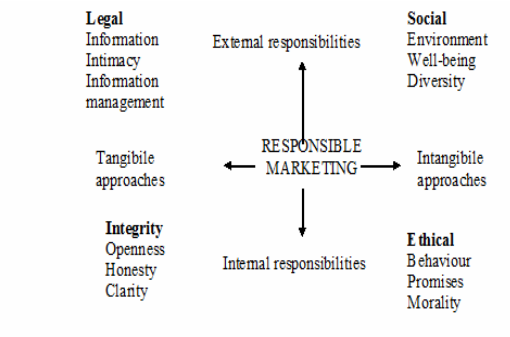


Figure. 1 – "Responsibility square" towards the client

Even if the marketing specialists' problems are the same: knowing the clients, developing solutions to their needs, setting with them an adequate connection to lead to the clients' satisfaction and profit for the business, things are much more complicated than in the past. The today consumers differ from those of yesterday. But how did the consumers change?

- They pay less attention than ever to the products, loyalty to one brand or another being more important.
- They respect youth more than age, they want to be young at any age instead of admiring the old persons.
- They value life more than money, preferring to work with hard currencies like relatives, friendship or well being instead of cash.
- They want to multiply the things they like or they treasure and reduce as much as possible the things they don't like or which are not important.
- They are ready to pay a higher price for the best car, but they want to pay less for the weekly shopping.
- They are too lazy to change a provider for a better one, but they are ready to cover a double distance for a cheaper plane ticket.

2. The consumption models in Romania

At the beginning of this millennium, the individuals' consumption behavior has evolved significantly. As we take part to major changes of the socio-economic environment, new concepts must be taken into consideration in the study of the consumer's behavior: the consumption experience, the sense perception, the social cohesion, etc. The new consumer is looking for a meaning in everything he does, which is not always compatible with the notion of reason or utility. Thus, the *consumption* isn't only a result of changing primate information; it's practically a *life style*.

It is difficult to generalize the consumer's behavior in every country in the world, for each category of products because the consumption models vary considerably. The incomes share which is spent on strictly necessary goods is an indicator of the market

development level and the incomes for other shopping. As the incomes of a family increase, the percentage of the expenses afferent to the food is going down, the percentage of the expenses for the house keeping activities is relatively constant and the percentage for incomes which is saved or spent for other shopping increases.

According to statistics, people spend in Romania about 90% from what they earn and almost all the money goes on consumption and taxes payment. The data published by the National Institute of Statistics show that from 100 lei:

- 71 go for consumption
- 15 for the taxes, contributions and shares payment;
- 13 for others.

Thus, according to statistics, in the semester of the last year, the monthly average incomes of a family were 2.319 lei. The expenses were 2,081 lei, that is 89, 8% from the total incomes. Not less than 71, 5% of these expenses were directed to consumption and 15, 6 % for the taxes, contributions and shares payment. The expenses for investments represent only 1,8 % from the total of expenses. In what concerns the expenses for consumption, most of them (40%) are designed for food and non-alcoholic drinks [6].

Apart from any statistics and consumption model, we may say that *people prefer the brands*. The examples are numerous in this direction in order to support the fact that the brands have a significant influence on the investors and consumers [4]. On the basis of these statistics and studies made by specialists, we try to find answers to the following questions:

1. Why do consumers prefer certain brands?
2. How do connections establish between clients and brand?
3. What determines the clients to be loyal to a brand?

These are questions to which all the marketing specialists in the world try to answer. The companies and their managers are based more on the attributes of their products when looking for some significant differences of the brands. The way for a continuous relation brand- client begins with the *promise* of the brand. But the reception and awareness of the respective promise represents only the first step. The consumers are informed about the existence of many brands they simply don't buy or they don't want to buy. Not all the promises are strong enough *to make connections with the clients[5]*. Nevertheless, there are certain categories of promises that showed they can establish emotional connections with the potential clients – when synchronizing is appropriate. They fix a ground that represents something more than a first try. These perspectives appear only when those promises worth to be trusted and are convincing. At a regional level, Romania is one of the most attractive markets for the top brands of the luxury industry, next to Ukraine because the Romanians' taste for luxury has become unrecognizable in the last 20 years. In Ceausescu's time the supreme labels of luxury were the Bulgarian business bags, the Astrakhan coats, the Cisnadie carpets, the Farmec deodorizer and the Snagov TVs. Today, the Romanians show they luxury by cars that can hardly be found in the European capitals, clothes bought directly from Milan and houses of hundreds of thousands euros. Despite the satisfying financial evolutions, the Romanians still lack the moral and cultural references. Without examples, models, they become victims of the audio-visual industry that considers important only the persons who gain fortunes quickly and become easily the so-called stars. Except for the money, the Romanians' strongest values are the traditional ones, connected to family, home and health. '*Romania has a very strong rural tradition and the citizens' fundamental values are connected to house, family and health'* explains the anthropologist Alexandru Balasescu. The structural evolution and transformations of the modern and postmodern societies are reflected immediately and directly *on marketing*, a domain which is sensitive to the influences of the economic, cultural and social environment etc.

In the post-modern type consumption societies, the most important characteristic is represented by the unparalleled development of technology. The markets and audiences are more and more divided; the individuals are isolated and at the same time, interconnected to the entire world by means of the computer and Internet. In this context, *the studies*

concerning the life styles from marketing perspective have as a purpose the determination of the influence they have within the process of buying, consumption or abandon of the products or brands. Identifying the consumers' styles of life, the specialists can make correct predictions on the consumers' behavior and their preferences. The analysis of the influence frame on the Romanians' life style and consumption behavior allowed the formulation of the following conclusions:

- The Romanians have a positive attitude to work which is specific to the post –modern societies, but unlike these societies, in which the population is oriented to saving money and fortune, the Romanians are not willing to save money. As it is revealed by this research and also other surveys, the Romanians are inclined to consumption rather than saving money. The main reasons that prevent the Romanians from saving money are related to the fact that they cannot afford it, their credits are too big, and they don't trust the financial products they are offered or they would prefer to spend the money than save it in a useful way.

- In what concerns the future, the most optimistic are the younger persons, with ages between 20 – 35 years who think the situation will change in good, their living standard will increase and they will have the possibility to save money for unpredictable situations.

- The attitude towards free time and the free time schedule differs according to the age, occupation and environment in which the interviewed persons leave. In general, the intellectuals distinguish between the working program and the free time, they schedule the shopping and the house work, actions specific to the *modern and traditional* behavior. On the other hand, the office workers, the medium staff, the workers make a weak distinction between the working program and the free time, they make activities that aren't scheduled, actions specific to the *postmodern* behavior. Unlike the people who leave in villages, those from the cities don't appreciate free time, they have a more disorganized life style, the young people, in particular, prefer the computer and TV instead of going out with friends or practicing sport. The percentage of the persons who prefer to go to the cinema or theatre in their free time is reduced, except for the big cities where the tickets for the famous shows sell very quickly. The anthropologists' explanation is that:' these types of shows have been replaced with the public show of the consumption'.

- The preference for the Romanians' information environment differs according to occupation, education, age. The intellectuals prefer the scientific books, specialized newspapers and revues, TV news, internet; while for the other categories, the favorite information environment is television, radio, they usually read less or nothing at all. Although it is the 'crocodile' that occupies most of the Romanians' time, *television is the postmodern typical channel* that broadcasts information, news, films and advertising in an occidental manner and technique. We also don't have to forget the role television has in forming opinions and tastes in a postmodern manner, the changes it can produce in the consumption traditional taste in villages.

- According to these researches, the Romanians are faithful people. Their attitude towards religion, belief and church is almost completely a positive one. In this direction, the results of a GALLUP survey, made in February 2009, mentions our country as the center of belief in Europe. The percentage obtained by Romania is extremely close to the one of some Muslim countries, such as Iraq and Iran. Other European countries with faithful citizens are Italy, Portugal, Greece and Poland. The GALLUP analysts have tried to find an explanation; they consider that: *'the religious level of the population is closely connected to the living standard'*. The percentage of the faithful persons in the developed countries is a relatively reduced one, except for USA, the most faithful country from the ones considered to be rich. We can assert that religion and church represent an important part in the Romanian people's life, no matter what standard of living they have.

- Most of the Romanians are fascinated by shopping which is also emphasized by the success the malls and hypermarkets have in Romania. As the Romanians' incomes increase, they choose to go shopping and spend most of their time in the commercial centers. Another aspect is represented by the Romanians' preference for the foreign brands, from clothes to cars of luxury. The

Romanians' *behavior* is, most of the times, an *ostentatious* one; they want to prove in front of their fellows an over the average state of well-being. The specialists consider that this ostentatious behavior derives from '*the incapacity of being happy'*. The orientation towards a post-modern typical consumption is mostly manifested in the urban environment than in the rural one, due to the 'attractions' the big cities offer, the young people representing a very receptive segment to such a life style.

3. The influence of the product's value in the life style

The values are principles that orient and guide the life style. They appear as a result of the information process and they are relatively stable in time. The concept of value distance occurs in the evaluation and decision actions on a product. This concept expresses the difference between the image reflected by the product and the one looked by the customer. Generally, the area of the common values is looked for when buying a product, which appears at the intersection between the individual's personal values and the product's perceived values.

The value of a product is a summative concept that takes into consideration the following: the number of necessity states on which the product can act, the power of influence exerted on a single need and the relevance of the needs category for the individual. An increased value can be obtained by: the increase of the number of approached categories or the gathering of the resources in order to create resolute power on types of priority needs for the individual.

At the company's level, the strategic management tries to offer the customers personalized solutions according to their values system. The consumer's involvement in creating solutions requires reconsidering the terms of the communication process between organization and public. Thus, the creation process of the value requires the development of some evolved communication systems between organization and customer that take into consideration the feed- back and especially the mechanisms that govern the customers' choices. Generally, the consumer doesn't buy in complete absence of information about a product or brand. The marketing specialists are interested in the way in which the consumer collects the information about products or brands, the way he interprets and uses them in his buying decisions, what are the questions to which he looks for an answer. The different tests (polls) have emphasized the fact the there is a strong connection between the ethical behavior of the companies and the consumers' decision to buy. According to a recent test, more than one of five consumers base their decision to buy or not a product on the perception they have on the social performance of the respective company. Most of the times, we can't attribute to these consumers a certain income, nationality or specific demographic characteristics. They can be analyzed from a psycho - graphic perspective. The fact a product is 'green' matters in this moment only for a few segments of local consumers. The acquisition criteria related to the social responsibility have a reduced share in the decisional process of the Romanian consumer in comparison with those related to the functional benefits of the product. Paradoxically, the statistics show that, even if, at a declarative level, an important percentage of the Romanian consumers of food products are extremely sensitive to the alimentary additives subject (the famous and destructive Es), their consumption behaviors are not influenced by this aspect in a definite manner.

In reality, the number of those who are prepared to change the products they use in this moment with similar ones, but 'green', is now very small. This will determine in time a spectacular change for most of the Romanian consumers, related to the information and experiences accumulation. But this is a process which requires time, involvement of the companies, authorities and consistent effort of the consumers. Thus, in order to win the Romanian consumers' trust and their involvement in activities of social responsibility, the companies must make a first step, by showing that they respect them in everything they do (correct information, appropriate packages, correct prices, direct contact, shopping experience, post acquisition services etc.).

The consumers are more and more receptive to the impact of the products on the environment and this tendency will increase

in the following years. According to the European statistics, four of five European consumers want to buy ecological products if they are appropriately certified. In this context, an important aspect, perceived as a first element of the companies' correctness towards the consumers is represented by labeling. The label is the best way to answer the numerous questions of the consumers, on scientific grounds. The ecological labeling represents an important step in reinforcing the relationship between the company and its clients, contributing to the consumers' loyalty and trust increase. Moreover, it contributes to the improvement of the company's position towards the customers in what concerns the commitment to the environment. The ecological labeling can improve the brand image, being another proof of the products' quality. The companies that get the ecological label have another opportunity.

4. Conclusions

Finally, we can assert that the introduction of the occidental values in our country has influenced in a certain measure the Romanians' life style, the occidental life style becoming a model which the Romanians dream about. On the other hand, we can also observe the orientation towards post-modern consumption in Romania, which is specific to the countries developed from an economic point of view. In this context, the marketing of the life style has an important role in the development process of the postmodern request. On the other hand, it's obvious that the consumers are more and more sensitive and critical when talking about issues of social and ethical nature.

A new type of consumer has appeared in this context, with very high expectations. Considering that the requirements have increased on both sides, the involvement in community has become necessary for any company that wants to ensure not only the commercial success, but also the society's respect. The trust and respect of the community's members affects the whole activity of the company, that's why it must contribute actively to the society's development. The benefits accomplished are first of all represented by the three terms: acknowledgement, reputation, gratitude.

Although the tendencies of the life style in the west European countries are also present in Romania, not all of them manifest themselves and not necessarily in the same way, due to the Romanian cultural peculiarity, its vitality and subjectivism. Actually, the characteristics and culture specific to each country interfere with the present tendencies in a unique way, generating life styles and behavioral attitudes specific to the respective country.

5. References

[1] Allen, M., 1999, *The direct and indirect influences of human values on product ownership*, Journal of Economic Psychology, nr.20

[2] Iliescu D., Petre D., *Psychology of the Advertising and of the Consumer*, Comunicare.ro Press, Bucuresti, 2004.

[3] Hawkins, Best, Coney, *Consumer Behavior. Implications for Marketing Strategy,* Richard & Unwin Inc, 1989.

[4] *Peter Fisk, Genius in marketing, Meteor Press, 2008, p.191*

[5] William J. Mc Ewen, *The force of the brand*, ALLFA Publishing, Bucureşti, 2008

[6] http://www.ziare.com

Cost – Volume - Profit Analysis Contribution On Overcoming the Current Crisis in Hospitality Industry

Mihalache Anita
Sălăgean Liana
"George Baritiu" University of Braşov
anita.mihalache@gmail.com
lianaugb@yahoo.com

Abstract

In this paper we want to bring arguments to support the use of cost – volume – profit analysis in the hospitality industry, especially giving the current crisis. It can respond promptly to some questions that may arise during the conduct of business because it allows the calculation of certain performance indicators. This analysis is part of the management accounting method "direct costing".

Key words: cost – volume - profit analysis, decision - making process, direct -costing, hospitality industry.
J.E.L. classification: M4, M49

1. Introduction

We begin by considering how the management accounting information can be of assistance in providing answers to questions about the consequences of following particular courses of action. Such questions might include 'How many units must be sold to break-even?' 'What would be the effect on profits if we reduce our selling price and sell more units?' 'what sales volume in required to meet the additional fixed charges arising from an advertising campaign?' 'Should we pay our sales people on the basis of salary only, or on the basis of commission only, or by combination of the two?' This and other questions can be answered using cost-volume-profit analysis.

This is a systematic method of examining the relationship between changes in activity (output) and changes in total sales revenue, expenses and net profit. As a model of these relationships cost-volume-profit analysis simplifies the real-world conditions that a firm will face. Like most models, which are abstractions form reality, cost-volume-profit analysis is subject to a number of underlying assumptions and limitations, which will be discussed in this paper; nevertheless, it is a powerful tool for decision making in certain situations.

2. The objective of cost – volume - profit analysis

The objective of cost – volume – profit analysis is to establish what will happen to the financial results if a specified level of activity or volume fluctuates. This information is vital to management, since one of the most important variables influencing total sales revenue, total cost and profits is output or volume. For this reason output is given special attention, since knowledge of this relationship will enable management to identify the critical output levels, such as the level at which neither a profit nor a loss will occur (the break-even point).

Cost – volume – profit analysis is based on the relationship between volume and sales revenue, costs and profit in the short run, the short run normally being a period of one year, or less, in which the output of a firm is restricted to that available form the current operating capacity. In the short run, some inputs can be increased, but others cannot. For example, additional supplies of materials and unskilled labor may be obtained at short notice, but it takes time to expand the capacity of plant and machinery.

3. Cost – volume – profit analysis assumptions

It is essential that anyone preparing or interpreting cost – volume – profit information is aware of the underlying

assumptions on which the information has been prepared. If these assumptions are not recognized, serious errors may be drawn from the analysis. These important assumptions must be taken into consideration. They are as follows:

a) *All other variables remain constant*. It has been assumed that all variables other than particular one under consideration have remained constant thought the analysis. In other words, it is assumed that volume is the only factor that will cause costs and revenues to change. However, changes in other variables such as production efficiency, sales mix, price levels and production methods can have an important influence on sales revenue and costs. If significant in these other variable occur the cost – volume – profit analysis presentation will be incorrect.

b) *Single product or constant sales mix.* Cost – volume – profit analysis assumes that either a single product is sold or, if a range of products is sold, that sales will be in accordance with a predetermined sales mix. When a predetermined sales mix is used, it can be depicted in the cost – volume – profit analysis by measuring sales volume using standard batch sizes based on a planned sales mix. Any cost/volume/ profit analysis must be interpreted carefully if the initial assumptions did not hold.

c) *Total costs and total revenue are linear functions of output*. The analysis assumes that unit variable cost and selling price are constant. This assumption is only likely to be valid within the relevant range of production. The term relevant range is used to refer to the output range at which the firm expects to be operating within a short term planning horizon. This relevant range also represents the output levels which the firm has had experience of operating in the past and for which cost information is available.

d) *Analysis applies to relevant range only*. Cost – volume – profit analysis is appropriate only for decision taken within the relevant production range. It is incorrect to project cost and revenue figures beyond the relevant range.

e) *Costs can be accurately divided into their fixed and variable elements*. This analysis assumes that costs can be accurately analyzed into their fixed and variable elements. The separation of semi-variable costs into their fixed and variable elements is extremely difficult in practice. Nevertheless a reasonably accurate analysis is necessary if cost – volume – profit analysis is to provide relevant information for decision – making.

f) *The analysis applies only to a short term time horizon*. Cost – volume – profit analysis is based on the relationship between volume and sales revenue, costs and profit in the short term, the short term being typically a period of one year. In the short term the costs of providing a firm's operating capacity such as property taxes and the salaries of senior managers, are likely to be fixed in relation to changes in activity. Decision on the firm's intended future potential level of operating capacity will determine the amount of capacity costs to be incurred. These decisions will have been made previously as part of the long term planning process. Once these decisions have been made, they cannot be easily reversed in the short term.

g) *Complexity related fixed costs do not change*. Cost – volume – profit analysis assumes that complexity related costs will remain unchanged. These analysis assumptions will be violated if a firm seeks to enhance profitability by product proliferation: that is, by introducing new variants of products based on short term contribution margins. The cost – volume – profit analysis will show that profits will increase as sales volume increases and fixed costs remain constant in the short term. The increased product diversity, however, will cause complexity related fixed costs to increase in future periods, and there is a danger that long term profits may decline as a result of product proliferation. The analysis incorporates the fixed costs required to handle the diversity and complexity within the current product range, but the costs will remain fixed only if diversity and complexity are not increased further. Thus cost – volume – profit analysis will not capture the changes in complexity related costs arising from changes in the range of items produced.

4. The mathematical model of cost – volume – profit analysis

The theoretical relationship between total sales revenue, costs and profits with volume has been developed by economists. Therefore in practice there are several models to approach the cost – volume – profit analysis:

the economist's model, the accountant's model, the mathematical approach and the graph method.

The most used method in construction of cost – volume – profit analysis is the mathematical method that uses mathematical relationships. The mathematical approach is quicker and more flexible method of producing the appropriate information than the graphical approach, and is a particularly appropriate form of input to a computer financial model.

When developing a mathematical formula for producing cost – volume – profit information, it is important to take into consideration that one is assuming that selling price and costs remain constant per unit of output. Such an assumption may be valid for unit selling price and variable costs, but fixed costs are a constant total amount whereas unit cost changes with output levels. As a result, profit per unit also changes with volume.

A mathematical formula can be developed from the following relationship:

NP = (US x USP) – [(US x UVC) + TFC], where:

NP = net profit;

US = units sold;

USP = unit selling price;

UVC = unit variable cost;

TFC = total fixed costs.

In order to develop the mathematical model, the following symbols can be used to represent the various items in the above equation:

x = US (units sold);

P = USP (unit selling price);

b = UVC (unit variable cost);

a = TFC (total fixed costs).

The equation can now be expressed in mathematical terms as:

$NP = Px - (a + bx)$

5. Case study

Ramada Hotel operates in the hospitality industry and one of its basic activities is to accommodate tourists. The company is examining the viability of its accommodation activity at the hotel placed in Brasov. The hotel capacity is 16.200 tourist days in one month. Estimated fixed costs are 227.000 euro/month. This includes the salary paid to employees, advertising costs, depreciation expenses, and other fixed overheads. Variable costs consist of the cost of room maintenance, consumed energy, water, and other variable costs which is estimated at 20 euro per tourist day. The proposed accommodation rate is 60 euro per tourist day.

The management at Ramada Hotel has requested the following information:

a) number of tourist days that must be occupied to break-even;
b) how many tourist days must be occupied to earn 40.000 euro target profit;
c) what profit would result if the accommodation will be half occupied;
d) what rates would hare to be charged to give a profit of 120.000 euro, on half the capacity, fixed costs of 227.000 euro and variable costs of 20 euro per tourist day;
e) how many extra tourist days have to be occupied in order to cover an extra cost of television advertising of 10.000 euro?

In order to provide the demanded information we have to proceed to the cost – volume – profit analysis as following:

a) Break-even point in units (number of tourist days).

Since $NP = Px - (a + bx)$, the break-even point is at a level of output (x) where

$a + bx = Px - NP$

Substituting the information provided, we have:

$227.000 + 20x = 60x - 0$

$227.000 = 40x$

and so $x = 5.675$ tourist days (or 340.500 euro total revenue at rates of 60 euro per tourist day).

This means that 35,03% of the hotel capacity must be occupied to break-even (the hotel obtains neither profit nor loss).

An alternative method, called the contribution margin approach, can also be used. Contribution margin is equal to sales minus variable expenses. Because the variable cost per unit and the selling price per unit are assumed to be constant the contribution margin per unit is also assumed to be constant. In the case of Ramada Hotel each tourist day generates a contribution of 40 euro, which is available to cover fixed costs and, after they are covered, to contribute to profit. When we have obtained

sufficient total contribution to cover fixed costs, the break-even point is achieved. The alternate formula is:

$$\text{Break - even point} = \frac{\text{fixed costs}}{\text{contribution per unit}}$$

The contribution margin approach can be related to the mathematical formula approach. Consider the last line of the formula approach, it reads:

227.000 = 40*x*, and so:

$$x = \frac{227.000}{40} = 5.675 \text{ tourist days}$$

Therefore the contribution margin approach is a restatement of the mathematical formula, and either technique can be used.

b) Number of tourist days occupied to obtain a target profit of 40.000 euro.

Using the equation:

NP = P*x* – (a + b*x*), we obtain:

40.000 = 60x – (227.000 – 20x)

267.000 = 40*x*

and so *x* = 6.675 tourist days

If we apply the contribution margin approach and wish to achieve the desired profit, we must obtain sufficient contribution to cover the fixed costs (the break-even point) plus a further contribution to cover the target profit. Hence we simply add the target profit to the fixed costs so that the equation using the contribution margin approach is:

$$x = \frac{fixed\ costs\ +\ desired\ profit}{contribution\ per\ unit},$$

where *x* = tourist days occupied to obtain a target profit.

This is merely a restatement of the last line of the mathematical formula, which reads:

267.000 = 40*x*, and so:

$$x = \frac{267.000}{40} = 6.675 \text{ tourist days}$$

This means that 41,2% of the hotel capacity must be occupied to cover the fixed costs and to obtain a target profit of 40.000 euro.

c) Profit obtained for half the capacity occupied.

Substituting in the equation:

NP = P*x* – (a + b*x*), we have:

NP = 60x8.100 – (227.000+20x8.100)

NP = 486.000 – (227.000 + 162.000)

NP = 97.000 euro

So, if the hotel is occupied at half capacity it will result in a profit of 97.000 euro.

d) Rate to be charged to show a profit of 120.000 euro, on half the capacity occupied.

Applying the formula for net profit:

NP = P*x* – (a + b*x*), we obtain:

120.000=Px8.100–(227.000+20x8.100)

120.000 = 8.100P – 389.000

8.100P = 389.000 + 120.000

8.100P = 509.000

P = 62,84 euro/tourist day

This means the rates most be increased by 2,84 euro per tourist day.

e) Number of extra tourist days that have to be occupied in order to cover an extra 10.000 euro in advertising costs.

The contribution per unit is 40 euro and fixed costs will increase by 10.000 euro. Therefore an extra 250 tourist days must be occupied to cover the additional fixed advertising costs.

Additional information can be obtained by using cost – volume profit analysis. This information is: the profit – volume ratio, the relevant range and the margin of safety.

The profit volume ratio (also known as the contribution margin ratio) is the contribution divided by sales. It represents the proportion of each 1 euro sales available to cover fixed costs and provide for profit. In the current case study the contribution is 40 euro per unit and the rate is 60 euro per unit. The profit ratio is, therefore, 0,67. This means that for each 1 euro sale a contribution of 0,67 euro is earned. Because we assume that selling price (rates) and contribution per unit are constant, the profit – volume ratio is also assumed to be constant. Therefore the profit – volume ratio can be computed using either unit figures or total figures. Given an estimate of total sales revenue, it is possible to use the profit – volume ratio to estimate total contribution. For example, if total sales revenue is estimated to be 400.500 euro, the total contribution will be 267.000 euro. To calculate the profit, we deduct fixed costs of 227.000 euro, thus a profit of 40.000 euro will be obtained from total sales revenue of 400.500 euro.

Expressing the above computation in mathematical terms:

NP = (SR x PV ratio) – FC

NP + FC = SR x PV ratio, where:

NP = net profit;

FC = fixed costs;

SR = sales revenue;
PV ratio = profit – volume ratio.

Therefore the break-even sales revenue (where net profit = 0) are:

$$\text{Break - even sales revenue} = \frac{\text{FC}}{\text{PV ratio}} \text{I}$$

t is vital to remember that, as with the mathematical approach, the formulae method can be only used for decision that result in outcomes within the *relevant range*. Outside this range the unit selling price (rates) and the variable costs are no longer deemed to be constant per unit, and any results obtained from the formulae that fall outside the relevant range will be incorrect. The concept of the relevant range is more appropriate for production settings but it can apply within non-production settings.

Returning to Ramada Hotel in our case study let us assume that unit variable costs will be higher if the capacity isn't occupied at 4.000 tourist days but lower if it's occupied at 12.000 tourist days. Thus, the 20 euro variable costs relates only to a capacity within a range of 4.000 to 12.000 tourist days. Outside this range other costs apply. In other words, we will assume that the relevant range is a capacity occupied at a range between 4.000 and 12.000 tourist days, and outside this range the results of our cost – volume – profit analysis, do not apply.

The *margin of safety* indicates by how much sales may decrease before a loss occurs. Using the case study, where rates and variable costs were 60 euro and 20 euro respectively and fixed costs were 227.000 euro, we noted that the break – even point was 5.675 tourist days or 340.500 euro sales value. If occupation rate is expected to be 8.100 tourist days or 486.000 euro, the margin of safety will be 3.100 tourist days or 186.000 euro. Alternatively, we can express the margin of safety in a percentage form based on the following ratio:

$$\text{MS}\,\% = \frac{\text{ES - BES}}{\text{Es}} \text{x}100\text{, where:}$$

MS% = percentage margin of safety;
ES = expected sales;
BES = break – even sales.

Therefore, for our case study the percentage margin of safety is:

$$\text{MS}\,\% = \frac{486.000 - 340.500}{486.000} \text{x}100 = 29{,}94\%$$

6. Conclusions

The output from a cost – volume – profit model is only as good as the input. The analysis includes assumptions about sales mix, production efficiency, rates level, total fixed costs, variable costs and selling price per unit. Obviously, estimates regarding these variables will be subject to varying degrees of uncertainty.

Sensitivity analysis is one approach for coping with changes in the values of the variables. Sensitivity analysis focuses on how a result will be changed if the original estimates or the underlying assumptions change. With regard to cost – volume – profit analysis, sensitivity analysis answers questions such as the following: 1. What will the profit be if the sales mix changes from the originally predicted? 2. What will the profit be if fixed costs increase by 10% and variable costs decline by 5%?

The widespread use of spreadsheet packages has enabled management accountants to develop cost – volume – profit computerized models. Managers can now consider alternative plans by keying the information into a computer, which can quickly show changes both graphically and numerically. Thus managers can study various combinations of changes in selling prices, fixed costs, variable costs and product mix, and can react quickly without waiting for formal reports from the management accountant.

This is why we recommend the use of cost – volume – profit analysis, especially in the context of the current economical crisis, by establishments in all fields of business.

7. References:

[1] C.T. Horngren, S.M. Datar, G. Foster, *Cost Accounting: A Managerial Emphasis*, Prentice Hall, New York, 2008;
[2] C. Drury, Management and *Cost Accounting*, Thomson, London, 2004;
[3] O. Calin, M. Man, M.V. Nedelcu, *Managerial Accounting*, Didactica si Pedagogica, Bucuresti, 2008.

Aspects Concerning the Part of Fair Value within Financial Reports on the Strength of Current Financial Crisis

Mihalciuc Camelia Cătălina
Cibotariu Irina Ştefana
Apetri Niculina
"Ştefan cel Mare" University of Suceava
cameliam@seap.usv.ro
irinac@seap.usv.ro
anisoarad@seap.usv.ro

Abstract

The fair value represents the most comprehensive concept referring to evaluation, mostly meaning the determination of market value, based upon supply and demand report. In order to evaluate a company to the fair value, information regarding the past performances, the potential future earnings, the economic climate or the involved human resources have become necessary.

This paper brings a support to specialty literature, more and more developed within the area of value's relevance as concerns the accountancy information provided by means of fair value, and analyzing the validity of hypothesis, according to which the fair value has an informative character that is superior to the historical cost, as financial reporting standard for the financial instruments.

Various initiatives are analyzed here, explained depending on certain particularities related to the evaluation criteria adopted at international level. Normative contexts have been always existed, where an ample appeal to fair value is done, meaning to the current market values, in the view of evaluating various balance sheet positions and especially the financial instruments. Within the current context, adopting the conceptual frame of the international financial normative have been necessary, where the fair value was represented by the adequate response, that allows users those financial situations on having an image faithful to the financial real position of an enterprise.

Key words: financial crisis, historical cost, fair value, SFAS 157
J.E.L. classification: M 48

1. Introduction

In the last years, the standardization followers have directed more and more towards the support of fair value and its intensive application. The evaluation at the fair value has been foreseen to many normative issued by IASB, and respectively by FASB, so that according to this standard, not only the financial instruments are presented within the financial situations, as well as the fixed non-physical or physical assets purchased through the collaboration of enterprises, depreciated or reevaluated, the assets owned for sale, the debts related to payments done by stock holdings, the immovables investments, the commissions or the biological assets[1]. Using the current values on evaluating the balance sheet elements signifies that values assigned to different patrimonial elements will be anchored to the market, and as result assigned to their tendencies, either positive or negative. This fact leads towards the emphasizing of profits not yet accomplished or of losses not yet occurred, by strengthening the volatility of result by the end or during this duration. All these have taken to improving and/or making worst the image of market entity, in close connection to the result achieved by this. One might see the cyclic effect, especially on financial markets, where the market tendency influences the results of entities, and which on their turn will prove effects on financial market, thus magnifying the oscillations[2].

2. The Fair Value within Accountancy

The concept of fair value has been found at many international accountancy standards, and the body of accountancy settlement denoted as IASB haven't given up to this concept, not even while issuing the international standards of financial reporting, thus using it within their IFRSs newly issued[3]. All these standards have required the utilization of fair values for one or more classes of assets or debts. Since the fair value is mainly assimilated with the market price, its identification assumes the existence of a market able to carry out activities in normal conditions, or in other way, enough liquid so as to establish the price of financial instruments. The fair value is the result of theoretical and practical research of various specialists, with different aims, but with the same target: that of expressing at the best correctness the reality of an element's value at certain moments of time, subsequently to the initial recognition[4]. The historical cost results from clear transactions, which an enterprise is accomplishing, and represents a real value at the moment of initial recognition and easy to establish more often than not.

Evaluating the financial situations of a company reveals the fact that using the fair value its performance will reflect the immediate variations of the market, but moving away from current situation of the company's treasury and from current ability of managing the treasury resources[5].

Yves Bernheim affirmed in one of his papers that the fair value is mostly justified by its ability of offering information about the future treasury flows, in contradistinction to other evaluation basis[6].

N. Foster and N. Hall considered that the evaluation model, based on fair value, have introduce a net indicator of performance, the global result, which might be seen as a prolongation of evaluation to the fair value[7].

FASB emphasizes that the global result is a measure of transactions effects and of other events within a company, aiming all variations of the net asset, also including the variation of latent value of net assets, with the exception of those resulting from distributions and contributions from investors[8].

T. Jeanjean, although supporting the idea of fair value usefulness, specified a hypothesis according to which the interest of fair value introduction can prove a questionable credibility by reporting to the informational content, since the amelioration of stock capitalization foresights for a company has been limited to the cost-benefit report. In order to satisfy this report, the determination of fair value should not exceed its informational content of becoming an instrument within the company's management, and thus influencing the taking of decisions[9].

3. Arguments in Favor or Against the Fair Value

Taking into consideration the fair value, the question immediately asked would be: *Why an fair value and not a market value, in conditions where the last one clearly indicates the fact that we should look for the market price?* Indeed, the market value can establish the fair value when active markets exist, *but what happens in cases when no persons exist outside the enterprise, willing to purchase the assets or to undertake the enterprise's debts?* For such situations, the market value is no longer representing a reference point, and that is why the fair value is used. We have tried forwards to give some answers to the questions asked above, by bringing arguments in favor or against the fair value. *How easy is to audit the fair value?* Checking the fair values based on internal models depends upon accepting the model of basic evaluation by the auditors. For this reason, two contrary opinions have been emphasized, meaning: *The pro argument:* the fair values are very useful within the decision process, even a level of potential unfaithfulness exists as related to the fair value. *The argument against:* the fair values can be used only relating to elements, for which efficient markets with standard products exist[10].

The fair value or the historical cost? If the accountancy balance sheet represents the probable value of an enterprise's liquidation, the fair values are certainly preferred in detriment of historical costs. The basic reasons of such choice are thus synthesized: the fair value represents the economic reality; an accountancy balance sheet based on fair

value is a faithful representation of the financial position; it gives the probable liquidation value. The historical cost leads towards a "fictive" accountancy[11].

What are the connotations about the performances measurement? The best impact of the fair value over the performances measurement for an enterprise is offered by IAS 39 as "Financial instruments: recognition and measurement". Some assets and debts are included within the accountancy balance sheet at an fair value, meaning the market price. Any modification appeared at the fair value of assets and debts recognized are taken within the account of results. This changes the type of profit account and loss, and imposes the over-thinking the process of measuring the performance, since the net income before the excise tax is no longer representing the economic activity of an enterprise, but including the profit generated by the increase of fair value of the assets. *Arguments against:* is difficult for the stockholders to evaluate the efficiency of managing the resources by the enterprise's management; the profits appeared after changing the fair value cannot be accomplished, and recognition of not-achieved incomes is in contradistinction with the cautious traditional approach for accountancy. *Arguments in favor:* purchasing of assets, whom value decreases represents a sign of weak management that should be recognized into the results account. These arguments in favor and against can continue, but the fair value is currently trying to reduce the negative effects of the historical cost. Simultaneously with the stronger and stronger development of the financial markets, the fair value will have a higher and higher part[12].

The critics brought to the fair value indeed address problematic situations, but the proposed solution of restricting its utilization has not remained convincing for at least three reasons. These do not bring a viable alternative, ignoring the negative impact that might result from losing some information that are currently provided within financial situations and affect the distinction between accountancy and prudential concerns, which prove different objectives and should be separated with specific attention[13]. The opponents of the fair value are losing this fight from the start, due to the fact that they do not succeed on accompanying the arguments with obvious solutions, or denoted as "counter-offer". If it is easy to identify and emphasize the drawbacks of fair value accountancy, finding an alternative method able to accomplish in a better way the relevance, credibility, comparability and intelligibility characteristics will not be so easy; these characteristics are assigned through large consensus and principles to the current standards in the field[14].

4. Causes of the Current Financial Crisis

The general cause of the current financial crisis consisted of the exacerbation of financial instruments, of the nominal (monetary) economy, related to the real economy, as concerns ensuring the premises of a lasting development. This exacerbation was based on a speculative component of the market economy model for a free competition market, beyond its admissible and controllable limits. One of these causes consists of major drawbacks within national and international systems' activity on internal and external accountancy financial audit, as well as of different rating agencies, which were not able to give an alarm signal in time, to prevent the producing of such financial convulsions for the capital markets[15].

Effects of international financial crisis are multiple and affect in different ways one or more countries involved. The most important effect, until now, is represented by the bankruptcy of some bank or credit institutions of USA and of EU member states, as results of entering within inability of payments and of impossibility for recovering the outstanding debts, especially within the immovables area[16].

The bankruptcy and money withdraws from banks, unfaithfulness in their credit-worthiness have produced a severe disorder on stock market, so that the value of stocks to different world stock exchanges for significant transaction companies has decreased in some cases and an extreme measure was taken, on suspending the transactions at the stock exchange, during some time periods. This has generated a sudden decrease and sometimes a dramatic one, for the stock exchange capitalization, for virtual money, by unprecedented reducing of

stock price; this fact determined that a god part of companies under transaction should reevaluate the capital and recalculate the losses, as result of financial collapse they have been through[17].

The main cause of credits crisis consists in the failure of corporative governance to banks, which excessively encouraged the thinking on short term and have been blind to the risk, as according to a report over the financial crisis of the last year published by the *Association of Professional Accountants (ACCA).* Although the current crisis is not another Enron, of which many accountants over the Seas are concerned of, the ACCA report shows many weak points, of the profession. The *ACCA report*, named "*Over-passing the crisis of credits*" examines five key fields: corporative governance, remuneration and incentives, identification and the management of risks, the accountancy and financial reports, as well as the establishing; the report recommends that practices accepted in all these fields should change so as to avoid future failures. The main cause is represented by the short term thinking, coupled with the lack of accountancy within financial institutions, but also between the management and the stockholders. The ACCA report also agrees that the accountancy profession should be researched and validated. The professional accountants, the standards creators and the auditors should learn from the years that have passed. One cannot accept that loans of weak quality to be cut and played at dice or divided into lots, with AAA label and over evaluated within bank balance sheets, as consequence. ACCA thinks that the accountancy fair value has a significant part on financial modern and global reporting, but one should be ensured that this model is so robust as we are able do it. The efficiency problems of the markets have a strong connection to the accountancy values[18].

A question is asked: *if the accountancy standards have gotten worst in an inadequate way the crisis of credits, thus transforming it from a crisis of liquidity to a crisis of solvability?* In the last months, the attention was paid on the fair value practiced on evaluating the assets, but not at the initial price of acquisition, or at the historical price, but using the current market value. Another question appears: *what should we do when there is no real market?* Subjective models have been used, but these have not reflected in an adequate way the extreme conditions from the last twelve months. This has contributed to huge decreases of banks that determined other players to use a lower benchmark. This fact leads to the temptation of selling now, before the price is decreased, thus entering within a vicious circle. Some banks and settlements have showed the fair value, where one of the key elements of the IFRS regime, used in Europe and by the companies listed from 100 countries, has gotten worst their situation. Some accountants required the "homogenization" of assets value at the average market price of the last 12 months, so as to get out of the decreasing wave.

ACCA considers that the increase of IFRS transparency and of fair value have determined this to be an available model. Any type of homogenization will finally lead towards the diminution of integrity and of market opening. The "historical cost" should not be forgotten, which lead to stagnation of credits and the lack of transparency from the economies of Asia-Pacific, during the crisis of 1997/1998, but instead leading to international accountancy standards. The accountant professionals should learn from the last years and should strengthen the model of fair value. The balance sheets of banks, which include these collateral debts (denoted as collateralized debt obligations - CDOs) do not represent a "real and fair" image[17].

5. Evaluation at Fair Value According to SFAS 157 *Fair Value Measurement*

Using the fair value represents a high debated topic, during recent times, by high financial institutions, thus recognizing within financial situations losses higher than 150 milliards of dollars, mostly upon basis of using the market values[10]. In the same time, SEC investigates currently the possibility of its using by some entities, being under research for some different market values, for the same value titles. From this perspective, no one can deny the fact that using the market values involves certain problems, especially during some extremely difficult times, as considering the market

point of view[19].

SFAS 157 brings a surplus of rigor as concerns the estimation of fair values, especially by its central component of describing the hierarchy of fair value, presenting the three levels of input data, related to the models of evaluation that can be used. Each level reduces the level of credibility and relevance to the estimated values, but also represents the consequence of realities concerning the reduced possibility of using the superior levels. Except the titles of value under transaction in generally, the identification of some assets and debts identical under transition within some assets market cannot be accomplished. In such situations, the standard allows that values observed should be adjusted in such manner that these should be able to quantify the differences between the evaluated elements and those elements similar to the used value that can be determined. These differences can reflect various conditions, locations and some other constraints, as concerns the marketability of elements under evaluation[20].

Making a hierarchy of fair value on three levels has become a well defined terminology within financial reporting, the specialty literature, thus referring to the assets and debts of entities, depending upon the level of input data used on providing the information related to these. Of course the assets related to level there currently capture the entire attention, due to the fact that these usually present the highest problems when companies implement SFAS 157, due to the lack of some prices quoted within active markets, thus being necessary the evaluation based on own models of entities (of banks, especially) [10]. The standard issued by FASB during the autumn of 2006, SFAS 157 *Fair Value Measurement* seems on one hand to collapse the basis of evaluation based on historical cost, but in the same time, appears as inoffensive because is not imposing the large scale utilization of fair value[21].

6. Conclusions

The situation of international financial markets has become very difficult at this time, characterized by financial non-liquid or tumultuous markets, where the small number of contractual negotiations or their abnormal tendency have determined the markets of not reflecting the real value of the entities, or of the financial instruments quoted by this. The consequences resulted in such situations are represented by the fact, according to which using of market values on evaluating the patrimonial elements, with no correction, leading to a discouragement of entity's results and with negative impact on both the entity, as well as over the stock exchange[22].

IASB has prescribed the evaluation of assets upon basis of fair value, this being equivalent to the price of free market, represented by the price formed in conditions o open competition, were no employee belonging to market agents cannot influence or decide unilaterally the establishment of the level of its dynamics, formed upon basis of direct confrontation between the buyers and sellers[23]. FASB has elaborated some indications so as to measure the fair value in times of market turbulence, where a hypothesis was issued; according to this the fair value determined upon basis of models that use non-observable data on market might be much more representative than a determined fair value upon basis of data observable on the market[14].

In order to remediate this disarrangement, probably just temporary, between the market value and the fair value, an extension of this situation was proposed, as regards the means of measuring the fair value, afferent to capital instruments that have proven a quoted market price, making appeal to technical evaluations. Financial crisis represents that crisis of success and are part of the mechanism of financial markets functioning. Financial crisis is caused by the excess of trust generated by the economic increase, the old economic laws that are no longer applied, lack of settlements or supervision. Many authors maintain their opinion, according to which the fair value can no longer be considered as culpable for the current financial crisis, but only a message of it, situation where some reactions are excusable, since we all know the general reaction towards the messages. In other words, the concept of value has the part of bringing us closer to the reality, thing that can be accomplished by a correct implementation and a high transparency. It is also true that many aspects should be reconsidered and adapted in time, since there

is no other field where the innovation can emphasize, in contradistinction to the financial field.

The derived financial instruments can also prove negative effects, but their resourcefulness consist in the fact that they offer the possibility of taking away the risk, from the source between parts willing to support it, in return for a potential reward[24].

The aim assigned to fair value accountancy and of evaluations based on market does not seem to be overdone, in case is integrated within the picture representing the characteristics of financial markets in a world in progress; such picture also reflects the lessons learned from previous lessons[25]. A restriction of fair value will not only heal the injuries of current financial crisis, but would risk to aggravate them, thus decreasing the level of trust that investors, and not only, have in the financial situations of financial institutions[26]. Other changing has also become necessary, so as to face the crisis challenges, a changing that should solve the deficiencies revealable at various levels.

7. References

[1] I. Bostan, V. Grosu, L. Scutariu, The Fair Value - A New Evaluation Method in Accounting of Company, *Bulletin UASVM Horticulture, 66(2)/2009, pp.46-47.*

[2] A. M. King, GAAP vs IFRS: Will the real fair value please stand up?, *Financial Executive. Morristown,* Vol. 24, 2008.

[3] N. Feleagă, L. Malciu, Recunoaştere, evaluare şi estimare în contabilitatea internaţională, *Ed. CECCAR*, Bucureşti, 2004.

[4] T.A. Ratcliffe, The Finer Points of Fair Value FASB 159 opens up options, *Journal of Accountancy*, December 2007, p. 30-36

[5] M.E. Barth, W.R. Landsman, Fundamental issues related to using fair value accounting for financial reporting, *Accounting Horizons*, vol. 9, 1995, p. 97–107.

[6] Y. Bernheim, L. Escaffre, Point de vue. Evaluation à la juste valeur. Un nouveau modèle comptable?, *revue Comptabilité Contrôle Audit,* volume 2, 1999.

[7] N. Foster*, N. Hall, Reporting comprehensice income*, *The CPA Journal*, 1966.

[8] FASB Statements of Financial Accounting Standards, SFAS 157 Fair Value Measurements (FASB, 2006), SFAS 159 The Fair Value Option for Financial Assets and Financial Liabilities (FASB, 2007), FAS 153-3 „Determining the Fair Value of a Financial Asset wthen the Market fort that Asset is not Active".

[9] T. Jeanjean, Juste valeur et decision, in the paper writen by J.F. Casta, B. Colasse, Juste valeur, enjeux techniques et politique, *Ed. Economică*, Paris, 2001.

[10] J. Beeler, A. Evans, K. Turner, K., How Fair is Fair Value*, Proceedings of American Society of Business and Behavioral Sciences,* vol.16, no.1, 2009.

[11] C. G. Bonaci, D. Matis, J. Stroughal, Fair value and crisis: defense welcomed, *Recent advances in management, marketing, finances,* Proceedings of the 8th WSEAS International Conference on MANAGEMENT, MARKETING and FINANCES (MMF '10), Penang, Malaysia, March 23-25, 2010, Published by *WSEAS Press,* www.wseas.org

[12] http://www.qfinance.com/balance-sheets-best-practice/fair-value-accounting-sfas-157-andias-39?

[13] N. Veron, Fair Value Accounting is the Wrong Scapegoat for this Crisis, *Accounting in Europe* Vol. 5, No. 2, pp. 63–67, 2008.

[14] www.fasb.org/news/2008-FairValue.pdf

[15] C. Paun, Reglementarea sistemelor financiare aflate în criză, avaible on http://cristianpaun.finantare.ro/2008/12/24/reglementarea-sistemelor-financiare-aflate-in-criza/

[16] A. Popa, Criza financiară face ravagii în Statele Unite şi Europa, 2008, avaible on http://www.conso.ro/citeste-comentariu/24/info/Criza-financiara-face-ravagii-in-Statele-Unite-si-Europa.html

[17] D. Buruiana, Clasificarea valorii juste în pieţele nelichide, effect al crizei financiare, *revista Financiarul,* 2008, avaible on http://www.financiarul.com/articol_14635/clarificarea-valorii-juste-in-pietele-nelichide-efect-al-crizei-financiare.html

[18]http://www.financiarul.com/articol_15068/solutii-contabile-pentru-criza-imbunatatirea-administrarii-riscului.html

[19] E. Hlaciuc, C. Mihalciuc, The differences between US-GAAP and IFRS in defining the concept of fair value, avaible on *http://www.nbuv.gov.ua/portal/Soc_Gum/Nvbdfa/2009_4/4(17)_2009_articles/4(17)_2009_articles_7/4(17)_2009_articles_7_hlacius.pdf*

[20] P.B.W. Miller, P.R. Bahnson, P. R., FASB 157 upgrades the quality of financial reporting, *Journal of Accountancy*, November 2007, pp. 30-36.

[21] C.A. Botosan, A.L. Beatty, P.E. Hopkins, K.K. Nelson, M. Venkatachalam, Response to the FASB's Exposure Draft on Fair Value Measurements, *Accounting Horizons,* vol. 19, no.3, 2005, pp.187-196.

[22] W.R. Landsman, Fair value accounting for financial instruments: some implicatios for bank

regulations, *BIS Working papers, No. 209, Monetary and Economic Department*, 2006.
[23] .http://www.iasb.org/News/Press+Releases
[24] M. Wallace, Is Fair-Value Accounting Responsible for the Financial Crisis?, *Bank Accounting & Finance,* December 2008 – January 2009, p. 9-18.
[25] J. Ronnen, J., To Fair Value or Not to Fair Value: A Broader Perspective, *Abacus,* vol. 44, no. 2, 2008, pp. 181-208.
[26] D.R. Deventer, Fair-Value Accounting, CDOs and the Credit Crisis of 2007-2008, *Bank Accounting & Finance*, October-November 2008, p. 3-8

The Economic Crisis Vocabulary

Mihuț Silvia
"Ovidius" University of Constanța
mihutsilivia@yahoo.com

Abstract

*The current international economic crisis is a serious negative situation, which affects a lot of countries throughout the world. The present paper makes reference to numerous words and collocations that are being used to describe the economic state, characterized by unemployment, low prices or low levels of trade and investment. T*he financial turmoil gripping the world has introduced new words into common usage, has changed the meaning of some common business terms or has stressed others. Such an analysis is interesting for the evolution of the business language.

Key words: business, category, crisis, usage, vocabulary
J.E.L. classification: A12

1. Introduction

The business world is experiencing an unprecedent reduction in profits due to the global recession. The economies of various regions around the world are deteriorating. Companies and individuals, who rely on debt, are suffering losses. This indicates a gloomy scenario for the sector as the sales, the revenues, the savings, the spendings and the credits are dropping. In a podcast, Bill Mascull [1], author of the English language teaching book *Business Vocabulary in Use*, published by the Cambridge University Press, talks about how the recent financial crisis will have a strong impact on the teaching of business vocabulary and we think it is interesting to provide various examples of new vocabulary coming out of the present economic emergency situation.

We are going to explore the crisis vocabulary in order to describe the effect of the critical economic condition upon the language. Various words, which were otherwise used with a low frequency, are being noticed every day on the TV screens, from the economic gurus' mouth or in the written press articles. On the other hand, many words have changed their denotative meaning and are now being used with their figurative significance. Moreover, new words have emerged from this economic crisis and we can say the losses in the market have brought progress to the development of the business language.

2. A Brief Analysis of the Recession Terminology

Before starting our classification, we must mention the source of our analysis and the criterium which has been used in order to provide a reliable description of the current economic crisis vocabulary. We have examined many Internet news articles and we have discovered several classes, in which many words or groups of words can be included, as they bear common characteristics. The categories make reference to the semantic area and they concern the description of the event or of the most important elements in this crisis.

Various words and collocations are generally used to mention the current global economic recession, called *the biggest challenge* ever. Therefore, terms like *crash, crunch, cutback, downturn, shock, slash* or *slump* appear together with constructions like *collapse in demand, decline cycle, economic disaster, economic meltdown*, *great depression, slowdown in economic growth* or *synchronized recession.*

Vocables like *cataclysm, earthquake, turbulence* or *turmoil* are employed with a hyperbolic function. The force of the global crisis is stressed as the economic downturn is usually described as having *staggering proportions* or as *freezing the arteries of a global economy*. On the other hand, the crisis is figuratively seen as a disease since it *spreads* and since the world economy is seen now as *catching a cold* or as *sneezing*. It is

also compared to deep water since millions of people are *sinking deeper into poverty*. Moreover the recession is regarded as *a matter of life and death*.

A variety of terms are linked to the mood of the people as it is *hard* for most of the people. They *feel the pain*, *suffer* or *tremble*. They are making decisions about their very *survival* or *are struggling just to put food on the table.* Words which refer to the protection of the people are used as *forging solutions* are needed to sustain families through the economic crisis. Many organisations offer *business planning assistance*, including *help* on finding *financial assistance*.

The critical situation of the economy is commonly associated with various weak components such as *banking panics, currency crisis*, *financial bubble, financial fragility*, *financial stress, sovereign default, stock market crash, volatile inflation, vulnerable macroeconomic elements* or *vulnerability indicator*.

The agents, who have caused this crisis or who have simply had a role in the development of this crisis, appear in various expressions such as *credit rating agents*, *economic agents*, *over-extension of borrowers, payday loans providers, business clients*, *mortgage insurer, investor, mortgage lender, real estate agent* and even *health organizations* or *advertising agents*.

Words or phrases such as *budget deficit*, *concentration of wealth, consumer with inadequate income*, *decline in consumption, the effort to house the poor without mobilizing large public expenditure elevated debt*, *financial market fragility, global savings glut, hedge fund, housing boom, lax supervision and regulation, loose monetary policies, misunderstanding of probability, non-performing mortgage, self-certified loan, securitized paper investment, standard of living* or *sub-prime mortgage security* refer to the causes of the recession. The *crisis dynamics* reflect failures in the *national and international financial deregulation*, the *absence of an international monetary system* or *deep inconsistencies among global trading, global imbalances,* and *financial* or *monetary policies.*

The economic items, upon which the crisis has a strong impact, are also frequently mentioned. The *devastating consequences* of the crisis fall on the *business cycle*, on the *commodity price*, on the *economic indicators* or on the *global trade. The government expenditure* is also affected as a *decrease in budget revenue* is noticed. The crisis generated *exchange market pressure,* measured by a mixture of *exchange rate depreciation* and *loss of international reserves* across countries with different income levels. Effects like *destruction and price deflation, enforcement of cuts, exposure to bad mortgages*, *financial accelerator, flight to liquidity*, *infection of the financial system, massive unemployment, volatile inflation* or *vulnerable macroeconomic elements.*

Expressions like *adjust budget*, *deny normal flows of credit*, *financial assistance, inject liquidity into the credit market*, *overcome the economic crisis* or *withdraw money from uninsured accounts* are associated with the actions performed by the people in order to survive the economic crisis. On the other hand, *mortgage-backed securities* or *state-sponsored mergers* are the results of the same negative phenomenon.

Policy measures taken to combat the crisis refer to the *adjustment of the budget, anti-crisis action, average policy response* or *hands-off policy. The government intervention* involves *austerity plans* or *development programmes* in order to *tackle the crisis.* As *remedies* for the economic crisis, many press articles mention *renewable energy*, *progressive taxation* and *a sharp decline in military spending*. The experts frequently say that *the public sector* must be given more authorities, *nationalized banks* must be formed and *liquidations* must be handled with utmost care. For instance, in his book *The Storm: the World Economic Crisis and What It Means*, Vince Cable advocates a form of *nationalisation*, taking over banks temporarily to *secure depositors' money* and put *toxic investment activities* into administration. [2]

The *post-crisis landscape* contains references to the recovery of the economy. Therefore, it will make *a comeback*. The revival of the global economy is seen either as a *modest recovery* or as a *stronger rebound*. Some economic gurus say that the economic crisis has to be stabilized **immediately** and that *regulations* work, where work means that *stable markets* allow an orderly flow of capital to and from the

goods or services, the economy and the people who comprise it. This has to be carried out pragmatically, *without undue ideology* or *without reliance on the failed ideas and assumptions*, which led to the crisis. Other economic gurus focus on developing a *scientific conceptualization* of economic theory.

3. Conclusion

Finally, we can mention that the economic phenomenon we are passing through has already introduced several new words into common usage such as *asset-backed commercial paper* or *toxic debt*, which have become mottos of numerous news articles around the world. For instance, *toxic debt*, which is a U.S. invention, was actually voted the 2008 "word of the year" in the Macquarie dictionary [3] a record of Australian English. The language evolves quickly and such terms can affect the public mood or sense of confidence in the economic system in general. Terms come into and go out of fashion or use, all the time, in accordance with the latest trends in the global economy and business.

4. Bibliography

[1]http://peo.cambridge.org/index.php?option=com_content&view=article&id=122:the-latest-trends-in-business-vocabulary&catid=9:podcasts-and-vodcasts-&Itemid=7
[2] Vince Cable, *The Storm: The World Economic Crisis and What It Means*, Atlantic Books, London, 2009
[3]http://www.macquariedictionary.com.au/anonymous@9c9C152857657/-/p/dict/index.html

The Impact of Economic-Financial Crisis on the Multinational Companies from Romania

Militaru Cezar
Pavel Adina
"Dimitrie Cantemir" Christian University of Bucuresti
adyna_pavel@yahoo.com
caesarmil@yahoo.com

Abstract

The global financial crisis has led to economic recession in different countries around the world. As the global economic crisis bit harder, multinationals across the world are counting their losses. The multinational companies from Romania have also encountered difficulties in the context of financial crisis, some of them being forced to massive temporary layoff or leaving Romania. Companies must find new strategies for recovery in order to survive and to adapt to the new market conditions.

Key words: global economic financial crisis, multinationals (MNC), international economy
J.E.L. classification: M16, F23

The global financial crisis that began in the US has created a ripple effect that is having a devastating effect on the economies of other countries in the world. The financial crisis began with the bursting of the housing bubble in the US as result of lax regulation, deregulation of government policies, and the increased Wall Street involvement in high-risk lending. Lending by financial institution evolved with the realization that there was demand for loans by high-risk borrowers who had a higher risk of default. This meant that lenders were exposing themselves to risks associated with lending to people with poor credit ratings or limited credit histories. Most of these loans were promoted as residential loans to assist low and medium income families build their own homes.

As the global financial crisis ensued, most companies in the US and Europe encountered difficulties accessing credit from banks. This credit crunch paralyzed operations of many companies as they depended on credit to support their business operations. Inter-bank lending was also affected to a large extent by the global financial crisis. Banks in developing countries that depend on credit from other banks in the developed countries experienced hardship in accessing these funds. This restricted the flow of credit in developing countries thus affecting companies operating in these countries.

For Romania nothing seemed to be so dramatic when the global crisis started. Everybody thought that an ex-Communist country that managed to remain intact after the transition years in the '90s and with Balkan wars howling at its borders nothing else could shake its equilibrium. This was not just naive optimism, but managerial plain math which showed that a country which has no serious industry and not so many foreign investments could not lose that much. However, it proved to be a little bit differently. Being a member of the European Union and, thus, dependent on the Community's enormous market and banking system, things started to shake. This situation, doubled by a poor budgetary management of an almost incompetent government, determined Romania to ask for a loan from the IMF in order to prevent an economic collapse - Greek-style - of the internal market.

The economic status of Romania gradually got worse as the authorities were incapable of using the sums lent by the International Monetary Fund (IMF) and they finally had to reduce budgetary expenses. Thus, most of the people employed by the state got their salaries reduced by 25 percents and all the retired people's pensions were cut with 15 percents. With the beginning of the second semester there arose the fear of an unsustainable deficit that "could shoot up to

over 9.1 percent of GDP if no corrective action is taken" – as the IMF officials stated. In this context, Romania really faces worse things than the post-Communist transition.

As the global economic crisis bit harder, multinationals across the world are counting their losses. Also confirming the woes, the International Monetary Fund (IMF) said the world economy had fallen into a severe recession, cutting its forecast for global growth and calling for forceful action to spur a recovery.

As the name implies, multinational corporations are business entities that operate in more than one country. The typical multinational corporation or MNC normally functions with a headquarters that is based in one country, while other facilities are based in locations in other countries. In some circles, a multinational corporation is referred to as a multinational enterprise (MBE) or a transnational corporation (TNC).

The exact model for an MNC may vary slightly. One common model is for the multinational corporation is the positioning of the executive headquarters in one nation, while production facilities are located in one or more other countries. This model often allows the company to take advantage of benefits of incorporating in a given locality, while also being able to produce goods and services in areas where the cost of production is lower.

Another structural model for a multinational organization or MNO is to base the parent company in one nation and operate subsidiaries in other countries around the world. With this model, just about all the functions of the parent are based in the country of origin. The subsidiaries more or less function independently, outside of a few basic ties to the parent.

A third approach to the setup of an MNC involves the establishment of a headquarters in one country that oversees a diverse conglomeration that stretches to many different countries and industries. With this model, the MNC includes affiliates, subsidiaries and possibly even some facilities that report directly to the headquarters.

Multinational corporations have existed since the beginning of overseas trade. They have remained a part of the business scene throughout history, entering their modern form in the 17th and 18th centuries with the creation of large, European-based monopolistic concerns such as the British East India Company during the age of colonization. Multinational concerns were viewed at that time as agents of civilization and played a pivotal role in the commercial and industrial development of Asia, South America, and Africa. By the end of the 19th century, advances in communications had more closely linked world markets, and multinational corporations retained their favorable image as instruments of improved global relations through commercial ties. The existence of close international trading relations did not prevent the outbreak of two world wars in the first half of the twentieth century, but an even more closely bound world economy emerged in the aftermath of the period of conflict.

In more recent times, multinational corporations have grown in power and visibility, but have come to be viewed more ambivalently by both governments and consumers worldwide.

Indeed, multinationals today are viewed with increased suspicion given their perceived lack of concern for the economic well-being of particular geographic regions and the public impression that multinationals are gaining power in relation to national government agencies, international trade federations and organizations, and local, national, and international labor organizations. Despite such concerns, multinational corporations appear poised to expand their power and influence as barriers to international trade continue to be removed. Furthermore, the actual nature and methods of multinationals are in large measure misunderstood by the public, and their long-term influence is likely to be less sinister than imagined. Multinational corporations share many common traits, including the methods they use to penetrate new markets, the manner in which their overseas subsidiaries are tied to their headquarters operations, and their interaction with national governmental agencies and national and international labor organizations.

There are several ways that an MNC can come into existence. Multinational corporations follow three general procedures when seeking to access new markets: merger with or direct acquisition of existing concerns; sequential market entry; and joint

ventures. Multinational corporations are thus able to penetrate new markets in a variety of ways, which allow existing concerns in the market to be accessed a varying degree of autonomy and control over operations.

There are over 40,000 multinational corporations currently operating in the global economy, in addition to approximately 250,000 overseas affiliates running cross-continental businesses. The top multinational corporations are headquartered in the United States, Western Europe, and Japan; they have the capacity to shape global trade, production, and financial transactions. Multinational corporations are viewed by many as favoring their home operations when making difficult economic decisions, but this tendency is declining as companies are forced to respond to increasing global competition. The modern multinational corporation is not necessarily headquartered in a wealthy nation. Many countries that were recently classified as part of the developing world, including Brazil, Taiwan, Kuwait, and Venezuela, are now home to large multinational concerns. The days of corporate colonization seem to be nearing an end.

The number of MNCs in Romania has grown significantly, particularly after the year 2000.They have acquired mostly public utilities companies, manufacturing industries (cement, metal, machine building, petroleum), but also financial brokering and trade businesses.In 2009, there were more than 26.000 multinational groups and only 135 were Romanian-owned. A recent PricewaterhouseCoopers LLP (PwC) report shows that 189 new multinational companies will emerge out of Romania in the next 15 years. Romania will thus be at a similar level from this point of view with Ukraine (192 new multinational companies in the next 15 years) and Hungary (221). However, the most new multinational companies in Central and Eastern Europe will emerge out of Russia (930) and Poland (287).

Some examples of multinational companies from Romania are: Accenture, Accor , Allianz, BMW, Coca-Cola, Danone, Enel, Ernst & Young, Ford Motor Company, General Motors, Generali, Hewlett Packard, Huawei, ING Group, LG, L'Oréal, McDonalds, Microsoft,Nestle and many others.

Among the multinational firms that have declared losses are Peugeot, Citroen, Nestle, GlaxoSmithKline, Morgan Stanley, Volkswagen, Toyota Motor and Boeing, Coca-Cola, Michellin, Nokia etc. Also Carrefour, Heineken, Praktiker, Ikea, Philip Morris, Wienerberger have reported declining sales at both our country and worldwide. Surprisingly, the crisis has affected sales of furniture and home and garden products, but also the sales of alcoholic beverages or soft drinks and those of cigarettes.

Thus Praktiker's sales fell by 15.6% in the first quarter, reaching 45.1 million euros, the result been affected by currency depreciation in relation with the the Euro. At the same time,internationally, the group sales decreased by 13.6% in January-March period compared with the first three months of last year. In states that have not adopted the euro, sales were affected by the significant depreciation of local currencies, mainly the Polish zloty, the Turkish lira and the Romanian leu(ron). In terms of constant exchange rates, international sales would have decreased by only 3.6%, which means that ten percentage points of decline was caused by fluctuations in the currency market.

Another company which has felt the financial crisis is Carrefour. Although Carrefour network in Romania had the highest sales growth in Europe, 6.9% in 2009, earnings per store have been seriously affected. Carrefour sales on the Romanian market fell by 5.1% and the reported increase can be explained only by increasing the number of stores. Last year, Carrefour Romania reported the highest annual sales increase worldwide in the group, 51.8%, so the decrease is significant. But things are worse in the world. The group Carrefour registred the first decrease in sales in the last six years due to weaker demand from consumers. Group sales dropped in all European markets except Romania and Portugal.

The world's largest producer of bricks, Wienerberger, announced a profit drop of 65%, after a very weak financial performance in the fourth quarter. The company, present in Romania, announced early this year a nearly 41 % drop in net income for

operations in the United States and Britain, where revenues fell by almost a third.

Heineken sales in Central and Eastern Europe fell by 6.3% 2009, down from nine million hectoliters of beer. Russia, Romania and Greece have evolved in line with regional average performance, while Poland has performed above average, and Austria ranked below average

Philip Morris's net profit fell 12% in the first quarter, to 1.52 billion dollars. Company income fell due to the decline in the markets of European Union (EU). The company registered increases in Asia, Latin America and Canada. In Romania, Philip Morris International has a factory in Otopeni and exports mainly to the EU, in countries such as Italy, Poland and the Czech Republic but also in Africa.

Lukoil Romania has announced that this year will change their strategy and rent 25 stations from small gas stations because it has no money to build new ones to cover lost sales per station and to achieve results as in 2008. The company will pay rent based on sales per station. Petrol stations have the brand,fuel and emplyees from Lukoil. Lukoil Romania announced for 2010 investment ten times lower than in 2009, $ 1.5 million because of the crisis.

Nokia and Michelin announced massive temporary layoff, in the context of financial crisis, after Dacia, Elba Timisoara and Kraft Food.

In a world that continues to become more interconnected each day, a multinational corporation sometimes has a greater ability to adapt to economic and political shifts that corporations that function in a single nation. Along with decreasing costs associated with producing core products, this business model also opens the door for diversification, which often makes it possible for a company to remain solvent even when one division or subsidiary is posting a temporary loss.

Romanian companies will be subjected to an increased competition, as the multinational companies from the emerging economies have a much more aggressive approach than the traditional competitors from Western Europe. In order to survive, the Romanian multinational companies must quickly reach a critical mass that will allow them to withstand such a fierce competition. This means not only gaining a strong position on the local market, but also expanding on profitable foreign markets, wherever they may be.

References:

[1] R. Barton, M. Bishko, *"Global Mobility Strategy."* HR Focus, March 1998.
[2] D. Burton, Erich Bloch, M. S. Mahomey, *"Multinationals*." Challenge, September-October 1994.
[3] Cezar Militaru, "*Managementul afacerilor internationale*", Editura Prouniversitaria, Bucure□ti, 2009
[4] Julian Birkinshaw - editor, Sumantra Ghoshal - editor, Constantinos Markides - editor, John Stopford - editor, George Yip – editor, *"The Future of the Multinational Company",* Publisher: Wiley, Chichester, England, 2003
[5] Robert E. Lipsey - editor, Jean-Louis Mucchielli – editor, "*Multinational Firms and Impacts on Employment, Trade, and Technology: New Perspectives for a New Century*", . Publisher: Routledge ,London, 2002
[6] http://www.wall-street.ro
[7] http://www.wall-street.ro/articol/English-Version/54100/Crisis-in-multinational-companies-in-Romania-Nokia-and-Michelin-employees-forced-to-take-temporary-layoff.html
[8] http://www.zf.ro (Ziarul Financiar)
[9]http://www.jurnalul.ro/stire-economic/multinationale-lovite-de-criza-in-romania-505840.html
[10] http://www.globalissues.org/

The Accounting Profession – Guilty or Victim During the Current Crisis

Mitea Neluța
"Andrei Şaguna" University of Constanța
nelutamitea@yahoo.com

Abstract

Day by day, the current crisis has been showing its devastating effects on the global economy. It is very urgent to change the vision of the accounting profession in order to counteract these effects. Nevertheless, it is also imperative to build new strategies in concordance with the actual needs concerning the economic recovery and growth.

In such a context, the accounting profession is considered a true social stake, finding itself at the crossroads of many different interests. Because of the significant loss concerning the profession's credibility, we could note a constant lack of respect for the financial information from its users, including the Government and the public institutions. We also feel an unbearable tax pressure and an increased segregation within the profession itself.

Economic globalization and the crisis generated some difficult situations. The resolution of these problems is not possible any more by using outdated tools. That is why we have understood the unanimous need to create a new vision based on new mechanisms and procedures. The objective is to establish a vital equilibrium between all markets' participants, this balance being able to lead us to progress.

This paper enables us to draw attention to the state's negative role. The state used to follow its own political interest such as the excessive taxation, to the detriment of companies that disappear from the market. At this point, we could think that, maintaining the current accounting culture and vision, it would condemn us to a flashing economic death.

Key words: accounting profession, accounting information, internationalization, taxation, accounting normalization
J.E.L. classification: G01, M41, M42, M48

1. Introduction

The present paper intends to pull the alarm among the accounting specialists, economists, regulators and even among state's representatives because of the problem created by the crisis and by its effects that tend to deepen with every passing day. Professionals from all fields are facing lively debates having as theme the possible solutions that could help the economic recovery. However, in practice, it seems very difficult for these proposals to change the state's mentality, a state following strictly its interest at the expense of purely economic interest.

We observe with astonishment that the state proves incapable to abandon the struggle for domination and supremacy, destroying the values, the expectations and even the needs of the economic environment. Political interests have come to manage the entire economic, juridic, social and cultural life, at an internal level as well as at an international one. The state has made from its specialists real "pawns" in the struggle for power, in spite of the existing risk concerning the possibility to "kill" in economical terms, even the most resistants. We could consider that the survivors of such a challenged period would open the way to the new order on the global economic scene.

2. The accounting profession within the current context

The accounting profession and its role in the economic and social life have continuously evolved. At present, the accounting information has become a true public good for all the markets' players. Therefore, the accounting information represents a valuable tool in powerful people's hands. In a world of globalization, we are all involved in the contemporary events and the great powers come to make pressures for pursuing their interests.

The current economic and financial crisis led to a significant decline in the overall economy and, from the analysys concerning the general economic situation, we find out that the accounting profession had also a negative impact during pre-crisis period. The accounting profession is guilty of the financial information distortion, information submitted to its users under the great powers' pressure. It is also guilty of the increasing opacity concerning the financial reporting, by hiding the existing and foreseen risks. We reproach to the current accounting model its incapacity to face the innovations in this field, fact proving that *„we throw off the balace sheet some financial assets by the means of creation some new entities with a particular purpose"*. [1]

The crisis' impact shows us its high proportion and in the same time, the political, economic and social issues use to interfere with the accounting ones, arriving to contribute to the general collapse.

Because of the business' globalization and internationalization process, the accounting information transmitted between the different partners having different origins and cultures, had to be standardized in order to facilitate the informations's comparability for the best possible decisions.

In this sense, the accounting profession has suffered some changes in order to cover the internationalization process, leading to *normalization, harmonization and standards' convergence* as a response to the need for uniformity and universality. In a market economy, harmonization and normalization have as an objective the organization of the rules concerning the informations' market performance in order to optimize the financial communication. We believe that this market is supposed to assure shareholders' interests protection and that of third parties involved, by promoting transparency, comparability and financial informations' credibility.

Not all these changes within the accounting profession could bring the expected results unless the professional accountants act with responsibility and professionalism, with morality and concern for the destiny of their activity. Through his role, the accountant is deeply involved in the current struggle concerning our exit from the jungle created by the great economic and financial powers in the world.

Because of the political and financial stakes and because of cultural differences, the internationalization activity of the accounting profession records important difficulties, this fact contributing to the increase of greatest powers' role and especially that of the USA in the current economic context. Under the influence of interests exercised by the great powers, the smallest states in the world arrive to make their perfidious game to the detriment of their own citizens and companies and even of the national economic interest. Thus, accounting becomes "*a true economic weapon",* as claimed Prof. O.C. Bunget in one of his papers, "*and that who masters it, is the one who holds the power"*. [2]

3. Politics and its impact on the accounting profession

The current crisis' effects on the global economy come as a response to the capitalism structural changes when the focus was on speculation at the expense of the entrepreneurship. However, the crisis should awaken our desire to develop viable strategies starting from reinventing the fundamental principles of capitalism. Meanwhile, politics should show its interest in establishing a neutral, independent and correct regulation in relation to other systems, including that of the accounting profession.

From the last events, we could notice that the politics' interference in the regulatory activity and in that of accounting normalization had only negative consequences. This fact ought to ask whether the interests of some groups did cause the crisis or not. Political pressures on the professional accountants consisted in *adjusting* the concept of *the true and fair view* up to the distortion of the economic reality. Professor Marin Toma, President of CECCAR, remembers the role of the accountant and shows us that *„the accountant is entrusted to control and harmonize the figures concerning the movement of the enterprise's means and resources. All these, being positioned on such categories, according to a well-established scheme, could show the real situation of the business at a certain moment, as complexe as*

it appears." [3]

The guilt of the professional accountant comes as a response to the pressures exercised by some target groups, without taking into consideration the foreseeable risks and without highlighting the true economic reality by the means of complete, real and relevant information. At present, the interpretation of *the true and fair view concept* becomes the main obstacle in the harmonization concept of accounting structures at an international level.

As for political interference in the accounting profession activity, it varies according to the interest shown by each state. For example in the U.S., where the accounting objective consists in providing the useful information in order to make the fundament for investors' decisions, the professional accountants have come to embellish the state and the financial situation of enterprises, hiding the specific risks. This fact led to the collapse of the entire financial system.

At a different level, there are some countries like Germany, Austria or Switzerland, where the accounting objective was not the presentation of *the truest and fairest view*, but that of underestimating the enterprise's value by virtue of the prudence principle respect. In such countries, we notice an underevaluation of the assets but also an excessive dimensioning of liabilities, fact that distorted the economic reality.

There are some states in the world, such as those in Continental Europe and Romania itself, where we could find the tendency concerning the fiscalization of the accounting profession. In these circonstances, the state's primary interest is to tax the direct benefits related to the activity results. The professional accountant could interfere in the financial reporting in a situation like this, contrarily to the professional ethics, by underevaluating the benefits in order to minimize tax payments.

We could appreciate that the accounting profession's role varies from a country to another. If in the U.S. the accounting profession acts in investors' interest, in Germany it acts in the interest of the bankers and in France and in Romania, the accounting represents an instrument of the taxation.

For a country like ours, which has undergone a long period of transition, where the state continues to play a major role, the accounting system has failed to become the engine in the development and implementation of the accounting rules. [4]

Romania has not its own accounting culture but it has imported a culture imposed by the state itself that tries to please the great powers. In addition, like our country, many states in the world have forgotten their identity during the internationalization porcess.

We could not ignore the internationalization positive arguments, but we consider that the real global benefits will appear only when they respond in the same measure and with the same intensity to a global need. This could happen when it is installed a unique economic and accounting thinking designed to fade the deep imbalance between rich and poor states.

In addition to the accounting profession, we believe that politics is also guilty of the current global economic and financial situation, mainly due to its inability to establish a long-term strategy that could propose viable measures in order to lead the economies to development and growth. Furthermore, it would be desirable for politics to cease its intervention in the accounting standardization's phase.

Concerning the excessive taxation, the authorities should reposition it in relation to the accounting profession. At the opposite pole, there are tax-unpolluted states, such as the Anglo-Saxon states, where we notice that the accounting profession has shown an amazing strength of expertise and even a particular ethical behavior. Thanks to this behavior, the accounting profession has won the struggle against the public power.

From a fiscal perspective, we could observe that there are some countries in the world, which are more interested in reducing the budgetary expenditures, in increasing the taxation in order to raise the revenues without taking into consideration the real business possibilities to meet these requirements. In situations like these, it is used to take ad-hoc measures ignoring the future risk, which will have a negative effect contributing to the disappearance of a large numer of companies on the market. Thus, an important part of the taxpayers would not be able to honor their

debts.

From the most recent events, we note that our country's authorities failed to understand that they must take what is good and adequate from the developed economies, but they follow the way, which harms the economy's well-being.

In this sense, we are assisting at a continuous increase of the taxation for 2010, including the introduction of new sectorial taxes. States also implements a system of fines designed to punish the companies but also the citizens for not paying on time their fiscal debts and liabilities. Regulators in Romania ignore the fact that as long as it will not be set up aid schemes for enterprises in difficulty, such as the case of a large part of companies in our country, then surely our national economy's engine will stop. Considering the fact that enterprises in Romania represent the biggest contributor to the GDP (Gross Domestic Product), we risk to say good-bye to the concept of market economy in the case of companies' disappearance. Consequently, we could not foresee any more a comfortable economic destiny for future generations.

On the other hand, we could talk about some countries interested in supporting the enterprises by the measure of adopting some incentives in order to continue their activities and to help the economic growth. This fact will generate positive effects at a global level.

The natural tendency to reduce taxes for improving competitiveness is correlated to strengthening measures used to combat tax evasion, to control and to collect the fiscal debts. Rich states have not only been able, they also wanted to pump state funds into the economy, both in terms of creating new jobs, announcing exemptions for different payments or assuring protection to disadvantaged citizens.

Even if the harmonization of tax systems at Community level has not been too easily accepted, by considering national sovereignty, it is necessary to remove all tax barriers for the adequate functioning of the unique market.

We could appreciate that taxation requires a greater transparency but also less distortion. In this case, the Common Market could develop its activity in conditions of open and fair competition.

It is known that the U.S. have the longest tradition in the field of the accounting normalization.

Americans are the first to have established a conceptual accounting framework, bringing the current accounting principles at a high degree of sophistication. The development of American accounting standards is made by reference to the *US GAAP,* namely the *generally accepted accounting principles.*

American experience in the accounting standardization could serve as a reflection basis for any national, regional or international standardization body.

While British accounting rules are the result of an entire social process, American rules are the result of a long economic process. [4]

Taking into account the American crisis, we might consider, however, that this economic system failed too. In addition, the acceptance of U.S. standards as referential for global normalization does not enjoy at present the support of the European Union, both for economic and political reasons.

The great convergence directions, as namely US GAAP – IFRS are related in particular to the financial reporting, to business groups, to the conceptual framework concerning the recognition of revenues, but this difficult process does not follow the convergence of some *particular accounting treatments* like debts' extinction and tax income. Such difficulties remain in achieving the global accounting convergence.

Furthermore, we believe that no country have a worthy device of accounting rules to be adopted uniformly throughout the world because there is nowhere a perfect accounting referential, as we could notice from the practice.

As noted before, the accounting systems have their part of guilt in triggering the global fiscal crisis. The President of Fildas Group, Anca Vlad claims that regulations should be modified. In her opinion, managers should compare the results obtained according to different standards. The Fildas Group President tells us that: *„I have a company which is double checked, both according to the European systems and the American ones. However, I still have to look twice to be sure and to compare them in order to reach the true reality, to know how the company stays, how healthy it is. None of*

these systems can give me a completely accurate picture neighter our traditional system." [5]

4. The crisis' effects on the SMEs business

As noted above, the current economic and financial crisis led to a significant decline in the overall economy. The main institutions affected have been the SMEs, despite their role as the economy's engine. The crisis' effects and its impact on the Romanian economy should highlight the specialists and politicias' attention in order to adopt necessary measures for giving a chance to redress the national economic situation.

The companies having appealed to important investment credits are nowadays unable to pay their debts. It is easy to find out from the practice that the enterprises' ability to pay their suppliers has been hampered, especially in the case of entities supposed to make payments in foreign currencies.

Concerning the SMEs, we could consider that a vicious circle has been created: the delayed recovery of debts does influence negatively the payment of liabilities. In such a situation, the SMEs are not able to pay their budgetary debts any longer, which is a serious danger for the entire economy of the country.

In this context, the SMEs' representatives have made the necessary steps besides the Romanian authorities that, unfortunately, remained without answer. The authorities argue that tax reduction and the targeting of loans from the international financial institutions to investments could become key measures for the survival of such a seriously affected field.

From the analyse conducted by the National Council of Small and Medium Enterprises concerning the situation of SMEs for 2009, we find out that it was registered for the first time a negative entrepreneurial index, which shows a very insatisfactory general evolution of business and of SMES' activity compared to the situation for 2008.

More than that, from the data provided by the National Trade Register Office, we observe a dramatic increase in the number of companies that requested their activity suspension, but also of those claiming their dissolution or insolvency. This fact demonstates that, in a period of deep crisis, by reducing the companies' ability to survive on the market without a state support, we will assist at their urgent disparition from the Romanian economic life.

We believe that if state's regulations enabled the professional accountants, they could play an important role in the protection of the SMS. The professional accountants could become real *health officers* for the companies removing all that is unproper in their functioning and organization. They could assist management in taking effective measures according to projected risks, by offering integrated services to them. In particular, the professional accountants could intervene in the companies' exit from this awfull crisis.

5. Reinventing the accounting model

Located at the crossroads, the accounting profession should focus on a new way and should take into consideration the complexity of national and international issues, but particularly the conditions of crisis and post-crisis. In a moment when markets are in disorder and politicians are inable to solve the acute situation, it seems normaly for the global economic world to reinvent itself.

International accounting community should be more responsible of finding the solution to take the reins for piloting the enterprises' activity. [7]

Changing regulatory and operating mechanisms requires a convergent effort of all market's participants. Concerning the accounting activity, this will not have to accept the pressures exercised by some interest groups. The accounting information will need to assure the unitary perception of the message sent by the means of financial statements and to sustain the commom language between the preparers and the users.

The President of the Corps of Chartered and Licensed Accountants in Romania, Mr Marin Toma, explains in an interview granted to the journal *„Curierul Național"* why we need a new culture within the accounting profession. He also sustains that *„we have to make from this new culture a tool to defend the public interest"*. [8]

This paper does not aim to provide solutions, but to raise questions among experts that should act together in the struggle with the crisis and even in that aiming to recover the integrity of a profession without which economic life would not be possible any more.

6. Instead of conclusions

Living in a world where almost everything is sold and bought, where resources are decreasing in a tremendous rhythm and where needs are increasing proportionally, it is obvious that we could not live without the accounting profession. Although within this profession we have noticed many spectacular mutations, the accounting has accompanied all the humanity during its evolution process. Therefore, it is necessary to bring into discussion the opinion of a Nobel laureate, Oskar Morgenstern, who stated that *„the accounting represents the most serious source of economic information belonging to a nation. Almost all economic decisions are based on the accounting information or on its derivatives"*. [6]

Beyond any question mark, we could not ignore the fact that the accounting profession has educated for a long time, by its nature and functions, the entire economic life. However, something did happen over time. The accounting profession could have taken pleasure in the game played by the management of the enterprises, which followed to reveal this *true and fair view* expected by the investors. At last but not at least, the profession could have had the misfortune to fail a good partnership with the state that followed its own interests at the expense of the purely economic interest.

To regain the users' confidence of financial information in the accounting profession does represent the basis for the future success, for the economic stability around the world and especially for the destiny of the small and medium enterprises at a national and international level. The world economies are so interlinked and the resources so blended as that finally we will be the subject of the same effects.

We could not achieve this goal without a real support from each state that should establish an efficient and adequate anti-crisis strategy taking into account the specificity of the national context.

As the Romanian state, we regret to say that it has not proved yet to its citizens, by the means of its Government Program nor through the negociations with EU or the International Monetary Fond, its real intention to combat the crisis. Our state has not instaured a credible partnership with the specialists' proposals, which highlighted anticrisis measures justified both theoretically and practically. That is why we could not count on the state's support in combating the current crisis as long as the state itself suffers because of its own internal crisis.

7. References

[1] M. M. Gârbină, *„Criza financiară şi credibilitatea modelului contabil",* paper sustained at the Seminar organized in Bucharest, April 3, 2009;

[2] O. C. Bunget, *„Contabilitatea românească între reformă şi convergenţă"*, Ed. Economică, Bucureşti, 2005;

[3] M. Toma, *„Organizarea activităţii de expertiză contabilă şi contabil autorizat în România – tradiţii şi perspective"*, „Expertiza contabilă" Revue, nr. 6/1993, p. 10, quoted by O.C. Bunget;

[4] N. Feleagă, „Sisteme contabile comparate. Contabilităţile anglo-saxone", Ediţia a II-a , vol. I, Ed. Economică, Bucureşti, 1999;

[5] A. Vlad, „Şi sistemele contabile sunt vinovate de criza financiară", article publlished on September 11, 2009, www.money.ro;

[6] E. Horomnea, quoted in „Cuvânt înainte" at „Congresul profesiei contabile din România. Profesia contabilă între reglementare şi interesul public", Ed. CECCAR, Bucureşti, 2008;

[7] N. Mitea, „O nouă cultură a profesiei contabile – ar putea ea oare însemna o nouă imagine fidelă?", paper sustained at the Congress of CECCAR organized at Bucarest, during September 3-4, 2010;

[8] CECCAR Communication Department, „Congresul CECCAR aduce la Palatul Parlamentului elita mondială a profesioniştilor contabili", article published in the journal „Curierul Naţional", year 15, nr. 5771, September 3, 2010.

Unity and Uniqueness in the Accounting Profession

Mitea Neluța
"Andrei Şaguna" University of Constanța
nelutamitea@yahoo.com
Vlad Costică
euro_financial_consulting@yahoo.com

Abstract

Finding itself at a crossroads, the accounting profession is facing today new challenges both at a national and international level, with deep implications whose dimensions are exacerbated by the economic and financial crisis.

From a purely practical activity, accounting became a scientific discipline because of the extensive process concerning human development.

Accounting normalization aims to establish common rules in order to assure the profession uniformity that is judged by the means of knowledge, skills, attitudes and ethics of all the persons involved. The accounting profession membership in international organizations leads to a supplementary obligation concerning its own unitary method of functioning.

This paper aims to pull the alarm among the professionals.

I think it is the time for our solidarity in the struggle for the economical revival.

However, as specialists, we have to regain our profession credibility, to provide high quality services, to ignore the pressures of the great interests groups, to inspire financial discipline and rigor, to minimize fraud risk.

We must not ignore the achievement of some skills in various areas from the academic environment in order to overcome future obstacles. All these actions show the unity of the accounting profession and in order to achieve them, we all have to prove conscience and will.

Key words: unity, uniqueness, normalization, accounting culture, small and medium-sized practices;
J.E.L. classification: M41, M42, M48.

1. Introduction

Because of a very deteriorated economic and financial situation, accounting profession must meet with professionalism the diversified and growing requirements of the economic activity submitted to the globalization process. Undoubtedly, the accounting profession is facing nowadays-unprecedented challenges.

As a premise and consequence of globalization, the international investor has emerged. He needs a lot of complex, relevant and rapid information. That is why, the need for real-time communication generated the process of *normalization, harmonization* and *accounting convergence*. Modern accounting becomes not only an instrument for achieving the function of information, for assisting the management decisions, but also it is a factor influencing the current economic and social environment.

Accounting systems are determined by a combination of factors generated by the economic, financial, political, juridical, social and cultural environment. Accounting does represent a social construction having a direct relationship with its environment. The main actors involved are the professional bodies, the professional accountants and the users of the information provided.

Economies of different countries in the world are built on different cultures. This fact makes difficult the process of the accounting normalization. Globalization customizes the need concerning the economic information that must be expressed in a common and unique language, a language easy to be understood by everyone. The diversity and the increase of accountant information's users have determined new challenges for the accounting profession. Information becomes the most valuable asset for many users

having different interests and opinions. A unified and coherent accounting system, based on competence, on adequate information and communication could represent the solution for the effective revaluation of economic information. The increase of business globalization degree has not allowed the existence of different accounting systems any more. Thus, professional accountants had to start looking for applicable solutions to strengthen this profession and to manage it at different levels and categories of economic entities.

The lack of a common accounting referential is a major obstacle to the globalization process of capital markets by restricting the investors' ability to take informed decisions on investment alternatives. Consequently, great accounting companies consider that, for investors and other users seeking to compare the investment opportunities and other competitors' actions, it is necessary to establish a common framework for financial and accounting reporting. (Street, 2002) [1]

The present paper deals with two important issues for the accounting environment. One of them is related to *the accounting profession unity and uniqueness* and the other concerns the role of the professional accountants that could become the SME s' allies, especially in conditions of crisis and post-crisis. In this regard, I draw attention to the SMPs *(Small and Medium-sized Practices)* whose major objective consists in supporting small and medium-sized entities to become efficient and to implement accounting standards in order to realize *the accounting unity* mentioned above.

2. Accounting culture as a real system

Like any system, accounting culture associates a group of values influencing professional accountants' manner of thinking, communicating, taking decisions and acting. Accounting culture variables are neither singular nor ephemeral. They refer to various forms of accounting behavior acquired by professional accountants that were submitted to contextual influences specific to their origin country.

Accounting culture aims to report to this profession's institutions, to accounting regulation and to those related to best practices from national and international usage. [2]

While globalization and normalization aim to achieve *the accounting culture unity,* from the studies I made and from the practice in the field, we found that national, local or regional cultural environment act as a stimulus for accounting profession. It is true that national culture did influence even regulatory mechanisms.

Concerning the Anglo-Saxon countries, we could talk about a minimum of legal regulation and, in particular, of auto regulation. Nevertheless, in other countries, like France for example, regulation is considered a social contract. In this context, it is conceivable that the elaboration of rules and of regulations gives the opportunity to manifest the personal interests.

It is well known that, in front of the same event, the states in the world do act differently. For example, in countries like France or Germany, law is very detailed, while in the UK, the practitioners are called to solve the problems in law enforcement. Meanwhile, in the US the main role in regulation belongs to Stock Exchange, as the principal sponsor. Therefore, in the US there are accounting rules covering the particular situations and problems related to the practice and the emphasis is on financial information's comparability in space and time.

Unlike the US, France, Romania and several other countries have a General Accounting Plan as the main tool of normalization, but also of a precise rule for information evaluation and publication. [3]

Accounting culture also means what the members of this profession have in common: a specific accounting language, a behavior and ethics rules, quality standards, common objectives, responsibilities etc. Given the continuous increase of market complexity and exigency, we observed that human resource needed to increase too in order to adapt itself at these conditions. The human factor evolves in full compliance with environmental, economic, cultural and social factors.

Accounting education becomes a permanent and global process, without which accounting profession would fail in its objectives. The professional bodies become also the main pawn in the specialists' training that would support them to face the constant changes in the field. Social and ethical responsibilities are also components of the accounting culture, which requires a deep and total implication of the professional accountant.

The conclusion drawn is that the cultural element does influence all economic, social and professional aspects. A question like: *Where is going the accounting profession?* should awaken the interest of this field representatives. These ones tend to create a unique accounting language in order to offer viable solutions for surpassing the obstacles caused by the process of achieving their objectives.

The new culture of the accounting profession requires, in fact, its improvement, the reform of the accounting system and of its basis, a system finding at a crossroads in the current conditions of deep economic crisis.

3. Unity and uniqueness in the accounting profession

Because of the global economic crisis, there are new rules and standards at the international level. Consequently, the accounting profession should draw the attention on it, during the frequent debates in the world on this subject. Such meetings give to the specialists the opportunity to share the best practices in the field and the latest technical information.

Worldwide, there are many discussions concerning the future of the accounting profession. In this purpose, this paper aims to reflect some of the interesting themes addressed on the XVIII Congress of the Accounting Profession in Romania, organized in Bucharest, on 3rd-4th September 2010, at the Royal Palace. This event brought together the greatest specialists of the international economic elite.

Professional accountants from all over the world turned their attention especially on two issues that preoccupy the public. One of these issues refers to *the unity and the uniqueness of the accounting profession* and the other consists in foreseeing the future of *SMEs* and that of *SMPs*.

The concept of *the accounting profession unity* regarded at an international level, supposes the creation of a unique accounting referential that would allow a rapid comparability of the accounts and of financial information, a high quality of the financial communication, but especially a simplification of the rules.

The developments in the international accounting standardization gave birth to a series of deep disputes between the supporters of the IAS-IFRS standard system and those of European Directives. As a result of these disputes, at present, the countries members of the European Community apply IFRS in their consolidated financial statements. However, most of these countries members have opted for maintaining their national accounting standards for the annual financial statements.

Using the *convergence concept* is more interesting, when globalization became a mass phenomenon. The well-known financial scandals proved the financial information fragility and, because of these events, we all have understood the importance and the necessity of the high standard' quality required. This quality will influence the process of the financial reporting uniformity at an international level.

The IFAC's main objective consists in developing and strengthening the accounting profession that is globally coordinated to harmonized standards. The achievement of this objective is linked to the body's desire of improving the professional ethics level of uniformity from all over the world. In this regard, IFAC has just issued the *International Ethical Code of the Professional Accountants.* According to it, we must achieve the highest standards of quality in the accounting profession and even the highest levels of performance. At last but not at least, professional accountants have to assume their responsibility for acting in the public interest.

Concerning the *unity concept in the accounting profession* as it appears at an internal level, we could take into consideration a different approach. On the one hand, accounting must be understood in terms of three conceptual models: *accounting as a measuring tool, as an information tool*

and as a tool for social intermediation. In other words, I could state that at present, accounting takes the form of a complex registration technique, even that of the economic and financial reality reflection. Meanwhile, accounting represents an information system adapted to a multitude of users, but also a management and communication tool assuring the enterprise's integration and its dialogue with the external environment. [4]

On the other hand, accounting does represent *a unitary and unique profession*. The subject of this profession, namely the professional accountant, has become to achieve a multitude of roles, by exercising its duties, fact that has never seen before in other profession until now. Among the activities undertaken by the professional accountant, I consider to highlight the following: accounting expertise, legal control of accounts, merger control, capital injections control, auditing, enterprises liquidation, companies' evaluation, fiscal and legal representation, investment advice, tax advice etc. [5]

From the perspective of *accounting profession unity and uniqueness,* we notice that within this profession, the focus moves on the specialist knowledge and skills in a variety of disciplines. Therefore, we consider that the professional accountant is not only a specialist in accounting, auditing and taxation, but also a more active participant in the management team. He proves responsibilities in management, finance, strategy, information technology, organizational behavior, communication, ethics, statistics and even in international vision.

As we all know, the activity of the professional accountants does not limit to statutory accounts' audit. They have the right to exercise many different activities. The working conditions of the professional accountants are often regulated. Concerning the requirements in relation to their moral qualities, we could talk about a global unanimity. Accounting ethics is, in my opinion, the art of the professional duties exemplary performance. By an ethical behavior, the professional accountant must impose an effective working manner related to this profession good reputation.

While the accounting profession members have the obligation to serve the public interest as an element of its uniqueness, the professional bodies have a specific responsibility determining the unitary character of this profession. This character consists in assuring the three mandatory requirements related to education (the members' continuous professional development), to ethics (ethical behavior) and to quality (quality certification of services exercised by the professional accountants).

Despite this *unity and uniqueness in the accounting profession,* we could notice a series of actions leading to the accounting profession segregation, especially as it concerns the accountants and auditors, as stated Paul van Geyt (IBR/IRE Expert), at the recent Congress held in Bucharest. According to this expert, the tentative to break this profession will have surely negative effects on medium and long term and it will involve high costs for the entities appealing to accounting services. Therefore, we should not ignore the fact that, by the position adopted, the professional accountants could participate at building a better global future.

4. SMEs and SMPs future

In the current global debate, a favorite theme of discussion refers to the situation of the small and medium-sized entities in the conditions of the economic crisis. The challenges faced by small and medium-sized businesses become a more complex problem. The SMEs represent the global trade engine. Over 90 % of an economy performance is influenced by the enterprises' activities. Meanwhile, the small and medium-sized entities are dominant leaders and innovators on the global market. Despite all the arguments for the SMEs, we should consider the increasing pressures faced by the enterprises: a limited capital access, costs explosion particularly the increase in unit fixed costs, the development of restrictive measures and regulations intended to harm market survival, the lack of state's support, the increase of strength competition.

Such poor conditions make more difficult the SMEs situation. Nowadays, the enterprises consume their last resources in

order to succeed in continuing their activity. In such an unfavorable economic conjuncture, I believe that it is the moment for the professional accountants to become SMEs allies in the struggle with the crisis devastating effects. I consider it, because the small and medium-sized entities represent the more significant segment of the accounting services beneficiaries.

The International Federation of the Certified Accountants/IFAC has understood the importance of SMEs in the global economy. For this fact, although IFAC could not help the entities directly, they offer them support by the means of theirs bodies members, namely *the Committee for Small and Medium-sized Practices.* This Committee aims to support the small and medium-sized entities in practices' management in order to maintain their relevance in front of their clients and to maximize their profitability. The role of these *Small and Medium-sized Practices* consists in supporting the small and medium-sized entities to become efficient and to implement the rules and standards for respecting and achieving legal requirements.

The world accounting leaders sustain IFAC recommendations concerning the intensification of the efforts for strengthening the small and medium-sized entities and the accounting practices. In our country, we also observe the preoccupation of CECCAR for SMEs problem.

By virtue of this fact, CECCAR has recently concluded a protocol with the National Council of Small and Medium Private Enterprises in Romania. On this occasion, CECCAR promises support for the small and medium-sized entities during their organization and reorganization process.

As stated Marin Toma, the President of CECCAR, at the National Conference of this body, event that preceded the Congress, CECCAR has taken a number of measures. According to them, *accountants, auditors and employed accountants might become true sanitarians for the enterprises in order to clean and protect them, to support their managers and to provide them integrated services. All these actions aim to help the entities to escape from the crisis.*

In order to meet the global desire of international bodies concerning the SMEs support, the Committee for Small and Medium-sized Practices as a particular organism of IFAC, launched in July of this year, the *Practice Management Guide* for SMPs. The guide provides guidance on how this sector could better manage its practices, aiming to lead the activity in a safe, profitable and professional way. The publication contains principles and best practices, including strategic planning, employees' management, customer relationship, but also case studies in order to illustrate concepts, tasks lists and even modules for training and education.

Ms. Sylvie Voghel, the President of the Committee for Small and Medium-sized Practices, added that this guide *will help the SMPs to face the challenges of a very competitive and complex environment.*

5. Conclusions

As a **conclusion,** I could say that during these conditions when it is mandatory to overcome the crisis for not affecting the progress possibilities of future generations, we should consider *the accounting profession unity* as a complex phenomenon. The survival of this profession will depend surely on this phenomenon. For that reason, future efforts of the professional accountants and that of the bodies in this domain do not seem to be easy at all.

Indeed, accounting profession has strong roots and many possibilities to build a better future. However, this profession has to insist in foreseeing the future events for becoming a real support, at the highest level, for the economy and for the society. I should not remember that there are many challenges to which accounting profession should draw attention.

It is also true that at present, there are some several actions to break the accounting profession, and consequently, its unique and unitary character could cease being respected. Accounting must remain a unique profession, must have unique and unitary rules worldwide. It must be a unified profession in the sense that all its activities have an equal importance regarded through the public interest.

Accounting profession has also the obligation to be more involved in supporting the small and medium-sized entities for the reason that the lattes represent the engine of the whole economy. By the means of high

quality integrated services, by professionalism and independence, by adequate practices, professional accountants could help the entities to take the reins of the global recovery and to restore their performance all over the world.

6. References

[1] D.I. Street, "GAAP 2001 – Benchmarking national accounting standards against IAS: summary of results", *Journal of International Accounting & Taxation*, nr.11, 2002, pp. 77-90;

[2] D. Leuştean, *Spațiul transcendental al culturii contabile*, lucrare susținută cu ocazia Congresului Profesiei Contabile din România, ediția a XVIII-a, organizat de CECCAR la Bucureşti, în perioada 3-4 septembrie 2010;

[3] N. Mitea, *O nouă cultură a profesiei contabile – ar putea ea oare însemna o nouă imagine fidelă ?,* lucrare susținută cu ocazia Congresului Profesiei Contabile din România, ediția a XVIII-a, organizat de CECCAR la Bucureşti, în perioada 3-4 septembrie 2010;

[4] M. Minu, *Contabilitatea ca instrument de putere,* Editura Economică, Bucureşti, 2002 ;

[5] N. Tabără, E. Horomnea, I.A. Rusu, A.D. Socea, S. Floştoiu, *Profesia contabilă în Europa. Prezent şi perspective,* lucrare susținută cu ocazia Congresului Profesiei Contabile din România, ediția a XVIII-a, organizat de CECCAR la Bucureşti, în perioada 3-4 septembrie 2010

The Effects of the Present Crisis on the Labour Market and on the Banking System in Constanta County

Mițac Mirela Claudia
National Bank of Romania, Constanta Branch
mirela_mitac2002@yahoo.com

Abstract

The financial crisis of 2007 to the present is a crisis triggered by a liquidity shortfall in the United States banking system. It has resulted in the collapse of large financial institutions, the bailout of banks by national governments, and downturns in stock markets around the world. In many areas, the housing market has also suffered, resulting in numerous evictions, foreclosures and prolonged vacancies. It is considered by many economists to be the worst financial crisis since the Great Depression of the 1930s. It contributed to the failure of key businesses, declines in consumer wealth estimated in the hundreds of trillions of U.S. dollars, substantial financial commitments incurred by governments, and a significant decline in economic activity.[11]

Many countries experienced recession in 2008 and Romania went into recession in the third quarter of 2008.

In this article I present the impact of the present crisis on the labour market and on the banking system in Constanta county

Key words: financial crisis, unemployment rate, loans, banking activity.
J.E.L. classification: G01; G20.

1. *The effects of the present crisis on the Romanian economy in period between June 2008 and June 2010*

Due to the global crisis, which affected Romania since the third quarter of 2008, the decline in Romanian economic activity was mirrored in the annual dynamics of the macroeconomic indicators as shown in the Table 1.

Table 1. The annual dynamics of macroeconomic indicators

-Percentage change-

Nr crt	Indicator	Jun 2008 / Jun 2007	Dec 2008 / Dec 2007	Jun 2009 / Jun 2008	Dec 2009 / Dec 2008	Jun 2010 / Jun 2009
1	Industrial output	4,00	-18,00	-5,90	11,60	6,70
2	Labour productivity in industry	7,70	-12,20	12,70	35,40	19,10
3	Retail trade	19,30	3,00	-16,30	-8,50	4,80
4	Market services to households	7,30	-19,60	-22,20	-8,60	17,60
5	Foreign trade - Exports - Imports	21,20 17,10	-16,00 -25,20	-17,50 -38,00	18,90 -9,90	29,10 26,50
6	Net average monthly wage - Nominal - Real	24,40 14,50	17,60 10,60	8,30 2,30	-0,80 -5,30	3,10 -1,20
7	Consumer prices	8,60	6,30	5,86	4,74	4,38
8	Industrial producer prices	19,40	7,92	-0,03	4,21	6,23

Source: NIS, NBR

The values registered at the end of June 2008, December 2008, June 2009, December 2009 and June 2010 by the average net earnings, by the number of employees in the Romanian economy, by the registered unemployed and by the unemployment rate are presented in Table 2 „The evolution of principals Macroeconomic Indicators".

The average net nominal earning in period June 2008 - June 2010 registered a fluctuation, those increasing from lei 1.273 in June 2008 to lei 1.489 in December 2008, then decreased at lei 1.379 in June 2009, then rose to lei 1.477 in December 2009 and, finally, diminished to lei 1.422 in June 2010.

According to the data provided by the National Agency for Employment, the number of employees in the economy decreased constantly in period June 2008 – June 2010. The number of employees decreased in June 2010 at 4.264 thousand

persons from 4.368 thousand persons registered in December 2009, 4.618 thousand employees registered in June 2009, 4.739 thousand employees registered in December 2008 and 4.827 thousand employees registered in June 2008.

The number of registered unemployed was 681 thousand persons at the end of June 2010. In comparison with December 2009, the number of unemployed registered at the agencies for employment was with 28 thousand persons lower and in comparison with June 2009, December 2008 and June 2008 was by 132 thousand persons higher, by 278 thousand persons higher and, respectively by 344 thousand persons higher.

The unemployment rate registered in June 2010 was 7.4% as against total civil active population and the track curve followed the trajectory of the number of registered unemployed in period June 2008 – June 2010).

Table 2. The evolution of principals Macroeconomic Indicators

No	Indicator	Jun 2008	Dec 2008	Jun 2009	Dec 2009	Jun 2010
1	***Average net earnings*** (lei)	1.273	1.489	1.379	1.477	1.422
2	***Number of*** *employees in the economy* (thousand persons at the end of the month)	4.827	4.739	4.618	4.368	4.264
3	***Number of registered unemployed*** (thousand persons at the end of the month)	337	403	549	709	681
4	***Unemployment rate*** (%)	3,7	4,4	6,0	7,8	7,4

Source: NIS, NBR

The consumer prices constantly overgrowth during the last two years, respectively from June 2008 to June 2010, especially at nonfood goods and at services as can be seen in Table 3. „Rise of consumer prices".

Also, the monthly average rise of consumer prices increased constantly with almost 0,5%/month in period January 2008 – June 2010.

Table 3. Rise of consumer prices

-percentages-

	Rise of consumer prices in june 2009, as against:		Rise of consumer prices in june 2010, as against:		Monthly average rise of consumer prices during		
	Jun 2008	Dec 2008	Jun 2009	Dec 2009	Jan 2008 - Jun 2008	Jan 2009 - Jun 2009	Jan 2010 - Jun 2010
Total	**5,9**	**3,1**	**4,4**	**2,8**	**0,6**	**0,5**	**0,5**
Food Goods	3,5	1,2	- 0,1	0,7	0,6	0,2	0,1
Non Food Goods	6,7	4,1	8,4	4,8	0,6	0,7	0,8
Services	8,7	4,8	3,8	1,8	0,6	0,8	0,3

Source: NIS, NBR

2. The evolution of the unemployed and of the banking activity in Constanta County

The shocks produced by global financial crisis on Constanta county economy affected, in principal, the labour market through the increase of unemployment rate and the credit activity of banks operating in Constanta county through the rise of the overdue loans share in total loans.

The evolution of the number of registered unemployed in Constanta county followed the track curve of the evolution of the number of registered unemployed in Romania, respectively the constantly overgrown registered in December 2008 versus June 2008, in June 2009 comparing to Demember 2008 and in December 2009 vis-a-vis of June 2009 followed by a slower decreasing in June 2010 comparing with December 2009.

The same path followed the unemployment rate registered in Constanta county comparative with the unemployment rate registered in Romania (the unemployment rate increased constantly between June 2008 and December 2009 then decreased slowly).

This evolution is presented in the Table 4. „Number of registered unemployed and of registered unemployment rate" and in the Figure 1. „The unemployment rate evolution"

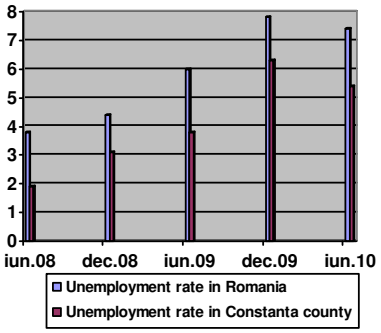
Table 4. Number of registered unemployed and of registered unemployment rate

-thousand persons-

Month	Region	Number of registered unemployed	of which:		Unemployment rate (%)
			paid	unpaid	
Jun 2008	**Total Romania**, of which:	**337**	**91**	**246**	**3,8**
	- Constanta county	6	2	4	1,9
Dec 2008	**Total Romania**, of which:	**403**	**143**	**260**	**4,4**
	- Constanta county	10	6	4	3,1
Jun 2009	**Total Romania**, of which:	**549**	**290**	**259**	**6,0**
	- Constanta county	12	7	5	3,8
Dec 2009	**Total Romania**, of which:	**709**	**435**	**274**	**7,8**
	- Constanta county	20	13	7	6,3
Jun 2010	**Total Romania**, of which:	**681**	**381**	**300**	**7,4**
	- Constanta county	17	12	5	5,4

Source: INS

Figure 1. The unemployment rate evolution



The evolution of the overdue loans share in total loans registered a permanent increasing in period June 2008 – June 2010 both in Constanta county and in Romania, in principal due to the global recession and its influence upon the romanian economy, respectively the evolution of the principal macroeconomic indicators (especially: the average net earnings, the registered unemployed and the unemployment rate, the consumer prices and the industrial producer prices).

This evolution is presented in the Table 5. „Loans in Constanta county", in Table 6. „Loans in Romania" and in the Figure 2. „The overdue loans evolution".

Table 5. Loans in Constanta county

-mil. lei at the end of the month-

No	Loans in Constana county	Jun 2008	Dec 2008	Jun 2009	Dec 2009	Jun 2010
1	***Total, of which:***	***6.869***	***7.889***	***7.924***	***7.643***	***8.018***
2	- current loans	6.831	7.812	7.757	7.421	7.546
3	- overdue loans	38	77	167	222	472
4	*% overdue loans in total loans*	*0,55*	*0,98*	*2,11*	*2,91*	*5,88*

Source: NBR

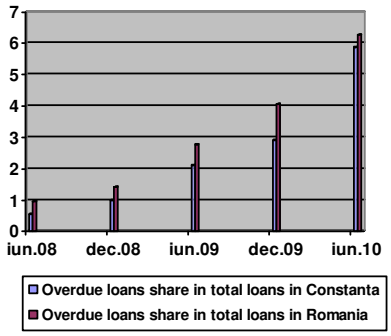
Table 6. Loans in Romania

-mil. lei at the end of the month-

No	Loans in Romania	Jun 2008	Dec 2008	Jun 2009	Dec 2009	Jun 2010
1	***Total, of which:***	***178.948***	***199.107***	***199.016***	***201.193***	***212.064***
2	- current loans	177.252	196.306	193.513	193.036	198.779
3	- overdue loans	1.696	2.801	5.503	8.157	13.285
4	*% overdue loans in total loans*	*0,95*	*1,41*	*2,77*	*4,05*	*6,26*

Source: NBR

Figure 2. The overdue loans evolution



3. Bibliographical references

[1] National Bank of Romania, "Monthly Bulletin June 2008", www.bnro.ro.
[2] National Bank of Romania, "Monthly Bulletin December 2008", www.bnro.ro
[3] National Bank of Romania, "Monthly Bulletin June 2009", www.bnro.ro
[4] National Bank of Romania, "Monthly Bulletin December 2009", www.bnro.ro
[5] National Bank of Romania, "Monthly Bulletin June 2010", www.bnro.ro

[6] National Institute of Statistics, "Monthly Statistical Bulletin June 2008", www.insse.ro
[7] National Institute of Statistics, "Monthly Statistical Bulletin December 2008", www.insse.ro
[8] National Institute of Statistics, "Monthly Statistical Bulletin June 2009", www.insse.ro
[9] National Institute of Statistics, "Monthly Statistical Bulletin December 2009", www.insse.ro
[10] National Institute of Statistics, "Monthly Statistical Bulletin June 2010", www.insse.ro
[11] http://en. wikipedia.org/wiki/Financial_ crisis_of_2007

Modelling Sustainable Management Process on Entreprise Level

Mocanu Nelu

Abstract

In this paper, integration of key sustainable industrial development tools (cleaner production, integrated management systems, eco-design and sustainability reporting) as well as selection of sustainability performance indicators and their use to manage sustainable industrial development process on enterprise level are discussed. Classical total quality management cy-cle is used for integration of sustainable industrial development tools. Sustainability performance indicators are analysed from the perspective of decision-making effectiveness."

Key words: Sustainable industrial development, integration of preventive measures, sustainabilitȩ performance indicators
J.E.L. classification: M19, Q01

1. Introduction

The role of industry in the process of sustainable development is obvious. It relates to changes in production processes, products and services aimed at reduction of impact to the envi-ronment in the product life cycle perspective and leads to improvement of environmental, economic and social performance of enterprises. Nevertheless, the concept of sustainable development is often considered by industry as very vague and hardly operațional.

To ensure contribution of industry to the process of sustainable development, there is a need to speli out in an operațional terms what the concept of sustainable development means for industry and more specifically, for an industrial enterprise.»

To make it operațional, sustainable industrial development could be considered as a process of continuous improvement of environmental, economic and social performance in industry. Sucii process approach allows identification of particular process performance parameters that could be controlled and managed.

Generally, progress in the process of sustainable industrial development depends on enterprises systematically applying the key sustainable industrial development measures that enable integrated performance improvement and aimed at (i) production processes, (ii) management practices, (iii) products and (iv) communication with internai and externai stakeholders.

2. Integration of the key tools of sustainable industrial development to be applied by enterprises

It is evident that industry can not fully rely on pollution control technologies due to their limitations and excessive costs. Application of preventive environmental approaches becomes an important factor of business competitiveness. Therefore, to ensure sustainable industrial development, systematic application of the following tools is needed (Staniskis J., Arbaciauskas V., 2004):

— Cleaner production to improve production processes;

— Product oriented measures based on life cycle approach, particularly eco-design to improve product characteristics;

— Integrated (environmental, quality, health and safety) management systems to improve management practices;

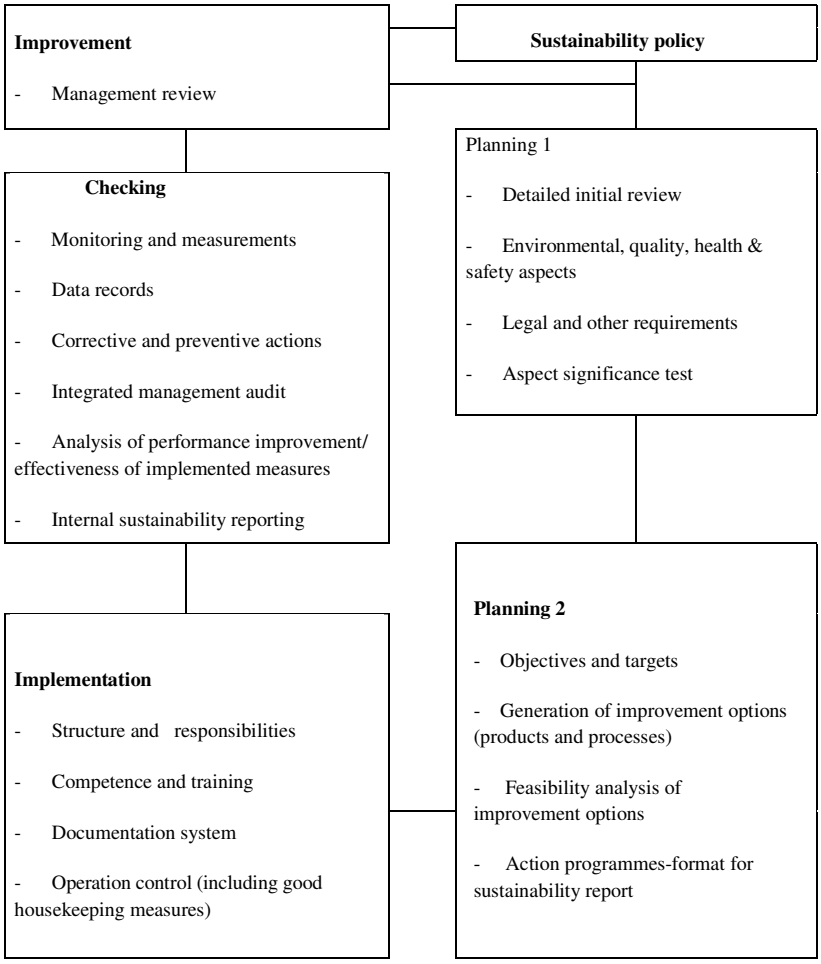
— Sustainability reporting to improve communication with internal and external stake-holders.

Industrial enterprises could improve their environmental and economic performance by applying these particular sustainable industrial development tools. However, effectiveness of these tools and efficiency of their implementation largely depends on integration level of these measures in the overall strategy of enterprises and everyday activities (Staniskis J., Arbaciauskas V., 2003). It means that adequate changes are needed in the management system of a company. Such. changes and implementation of technical improvements require adequate

human and financial resources. Integrated implementation of the key sustainable industrial development tools could enable more efficient use of human resources and could result in significant cost savings. Moreover, systematic and integrated application of these measures would enable to increase their effectiveness and would lead to additional cost savings associated with more efficient use of natural resources, reduced waste generation, more effective operational procedures, etc.

Sustainable industrial development measures could be integrated using the classical total quality management cycle "plan - do - check - act" developed by Dr. Deming. This way, an integrated management system would be taken as a basis for integration of the key sustainable industrial development tools (Fig. 1).

Figure 1



One of the main driving forces for sustainability performance evaluation in industrial enterprises is a pressure from external stakeholders to publish sustainability performance information. It could also be related to establishment of "socially responsible" investment funds and investment rating systems (Ballou B. et all, 2006). However, effectiveness and value added of the performance evaluation system for an enterprise mainly depends on strength of internal motivating factors (e.g. identification of opportunities for operation optimisation, identification of inefficiencies that could be removed by preventive measures) and determination for performance improvement.

Before selecting sustainability performance indicators, objectives of the performance evaluation system should be defined. Generally, selected performance indicators should enable the following:

- to identify areas where performance improvement options are most feasible (preferably using preventive measures);
- to identify losses, to facilitate development of performance improvement options;
- to assess whether objectives and targets have been achieved;
- to assess legal compliance;
- to assess effectiveness of implemented measures, i.e. to assess the progress from particular projects;
- to enable development of sustainability report that meets requirements of the key stakeholders.

Generally, an indicator provides useful information about system; they can be used to describe the state of a system, to detect changes and to show cause and effect relationships (Miller G., 2001). Indicators can be quantifiable (quantitative) and non-quantifiable (qualitative). The best approach is the combination of both methods (Diakaki C. et all, 2006). It terms of expression, there are four types of quantifiable indicators: absolute indicators, relative indicators, aggregate indicators and indexed indicators. Aggregate and indexed indicators integrate data in particular categories or in one number presenting a level of performance. Such indicators could be useful in overall assessment of the enterprise's performance, but they lack detailed information and this fact limits their practical use in terms of opportunity identification for performance optimisation. In this respect, use of absolute and relative indicators is recommended. Absolute and relative indicators can be expressed in natural units (tols, litres) and monetary units.

Taking into account nature of decision-making (e.g. strategic, operational, innovation generation), performance indicators should be defined at enterprise, department or process level. Generally, to ensure effective decision-making, indicators in all specified levels should be used. Moreover, in addition to traditional sustainability indicators such as economic, environmental and social, communication indicators should also be considered.

Researchers at the Lowell Center for Sustainable Production at the University of Massachusetts developed the indicator hierarchy as a tool to organise performance indicators and to enable companies to evaluate effectiveness of their indicator systems (Veleva V. et all, 2003). The hierarchy has five levels in relation to the basic principles of sustainability: (i) facility compliance/ conformance; (ii) facility material use and performance; (iii) facility effects; (iv) supply chain and product life-cycle; and (v) sustainable systems. Use of such hierarchy is very useful as it helps to keep clear structure of indicators and corresponds to the level of the enterprise's ambition in performance evaluation. Enterprise could start from evaluation of compliance and with gradual development of experience, could continue with more sophisticated performance evaluation.

One of the main driving forces for sustainability performance evaluation in industrial enterprises is a pressure from external stakeholders to publish sustainability performance information. It could also be related to establishment of "socially responsible" investment funds and investment rating systems (Ballou B. et all, 2006). However, effectiveness and value added of the performance evaluation system for an enterprise mainly depends on strength of internal motivating factors (e.g. identification of opportunities for operation optimisation, identification of inefficiencies that could be removed by preventive measures) and determination for performance improvement.

Before selecting sustainability performance indicators, objectives of the performance evaluation system should be defined. Generally, selected performance indicators should enable the following:

- to identify areas where performance improvement options are most feasible (preferably using preventive measures);
- to identify losses, to facilitate development of performance improvement options;
- to assess whether objectives and targets have been achieved;

- to assess legal compliance;
- to assess effectiveness of implemented measures, i.e. to assess the progress from particular projects;
- to enable development of sustainability report that meets requirements of the key stakeholders.

Generally, an indicator provides useful information about system; they can be used to describe the state of a system, to detect changes and to show cause and effect relationships (Miller G., 2001). Indicators can be quantifiable (quantitative) and non-quantifiable (qualitative). The best approach is the combination of both methods (Diakaki C. et all, 2006). It terms of expression, there are four types of quantifiable indicators: absolute indicators, relative indicators, aggregate indicators and indexed indicators. Aggregate and indexed indicators integrate data in particular categories or in one number presenting a level of performance. Such indicators could be useful in overall assessment of the enterprise's performance, but they lack detailed information and this fact limits their practical use in terms of opportunity identification for performance optimisation. In this respect, use of absolute and relative indicators is recommended. Absolute and relative indicators can be expressed in natural units (tols, litres) and monetary units.

Taking into account nature of decision-making (e.g. strategic, operational, innovation generation), performance indicators should be defined at enterprise, department or process level. Generally, to ensure effective decision-making, indicators in all specified levels should be used. Moreover, in addition to traditional sustainability indicators such as economic, environmental and social, communication indicators should also be considered.

Researchers at the Lowell Center for Sustainable Production at the University of Massachusetts developed the indicator hierarchy as a tool to organise performance indicators and to enable companies to evaluate effectiveness of their indicator systems (Veleva V. et all, 2003). The hierarchy has five levels in relation to the basic principles of sustainability:

(i) facility compliance/ conformance;
(ii) facility material use and performance;
(iii) facility effects;
(iv) supply chain and product life-cycle; and
(v) sustainable systems.

Use of such hierarchy is very useful as it helps to keep clear structure of indicators and corresponds to the level of the enterprise's ambition in performance evaluation. Enterprise could start from evaluation of compliance and with gradual development of experience, could continue with more sophisticated performance evaluation.

3. References

[1] Ballou, B.; Heitger, D. L.; Landes, C. E. 2006. The Future of Corporate Sustainability Reporting.. *Journal of Accountancy,* 00218448, Dec2006, 202(6).

[2] Berkhout, F.; Hertin, J.; Azzone, G., et al.2001. Measuring the Environmental Performance of Industry, Final Report of Project MEPI, *Environment and Climate Research programme,* European Commis-sion, Brussels.

[3] Coelho, J. F. G.M.; Moy, D. 2003. The new performance evaluation methodology and its integration with management systems, *The TQM Magazine* 15(1), MCB UP Limited.

[4] Diakaki, C; Grigoroudis, E.; Stabouli, M. 2006. A risk assessment approach in selecting environmental performance indicators. *Management of Environmental Quality: An International Journal* 17(2), Emerald Group Publishing Limited.

[5] Keeble, J.; Topiol, S.; Berkeley, S. 2003. Using indicators to measure sustainability performance at a co-porate and project level. *Journal of Business Ethics* 44(2/3).

[6] Miller, G. 2001. The development of indicators for sustainable tourism: results of a Delphi survey of tour-ism researchers, *Tourism Management* 22.

[7] Searcy, C; Karapetrovic, S.; McCartney, D. 2005. Designing sustainable development indicators: analysis for a case utility, *Measuring Business Excellence* 9(2) Emerald Group Publishing Limited.

[8] Staniskis, J.; Arbaciauskas, V. 2003. Sustainable Industrial Development: Strategies and Tools Aimed at Industry Performance in Lithuania, *Environmental Research. Engineering and Management* 4(26).

[9] Staniskis, J.; Arbaciauskas, V. 2004. The Sustainable Industrial Development: Reality and Vision, in *Tech-nological Choices for Sustainability,* Springer-Verlag.

[10] Upham. P. J.; Mills, J. N. 2006. Environmental and Operational sustainability of airports: core indicators and stakeholder communication, Benchmarking. *An International Journal* 12(2), Emerald Group Publishing Limited.

[11] Veleva, V.; Hart, M.; Greiner, T.; Crumbley, C. 2003. Indicators for measuring environmental sustainabil-ity, a case study of the pharmaceutical industry, Benchmarking, *An International Journal* 10(2), MCB UP Limited

Ethical Aspects of Human Resource Activities Serving Local and Regional Communities

Morariu Alunica
„Ştefan cel Mare" University of Suceava
Faculty of Economics and Public Administration
morariua@seap.usv.ro

Abstract

The correct approach to ethics in public service should be multi-dimensional, since there is no difference to addressing the broader context of ethics in public office (members of Parliament, Government, other officials). The paper examines issues which are relevant for the basic principles and key administrative and legal instruments of ethics management.

Key words: civil servant, management, ethics, reform, code of conduct.
J.E.L. classification: H83, M12

1. Introduction

In performing his/her functions, the civil servant or the elected representative has in view the public interest and not solely his/her direct or indirect personal interest, and neither the private interest of individuals or groups of individuals in order to obtain a direct or indirect personal interest [1]. These assumptions form the basis for formulating the objective of our paper which lies in analyzing the ethical aspects of human resource activities serving local and regional communities.

„Lead people with fairness and no one will dare not be incorrect."

(***Confucius***)

2. Ethical aspects of human resource activities serving local and regional communities

In this regard, the Code of Conduct for local and regional elected representatives [2] was established and it is based on a number of guiding principles which aim to ensure an ethical conduct of local or regional elected representatives in their duties, and to inform the citizens on the rules of conduct they are entitled to expect from the elected representatives.

Among the general principles of the Code of Conduct for local and regional elected representatives there are:

a) The primacy of law and public interest

The elected representatives exercise their mandate in accordance with law and shall, in all circumstances, act according to it. In performing his/her functions, the elected representative has in view the public interest and not solely his/her direct or indirect personal interest, and neither the private interest of individuals or groups of individuals in order to obtain a direct or indirect personal interest.

b) Objectives of the exertion of the mandate

The elected representative should conscientiously exercise his/her powers, should be transparent and willing to assume responsibility for his/her decisions.

c) Limits of the exertion of the mandate

When exerting his/her functions, the elected representative must observe the competences and prerogatives of any other politically authorized person or of any civil servant.

The Committee on Local and Regional Democracy (CLRD) in the Council of Europe has initiated numerous actions related to public ethics of public servants and local elected officials, as well as actions related to the mechanisms for monitoring these procedures in various areas, including the financial one and in the election systems [3].

Regarding civil servants in Romania, the principles governing their professional conduct are mainly identified by [4]:

a) the supremacy of the Constitution and law, according to which the civil servants have the duty to respect the Constitution and the laws of the country;

b) the priority of public interest, according to which civil servants have the duty to consider the public interest above the personal interest in exercising the public function;

c) ensuring equal treatment of citizens in relation to public authorities and institutions, according to which civil servants have the duty to apply the same legal regime in identical or similar circumstances;

d) the professionalism, according to which civil servants are required to meet their service functions with responsibility, competence, efficiency, honesty and conscientiousness.

In addition, civil servants are required to have an objective attitude, neutral to any political, economic, religious or other interest, in the exercise of the public function by applying beliefs of ***impartiality and independence.***

On the other hand, civil servants ***are forbidden to solicit or accept,*** directly or indirectly, for themselves or for others, ***any advantage or benefit in consideration of the public function*** they hold, or to abuse in any way by this function.

Civil servants ***may express and base their views, while respecting the rule of law and morality. Honesty*** and ***fairness*** are other attributes of the specialized personnel of public administration that every state employee should take into account in carrying out activities ***in an open and transparent way.***

As a consequence of the comparative analysis of the two categories of ethical principles, we consider useful and necessary the transfer of principles governing the conduct of civil servants to those pointing to local or regional elected representatives.

3. How to implement the code of conduct for civil servants

The code of conduct for civil servants governed since its appearance in 2004 and is governing, from the legal perspective, the establishment of values and principles of professional ethics in public function.

The implementation for over six years of Law 7/2004 on the Code of Conduct for civil servants raises a natural question, namely if the purpose and objectives for which this code was created have been met and if not, what are the measures to be taken for its effectiveness.

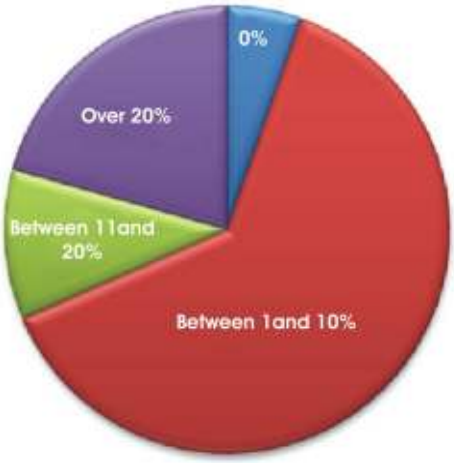
With the entry into force of Law 50/2007 on amending and supplementing Law no. 7/2004 on the Code of Conduct for civil servants, have been introduced new elements for the accountability and awareness of civil servants on the rules of conduct that are identified by the transfer of functions and powers from the National Agency of Civil Servants to public authorities and institutions. Thus, the legal framework for the designation of a civil servant for ethical advice and for the supervision of rules of conduct was created.

The changes and additions to the Code of Conduct for Civil Servants by Law 50/2007 led to a number of changes in the content of requests made to the National Agency of Civil Servants, mainly referring to [5]:

- the existence of public authorities or institutions which didn't designate a person to exercise powers of ethical counselling;
- the proper way to designate a person to exercise powers of ethical counselling;
- the limited time allocated to the activity of ethical counselling, the percentage of 1-10% of the total work of the civil servant who meets these activities (63% of all participants to the study). This shows that in practice, the activity of ethical counselling hasn't become an important component in the local public institutions/authorities. The main causes of this situation lie in the lack of information, in the lack of knowledge of civil servants as regards the law, the ignoring even by the persons designated to perform duties of ethical counselling of the content of the activity they must perform. To all these is added the supplementary charge of tasks that the respective civil servant must carry out.

„How much time do you spend with the activity of ethical counselling?"[6]

Figure 1. The time allocated by the advisers to the activity of ethical counselling



Source: www.anfp.ro

- the lack of a material benefit for the unfolding of ethical counselling activities, the duties regarding the activity of advising and supporting the civil servants within the authority or institution in complementing the tasks defined in job descriptions;
- the lack of a correct interpretation of the role and duties belonging to the person who performs the activity of ethical counselling, this one being perceived as responsible for the notification to the disciplinary committee on violation of rules of conduct and not as carrying out assistance, counselling and prevention activities;
- the functions of the person practicing this activity are not understood, being partly mistaken with the achievement of the role belonging to the disciplinary committee;
- reported to his/her status of hierarchically subordinate of the head of public authority or institution, is identified a kind of conflict of interests, created by his/her role to ensure the confidentiality of information of civil servants who seek advice on ethical issues;

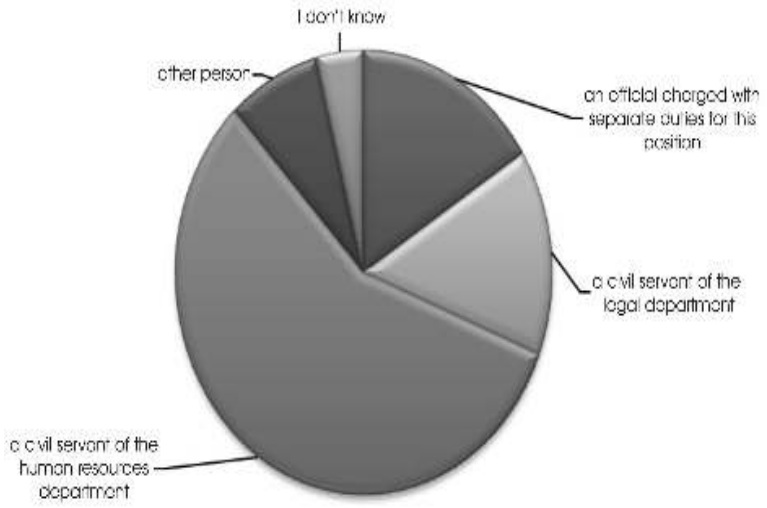
To the question ***Who should perform, in your opinion, the duties of ethical counsellor ?*** The proportion of responses (57%) according to which the duties of ethical counsellor must be met by a civil servant of the department of human resources actually confirms the real situation. As it resulted even from the data of the *Impact study for assessing the implementation of ethical advisers network*, of the 111 respondents, 93 are employed in human resources departments/services/ offices. The real situation may actually be generated by the law which states, we quote: „For effectively applying the provisions of this code of conduct, the leaders of public authorities and institutions will appoint a civil servant, usually of the human resources department, for ethical advice and monitoring the compliance with ethical rules of conduct."

Table 1. Who should perform the duties of ethical counsellor?

		an official charged with separate duties for this position	a civil servant of the legal department	a civil servant of the human resources department	other person	I don't know
Type of institution	Prefectures	29%	19%	38%	10%	5%
	District Councils	19%	10%	62%	5%	5%
	Municipalities	8%	17%	67%	0%	8%
	Central authorities	11%	16%	61%	11%	3%
	Total	**16%**	**15%**	**57%**	**8%**	**4%**

Source: www.anfp.ro

Figure 2. Who should perform the duties of ethical counsellor?



Sursa: www.anfp.ro

There are, however, especially within the Prefectures a large number of respondents (29%) who consider that there should exist an official charged with separate duties for this position. Two comments are necessary in connection with this option. On one hand, the existence of an official to be designated as ethical advisor who exclusively fulfils the specific duties of this function is conditioned by the size of the institution and especially by its specific tasks. The Prefect and the Prefecture, according to the law, „lead, through their own specialized departments, the activities of decentralized public services in Ministries and of the other bodies in central public administration within the administrative-territorial units." The wide scope of powers belonging to the Prefecture and to the Prefect may require more time allocation for the tasks of ethical counselling.

On the other hand, there is a specific terminological confusion within the very legal framework which stipulates the context of the existence of the ethical adviser. If the Law 7/2004, completed and republished 50/2007 refers to an official to perform duties of ethical counselling, in the Order of NACS President for establishing a unitary framework for methods of completion and transmission of data and information referring to civil servants' observance of rules of conduct, the terminology is that of „ethical counsellor" . The order itself gives to the ethical advisers a status and responsibilities that exceed the

original framework established by law and through the role they currently have.

- what is the limit of information confidentiality, in the case in which the ethical adviser, during the counselling, reveals situations that attract civil, criminal, disciplinary responsibility in charge of the civil servant;
- the direct referral to the Agency on the violation of provisions contained by the Code of Conduct, within the institution still being registered petitions and complaints regarding violations of the Code of Conduct, with the requirement to analyse the facts.

4. Conclusions

The result of analysing the content and object of petitions recorded at the National Agency of Civil Servants consists in the fact that both civil servants and citizens do not know the role and competence of the ethical counsellor. Furthermore, the complaints made directly to the Agency lead us to conclude that the staff of public institutions does not know the skills of the ethical adviser and does not have confidence in this institution.

Taking into account these results and if we consider that the compliance with the rules of professional ethics is one of the values promoted by NACS in its activity [7], we consider it necessary, at the level of all public authorities and institutions, to clarify the procedure for nominating the ethical counsellor, his/her functions and to prevent the occurrence of conflict of interests in his/her activity; the informing of citizens and officials - by any means - in relation to ethics rules and procedures in the sphere of public activity.

Observing the principles and rules of conduct providing advice, supervision and preventive control to meet their observance but also the imposition of sanctions when the facts require it, would ensure the presence of professional ethics in the field of activities of the staff working in the Romanian public service, by eradicating or at least reducing the corruption phenomenon.

The statute of civil servants defines the public function as „all powers and responsibilities established by law for the achievement of public powers by the central public administration, local public administration and autonomous administrative authorities [8]". The correct approach to ethics within the civil service should be multi-dimensional, since there is no difference to the approach of ethics in the broader framework of public function (Members of Parliament, local elected representatives, Government, other officials, etc.) [9], even if the legislation in force does not include the status of Member of Parliament, minister, mayor, etc. in the categories of public functions.

As for getting high performance in the ethics of public power exertion activities, categories of officials to which we referred are also involved directly or indirectly, and the Code of Conduct for civil servants should be applied in a multi-dimensional formula.

5. References

[1] *European Code of Conduct for local and regional elected representatives*, debated by the Congress of Local and Regional Authorities of Europe and adopted on June 17, 1993, 3rd meeting (see doc. CG (6) 8, recommendation project presented by Viorel COIFAN, rapporteur), p. 1.

[2] *„Recommendation Project on the Political Integrity of Local and Regional Elected Representatives",* adopted in Strasbourg, has become Recommendation 60 (1999) of CLRAE and, therefore, an official document of the Council of Europe.

[3] Monica Dimitriu, Proceduri etice în administrația publică - Asistență și Programe pentru Dezvoltare Durabilă - Agenda 21, 2008, p. 4.

[4] See Law no. 7 / 2004 on Code of Conduct for Civil Servants, art. 3.

[5] Ministry of Interior, National Agency of Civil Servants, Evaluation of the implementation of Law no. 7 / 2004 (R1) of the Code of Conduct for civil servants in April 2010, p. 6 et seq.

[6] IMPACT STUDY FOR ASSESSING THE IMPLEMENTATION OF ETHICAL ADVISERS NETWORK (first version), study which is part of the project „Modernization of Human Resources Management in the Civil Service in Romania" Europeaid/123509/D/SV/RO, Component 3 - Development and implementation of mechanisms and procedures to ensure

transparency and accountability in the civil service, p.5

[7] *NACS Human Resources Policy - Development Guide* - developed by Csilla Pataki, STE, Modernize HR Management within the Romanian Civil Service RO 2005/017 - 553.01.03.01, p. 3.

[8] Law 188/1999 (updated) on the status of civil servants, art. 2, paragraph 1.

[9] Hans-Achim Roll, Management Etic în Funcția Publică. Studiu Comparativ, 2008, p. 3; European Union's Phare Program in Romania, Modernization of Human Resources Management of Public Service in Romania, RO 2005/017-553.01.03.01 (Europe Aid/123 509/D/SV/RO)

The Importance of Entertainment in Promotional Strategies of Romanian Seaside Tourism Enterprises

Moraru Andreea
"Ovidius" University of Constanta, Faculty of Economic Sciences
amoraru@univ-ovidius.ro

Abstract

Entertainment is playing an important part in modern society, and is becoming increasingly important as tourism motivation. Bearing this in mind it is only natural to be taken into consideration when establishing the promotional strategy for tourism enterprises. This paper aims at demonstrating the importance of the entertainment services for the Romanian seaside tourism activity, by presenting part of the results obtained from a marketing research oriented on finding tourists' opinion regarding tourism services provided on the Romanian seaside. The results of this research come to emphasize the necessity to give proper place to entertainment when establishing the promotional strategy of tourism enterprises.

Key words: tourism services, tourism enterprise, entertainment services, promotional strategy, impact
J.E.L. classification: M31

1. Introduction

A series of tendencies characterizing the last decades – the growth of income and discretionary time, of life expectancy, the development of communications and transports – brought to light the entertainment as an important aspect of modern reality.

In the mid '60s, Michael Dower [1] described four great waves that take over society: the first three that had already passed included the rapid development of cities during the Industrial Revolution, the development of railways and the migration toward the suburbs. The fourth wave was yet to come and was to reshape the society into a world of entertainment.

It is only natural nowadays to accept the opinion [2] setting entertainment as the religion of the modern world.

Under these circumstances the importance of entertainment in tourism is obvious, entertainment tourism services being rightfully placed next to accommodation and transport services.

Entertainment may become a differentiation element for tourism destinations and may even prove to be the main motivation for tourism activity.

Under these circumstances entertainment and entertainment services available within a tourism destination become key elements to be taken into account when establishing the promotional activity for a tourism enterprise.

Tourism activity in the Romanian seaside area has know oscillatory evolution during the past years, and proved sensitive to the general social and economic conditions characterized by uncertainty starting with 2009.

However it is important to mention that during the past years important investments were made in both general tourism infrastructure and entertainment facilities in the area.

Bearing in mind the social and economic conditions it is even more important to find ways to differentiate the destination and attract tourists to the seaside. In our opinion, a suitable manner to achieve these objectives for tourism enterprises on the seaside is to emphasize through their promotional strategy the entertainment component available at destination.

2. The research – methodological approach

Realizing the importance of entertainment in attracting tourists, during a research [3] conducted on the Romanian seaside in 2009 meant to analyze tourists' opinion on tourism services provided, due importance was given

to entertainment services.

A descriptive research of quantitative type was conducted on a population formed of tourists who visited the Romanian seaside in the 2009 summer season.

A series of objectives and hypotheses were formulated; they referred to identifying tourists' motivations and opinions related to the seaside tourism services and testing the impact of development and diversification level of tourism services on tourist satisfaction, visit frequency and length of stay.

The survey was conducted between 15 of July and 31 of August 2009, in 16 tourist towns and resorts on the Romanian seaside, using as main research tool a questionnaire, compiled of 27 questions.

Having considered the complex character of the research proportional stratified sampling was used. The population was layered function of the holiday town/resort and their nationality, and from each layer sub-samples were extracted using simple random sampling.

The questionnaires were distributed in 16 tourist towns and resorts on the Romanian seaside, and after eliminating the ones being incomplete or under the suspicion of untrustworthiness 408 questionnaires were subject to analysis using SPSS (Statistical Data Analysis, version 17.0).

3. The analysis and interpretation of data

As far as sample structure is concerned, a few relevant elements for the analysis of tourists' opinion on entertainment services are presented below:

- At sample level, most respondents were found in the 35-44 years of age group (28.9%); this proportion is maintained within the Romanian tourists' group (29.4%), while most of the foreigners belonged to the 45-54 years group;
- As far as both groups are concerned, most respondents are residents of urban areas;
- Most Romanian respondents were female (55.9%), while the ratio was reversed for the foreign visitors (52.2% male visitors);
- As far as the education level is concerned, most of the Romanian and the foreign visitors are comprised in the category "higher education graduate", however in the case of the foreign visitors there was a high rate of non-responses;
- Regarding the tourist motivation most of the respondents, both Romanian and foreign, chose the seaside for spending a holiday;
- Regarding frequency of visit, most Romanians travel to the seaside once a year (61.8%), while the most foreigners are at their first visit (60.9%);
- The average length of stay of the sample is 5.64 days; 5.54 days for the Romanian tourists and 7.39 for the foreign tourists.

Related to the entertainment services available on the Romanian seaside, the questions focused on finding tourists' opinion on several aspects related to entertainment services: what kind of services did they use, their general opinion on these, their diversity, the number of establishments and their quality.

87.0% of the respondents turned to entertainment services while they visited the seaside.

The research revealed that the preferred entertainment activities included: visits to theme (water) parks, viewing of shows/festivals, sea/lake excursions, clubs and discos, playing sports and visiting casinos.

A semantic differential 5 level scale was used in order to assess the tourists' general opinion on entertainment services and it indicated that the entire sample opinion was satisfactory (3.25), with a lower score calculated for the foreign tourist group (2.73).

In the general research on seaside tourism services a series of hypotheses were tested, and several of them referred to the entertainment services. After the formulation of hypotheses, different tests were used to test them.

In the paragraphs below, the tested hypotheses and the obtained results are detailed.

Considering the entertainment services play a crucial role in attracting tourists testing the influence of tourists' opinion regarding entertainment services on the length of stay was considered opportune.

The significance value of Pearson Chi-Square test (χ^2=229.042, *df* =160, *p*<0.01) led to the rejection of the null hypothesis and the acceptance of the alternative hypothesis that is the length of stay is influenced by the opinion on entertainment services.

Another hypothesis was aimed at testing the interrelation between the opinion on entertainment services and the holiday town/resort.

This hypothesis came to our attention due to the fact that during the past years we have witnessed a transformation of the seaside regarding the entertainment offer, but most investments concentrated on Mamaia resort, while the rest of the seaside town and resorts still lag behind in this respect.

The significance value of Pearson Chi-Square test (χ^2=357.037, *df* =240, *p*<0.01) led to the rejection of the null hypothesis and the acceptance of the alternative one, that is the opinion on entertainment services is positively influenced by the holiday town/resort.

Another hypothesis was aimed at testing the interrelation between the opinion on entertainment services and age, level of income and holiday motivation of tourists.

Separate tests were conducted to test the interrelation with age, level of income and holiday motivation.

The results of the test in relation to age (χ^2=137.117, *df* = 80, *p*<0.01) led to the conclusion that the alternative hypothesis should be accepted, that is the opinion on entertainment services is influenced by tourists' age.

In the case of testing the interrelation between tourists' opinion on entertainment services and income the null hypothesis was accepted (χ^2=125.514, *df* = 112, *p*>0.01).

Testing the interrelation between tourist opinion on entertainment services and their holiday motivation (χ^2=227.822, *df* = 128, *p*<0.01), the null hypothesis was rejected, leading to the conclusion that in fact tourist opinion on entertainment services was related to their holiday motivation.

Another hypothesis regarding the entertainment services referred to whether there are differences between the groups of Romanians and foreigners regarding their appreciation of entertainment services.

For testing this hypothesis t test was used; the results (t = 2.461, *df* = 406, p<0.05) led to the rejection of the null hypothesis, indicating that there was a significant statistical difference between the two groups.

A few conclusions regarding the entertainment services on the seaside may be drawn:

- There are significant differences between the two groups of Romanians and foreigners regarding their appreciation of entertainment services;
- A direct relation was established between the tourists' opinion on entertainment services and their age, their holiday motivation and the holiday town/resort.
- The length of stay is influenced by tourists' opinion on entertainment services.

4. Conclusions

Considering the results of this research it is obvious that the entire approach to entertainment must be changed. Entertainment determines the quality of tourism experience and may in fact represent a key factor in attracting tourists.

The recent investments in entertainment facilities and the rich ensemble of tourist attraction existing in the seaside vicinity must be made known to potential tourists.

It is our conviction that each enterprise developing its activity in this area must comprise in its promotional strategies elements referring to entertainment available.

This approach would not only benefit the enterprise, but also contribute to raise awareness to the attractions available in the seaside area.

5. References

[1] Michael Dower, *The Fourth Wave: The Challenge of Leisure, i*n Norman Borett, *Leisure Services UK. An Introduction to Leisure, Entertainment and Tourism Services,* MacMillan, London, 1991, p. 12;

[2] John Tribe, *Trends in work and leisure: a leisure society?*, in A.J.Veal, *The Elusive Leisure Society*, University of Technology Sydney, Working Papers Series, 4th Edition, September 2009, p. 73-74, http://.epress.lib.uts.edu.au;

[3] Andreea (Anghel) Moraru, *Development and Diversification of Tourism Services. A Strategic Approach in International Context* - Doctorate Thesis, Academy of Economic Sciences, Bucharest, 2010

Unemployment in Constanta County during 2006-2010

Moraru Camelia
„Dimitrie Cantemir" Christian University, Faculty of Touristic and Commercial Management , Constanta
cami.moraru@yahoo.com
Popovici Norina
"Ovidius" University, Faculty of Economic Sciences, Constanta
norinapopovici@yahoo.com

Abstract

Problems of unemployment, its nature, size and fighting it is one of the most serious problems facing the Romanian society. Employment and efficient use of human resources, the size of unemployment and unemployment are not only resultative parameters of the labor market, but also expressions of health and functionality of the whole economic body. Through its direct effects, unemployment exceeds the labor market itself, beeing involved in shaping the macroeconomic imbalances. In this paper is presented the evolution of unemployment and its structural characteristics by age, sex, education level in Constanta county during 2006-2010.

Key words: unemployment, trend, unemployment rate , labor market
J.E.L. classification: E24

1. Introduction

Unemployment - is an imbalance in the labor market at a national level - an excess of supply over demand of work, with different levels and directions of evolution in countries and periods, which currently has a permanent character, but does not exclude the final existence of the state of full employment of labor[4].

Unemployment - may also be defined as a state of economic inactivity, partial or total, of those who do not have their own job, who are looking for one, but can not find work as employees. Unemployment is the place of meeting and confrontation of global demand and global supply of labor.

In our country, unemployment and inflation had a synchronized evolution, reaching, in some periods extremely high percentage of quota. The appearance and the increased unemployment have a lot of objective reasons, but also subjective. In terms of higher labor productivity, the economic growth rate is no longer able to create new jobs, in order to ensure a full employment on labor market, the gap between labor demand and supply of labor is in favor of the latter. There are also subjective reasons, which take note of the behavior of economic agents to employ youth, either because of their lake of experience or that they do not comply with labor discipline. Among youth, unemployment appears as a consequence of the tendency to look for jobs well paid from the very beginning[7].

2. Analysis of the evolution and size of unemployment

The alarming extent by complex structures, especially the dynamics that change the rhythms and meanings, unemployment has become a macroeconomic problem. It is the subject of fierce theoretical, methodological and political-ideological dispute.

Unemployment is considered a normal phenomenon, a mechanism for the allocation of labor resources based on volume and the productive structure, which always accompanies the process of economic and social development of each country. In normal range of about 3-4% and relatively short duration, unemployment can play a positive role both globally and individually, for the purposes of stimulating flexibility

workforces and increasing labor productivity and conduct to a appropriate training in order to raise the quality of work, stimulating education and improve work discipline. In contrast, large proportions and high unemployment rates causing huge loss of economic potential and is a permanent danger to society. Thus, high unemployment leads to loss of production and income of society, the degradation of skills, individual skill, the loss of income and social status, to discouragement and demotivation, to the impoverishment of the family[8].

In a realistic approach to unemployment in the period analyzed, 2006-2010, should be considered the dynamics of this phenomenon, how unemployment statistics indicators have developed. The evolution of unemployment picture in the years, in Constanta county, is as follows:

Tabe1 1. The unemployment rate during 2006-2010

	The unemployment rate (%)				
	'06	'07	'08	'09	'10
Jan.	5,7	4,6	3,5	3,6	6,7
Feb.	5,9	4,3	3,3	4,2	7,3
March	5,7	4,1	3,3	4,6	7,7
April	5,1	3,4	2,7	4,3	7,2
May	4,1	2,5	2,1	3,8	6,1
June	3,6	2,1	1,9	3,7	5,4
July	3,6	2,0	1,8	3,9	
Aug	3,1	1,9	1,7	4,2	
Sept.	3,0	1,9	1,7	4,4	
Oct.	3,1	2,9	2,0	5,2	
Nov.	4,0	3,5	2,6	6,1	
Dec.	4,3	3,5	3,1	6,3	

Source : County Agency for Employment Constanta

If we realize a deeper analysis of the monthly values in the range given, it can be noticed that the unemployment rate had an oscillatory evolution: the years 2007 and 2008 were characterized by a decrease of this rate, being the period in which there are most low values, and since 2009 it is noted that the unemployment rate increases, a trend that manifests itself in early 2010. On the other hand, from monthly dynamic unemployment analysis during January 2006 and February 2010, a number of conclusions can be drawn. Since May, one can speak of a seasonal revival activities, leading to reduction of unemployment. In 2006, according to data provided by CEA(County Agency for Employment) Constanta 12.605 unemployed were registered. Of the total number of unemployed, more than half were receiving benefits, while almost 6.000 were women. Located at 4.1% unemployment rate in Constanta has been influenced by real economic growth and the resumption of seasonal activities in tourism during summer season. During this period, the coast turns into a paradise for workers from other parts of the country, attracting hundreds of youth from rural areas witch abandon farming for a lucrative job in the terraces or on the beach. On the other hand, represents the end of school, youth has a chance to get a jobs that brings them a limited-term financial independence. However, seasonal jobs have disadvantages, it can decisively influence the career of a young man, because those who choose to work only in summer, are not eligible for nationally recognized qualification certificates. At the end of 2006, the total number of unemployed was 13.287[1].

In 2007, the county's unemployment rate fell compared with last year, ending in March, the value of 4.1%, the number of registered unemployed was 12.574. Constanta is in chapter unemployed top, although the municipality has set up several malls that have created new jobs.

Most unemployed remain in Constanta, Mangalia, Medgidia, Cernavoda. From time to time, training courses are organized for the unemployed, the cost being provided by the CAE. Applicants must submit a file that includes a recommendation from Career Counseling Center at the CEA. In December of 2007, the number of people without a job was the 10.858 unemployed.

Although at national level, unemployment rate was set at 3.9%, Constanta remained in 2008 among the most efficient counties in terms of employment sectors in the labor market. 2008 is a good year in terms of number of registered unemployed, because the lowest values are achieved. In months from June to September the number of unemployed varies around 5000 unemployed, this minimum value is reached in the period analyzed. On 31 October there were over 5.500 registered unemployed, which meant a rate of only 2%[1].

Year 2009 was strongly affected by the crisis, whereas this year the number of unemployed reached high rating, maximum value being recorded in the last month of the year (20.198 unemployed). Even in May-September when the specific activities in this county eased unemployment rate values, this time, due to the economic crisis, were reached high values. In 2010, unemployment has continued to expand and crisis has been felt at the begining of this year. In June this year, unemployment has a high value, 21.835 people without a place to work.

3. Structural characteristics of unemployment

It is known that unemployment does not affect people equally. In the following is presented the unemployment analysis by sex, education level, age group and regional distribution.

Analyzing the age structure of the unemployed, it can be said that age groups in witch are found the majority unemployed are 30-39 years and 40-49 years, each with shares of 24,07% and 27,72% of total number of registered unemployed. Young people under 25 years, have a share of 10,75% of the total unemployed, they are often decline in employment due to lack of work experience, and those aged 50-55 years represents 17,27% the total number of unemployed. This analysis of unemployment by age groups reveals that young people (under 25 years age group) faces many difficulties regarding access to the labor market compared with adults. The high share of youth unemployment remains regardless of gender or their urban and rural living environment[1].

Distribution of unemployed by level of education shows that from the total number of unemployed registered, 73.06% are people with primary education, secondary and vocational education and 20.76% are people with high school and post-secondary education. The fewer unemployed are those who have completed university studies (6.15%), but holding a diploma of graduation from a form of education, does not guarantee a job, but it increases the chances of employment. The trend of feminization of labor manifested around the world since the early '80s. Entery of women on the labor market contributed in changing their activity curve, which has approached the active male curve[2]. The following table shows the distribution of educational level of women in Constanta county in 2009:

Tabel 2. Distribution of educational level of women in 2009

	Total	Women
University	1050	637
Highschool, Posthighschool	3114	1918
Primary, secondary, vocational	9975	4338

Source : County Agency for Employment Constanta

Training of women is steadily increasing. When the overall level of employment falls, it is found out that female labor force is more affected than men. The factors underlying this evolution results from the particularities of female labor force (female population being involved in the reproductive population) but also the mentalities and behaviors of employers on the female workforce.

Evolution of unemployment by gender reveals a higher proportion of women in unemployment. In the table below is presented the evolution of unemployment by gender during 31st March – 30th September 2009.

Table 3. Evolution of unemployment by gender

Date	Male	Female
31.03.2009	6.111	8.460
30.06.2009	5.886	5.982
30.09.2009	7.246	6.893

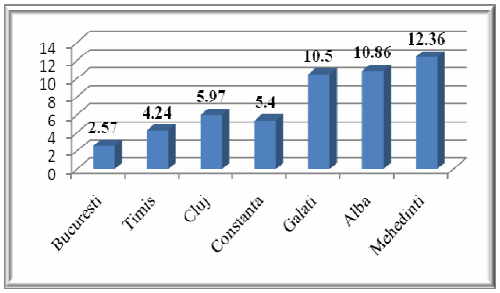
Source : County Agency for Employment Constanta

In the first two months, female unemployment is higher than men, and in September the situation is reversed, the unemployment rate is higher for male labor. In September of 2009, the male unemployment rate was 51,25%, while the female unemployment rate reached 48,75%.

The labor market in Romania was characterized by large regional disparities, but also by dramatic reductions in unemployment in some counties, which led to some changes in "rankings" of regional unemployment. The following graph

illustrates the unemployment rate in different counties[3].

Graph 1. Unemployment rate by counties



Source: own processing

At territorial level, the number of unemployed rose in January for the 20th consecutive month, the unemployment rate reaching 8,3%, compared with 4,9%, rate registered in the same period last year. A large number of unemployed has not been achieved since March 2003 when 779.154 people were registered unemployed and the unemployment rate was 8,6%. Of the total unemployed registered at the national level, 468.863 are unemployed and the unemployment rate among women was 7,4%, according to data compiled by the National Agency for Employment[5].

On 31st June 2010, in Constanta, the unemployment rate was below the rate recorded nationally. Constanta is one of the counties whose unemployment rate is less than 6%, meaning 5,4%. Most unemployed people in Constanta county, are from urban areas (61,23%) and those in rural areas represents 38,76%.

On 31st June 2010 in ten of the 42 counties in our country, the unemployment rate exceeded 10% . The highest rate of unemployment (over 10%) occurred in the counties: Alba (10,86%), Covasna (10, 86%), Galati (10,50%), Gorj (10,81%), Hunedoara (10,15%), Ialomita (10,95%)[6].

4. Conclusions

Unemployment is one of the negative phenomon which occur with great intensity in the entire world. It is an inherent phenomenon encountered in any economy, and unemployment in our country have reached high proportions. Most often, the contemporary phenomenon of unemployment is discussed and analyzed as a labor market imbalance at its national level: as a meeting and confrontation between demand and supply of labor. This way, the unemployment rate is, in fact, a further analysis of demografico-economic issues, on the one hand, and the economic and financial investment, on the other side. But both labor resources and need employment are filtered through the unique requirements and rules of remuneration and salary. Therefore, regardless of the angle of approach and treatment, unemployment is a national labor market dysfunction.

Registered unemployment in Romania has particularly affected young labor force, especially young people first enter the labor market. Young people in Romania are the most vulnerable category of population in relation to the phenomenon of unemployment. Lack of jobs for youth has been and continues to be a serious socio-economic and difficult problem to resolve.

Distribution of unemployed by age group reveals that young people under 25 own a significant share of the total unemployed. Most affected people by unemployment were those with primary education (9975 unemployed). Of the total unemployed population in this category, nearly half are women. The fewer registered unemployed are those who have attended university, 1050 unemployed, more than half are women.

5. References

[1] County Agency for Employment Constanta, Statistics
[2] M. Drăghici, "Unemployment is running too fast for the health economy", Nationwide Courier, 30th March 2010
[3] M. Drăghici, "Unemployment blank map of Romania", Nationwide Courier, 9th April 2010
[4] C. Huimaduc, Macroeconomics, Libertas Publishing, 2008
[5] National Agency for Employment, State unemployment statistics registered on 28th February 2010
[6] National Institute of Statistics, Employment and unemployment
[7] C. Niculescu, Introduction to Macroeconomics - definitions, principles, schemes, Niculescu Publishing, 1998
[8] L.Sandu, "Over 80 unemployed found a job at job fair", Constanta Truth, 25th September 2010

Restrictive Agreements or Concerted Practices in USA

Moşnianu Cristian
„Ovidius" University of Constanta, Faculty of History and Political Sciences
cristianmosnianu@gmail.com

Abstract

American policy as regards competition is based on three acts: Sherman Act [1], Clayton Act and the Act of Federal Committee of Trade[2], even though there will be some noticeable changes along the time, amendments and particular interpretations.

Key words: Agreements, policy, competition, practices, monopoly.
J.E.L. classification: A1; A10

Clayton Act has a certain well defined spectrum by providing a detailed analysis of anticompetitive acts. Section 2 of this act bans the discrimination in point of price as concerns the trade that is realized among different buyers of the same quality and class goods. Section 3 considers illegal for a person that is involved in trade the rent or selling goods the use or reselling in USA on condition that the buyer not use or distribute the goods of the competitor to the seller or the one that rents.

Section 6 excludes from the law of competition the organizations of culture, horticulture and labor by mentioning that these institutions shall not be taken as illegal groups or conspiracy. Section 7 forbids firms acquisitions the outcome of which might influence negatively competition or create a monopoly. Clayton act has determined the outlaw of price discrimination, associated stipulations, the agreements regarding particular pacts along with the fusions among competitors.

Nevertheless, the above mentioned practices were considered illegal only in the situation in which competition was affected or the possibility of a monopoly might appear. Section no 7 that involved fusions was considered inefficient due to a legal artifice. Subsequently, Hart-Scott-Rodino Act of 1950 added a new Section 7 a mentioning that certain acquisitions and fusions to be notified by the Trade Federal Committee and the Antitrust Direction of American Justice Department. Section no 8 of Clayton Act banned any person to be at the same time manager of two or many corporations which were or had been competing on any type of market when one of these corporations in the case of an active of about 1 million $.

The Act of Federal Committee of Trade stipulates substantial purviews in respect of area of antitrust in Section no 5 and 12 while in section no 8 is created a special agency (Federal Committee of Trade) with investigation and deciding powers. Unlike the Antitrust Direction of the Justice Department that represents the executive power, Federal Committee of Trade is an administrative authority with a certain independence. Competences are divided as follows: the Ferderal Committtee of Trade assures that the interdictions from the Clayton Act and Federal Committee Act to be respected while the Justice Department has the role of applying the Sherman Act, being, in fact, the only one empowered to apply criminal fine. Consequently, criminal and civil actions are introduced in the Court by the Antitrust Direction of Justice Department while implentation civil actions and damages-interest actions against persons are brought in front of the Court by Federal Trade Committee.

This dual implementation system has been the subject of periodical debates. Discussions have involved the useless duplication that might leat to the policies inconsistency in respect of the competition area, additional administrative powers over firms or certain other obstacles that might interfere with the correct implementation in the federal competition domain. There were voices that suggested the elimination of the Federal Committee of Trade or the redistribution of teh entire implementation responsability

toward the mentioned Committee while the Justice Department shall act in Court only the violations of Sherman Act.

The Modernization Committee of Legislation in the domain of Competition, that was established on the basis of a set of laws from 2002 and ended its activity at 31 of May 2007, had the purpose of examining the need for updating legislation in the area of competition, identifying and study associated aspects along with feedback requests of the subjects involved for the laws to be respected as well as the evaluation of proposals appropriatness and present arrangements regarding identified aspects. At the end of term the Committee emphasized in the Report which had been addressed to the Congress and the President in 2007 that no institutional change was to be recommended in point of tthe present implementation dual system of laws in the area of competiton.

Section no 5 of the Trade Federal Committee Act stipulates the fact according to which illegal methods of competion are declared incorrect or deceiving if they interfere with interstate trade. Section no 12 declares illegal the dissemination or the cause of dissemination as regards any form of false publicity. Section no 18 assesses that interpretative rules or general political declarations regarding incorrect or misleading acts or practices which are likely to affect the trade can be introduced by the Committee.

Surprizingly, by adopting Clayton Act and the establishment of a new implementation agency with a quite decreased level of independence, namely the Trade Federal Committee, the implementation of antitrust legislation passed through a period of relative less intense action. In addition, between 1915-1935, the Courts based mainly on the rule of reason in order to evaluate the conduct of firms, namely a case to case analysis, thus taking into consideration both advantages and risks of the respective conduct and considering quite permissive suspicious behavior. Despite a certain tolerance as regards the decisions of the Supreme Court of Justice decided that there were particular cooperation forms which had to be penalized.

In the case of USA vs Trenton Potteries Co, the Court has suggested the fact according to which the agreements among competitors were in such a degree detrimental that they should have been banned by the concerned parties, even if by means of the use of an elaborated „ rule of reason" such arrangements might be validated only in particular rare cases.

At the beginning of the '30s, in the midst of economic depression even the position of the Court to oppose the horizontal production restrictions proved to be quite flexible.

In the case Appalachian Coals vs SUA, the Court refused to penalize a restriction scheme of production in a commun marketing agreement that had been proposed by coal producers in the easthern of Europe. A recent case of implementation antitrust legislation, being considered quite a succeess, is represented by the one regarding the cartel of vitamin producers (cases from 1999 SUA. vs F. Hoffmann-LaRoche and SUA vs BASF AG).

At the end of the '90s Antitrust Direction started an investigation in respect of a vitamin producers cartel that affected over 5 billion dollars of the American trade. Evidence proved that the members of the cartel had reached detailed agreements regarding the quantities that each company should produce, the prices companies ought to charge along with the clients to whom the products should be provided.

The ones that were affected by the buying of products from the members of the cartel involved important firms such as General Mills, Kellogg, Coca-Cola, Tyson Foods şi Procter & Gamble along with american consumers. This investigation led to the impeachment of American, Swiss, German, Canadian and Japanese firms and the imprisonment of various managers. The members of the cartel were imposed fines of over 850 million $, including a record fine of 500 million $ given to Hoffman La Roche and one of 225 million $ to BASF AG.

Another recent case regarding the eventual violations of Hart-Scott-Rodino Act was the one of Google/DoubleClick of 2008. In december 2007 the Federal Trade Committee anounced that it wouldn't make any attempt to block the acquisition of Double click publicity server on Internet by Google Inc. The reasons adduced had as basis the fact according to which Google and Double Click weren't direct competitors on any relevant market.

Nevertheless, in order to address concerns regarding the confidentiality of certain data in point of consumers, Federal Trade Committee suggested to the two firms the compliance of various principles in respect of the online publicity privacy and demanded perspectives from concerned parties.

There have been studies of Block, Nold şi Sidak[3] that offered evidence to support the idea according to which the potential threat of firms and subjects with criminal federal fines and privat processes in point of losses represent the best modality of discouragement agreements. Lately, The Antitrust Direction of American Justice Department has tried to consolidate this deterrence by higher fines impositionfor corporations to fix prices and the extending the leniency program for those companies that display their part in a conspiracy and cooperates with the government.

This policy might present as outcome the increase of the welfare of consumers, but Kobayashi[4] warned that one possible consequence was represented by a quite significant discouragement which would lead to excessive investments in monitoring and prevent including high production costs the outcome of which being high prices for consumers.

Though present evidence is considered to be far from being comprehensive or final, economists have not yet reached the conclusion according to which the penalty from the antitrust legislation of agreements has led to significantly reduced prices for consumers. The sproul has analysed a number of 25 fixing prices cases between 1973 and 1984. He sustained that if the respective cartels had raised prices over competitive level, then the pay of certain penalties as consequence of a process should have reduced them.

The analysis of various influences has proved the fact according to which prices have raised with a pecentage of 7% for a period of four years after impeachment. Retrospective evaluations of the sue chase in the domain of prices establishment have demonstrated that there weren't any positive consequences for the consumers, including the case in which a number of bakeries or of a retribution that banned airlines to announce the final date of ticket promotions, thus enabling agreements.

In 2001 Sotheby and Christie auction houses were penalized as the consequence of a process in which the two houses appeared to have conspired in order to increase commissions on sales. Apparently, the retribution of condemnation this practice did not have important consequences as Sotheby revenues of 2003 were the result of the commissions realized as percentage from the auctions revenues (18,2%) which overcome, in fact, the 1993 revenues as percentage from the auctions revenues (17,7%).

Sproul has revealed that the implementation activity of Jstice Department might be considered as being inefficient as the firms which are incriminated are likely to be involved in commun activities the target of which is different from the one of raising prices. As an example Sproul suggests that a cartel could reduce prices by sharing costs with publicity and research, thus determining price reduction and not the raise of them.

Another possibility is the one according to which a cartel might have in sight distribution purposes. As an example MIT and Ivy College shared a decisions coordination tradition in the domain of financial support depending on their needs. The two institutions advocated for the fact according to which the so-called Overlap process had allowed to focus their financial modest resources on students, yet not affecting their entire revenues represented by the allocated grant.

The government sustained that the two institutions had conspired in the area of financial support policies in order to reduce financial support and increase their own revenues.Carlton, Bamberger şi Epstein demonstrated that Overlap process didn't have a significative effect, statistically speaking, on the financial support size of students but a quite relevant quota of revenues which were given to the students with low income.

Baker has provided a cost-benefit analysis of implementation policy in the area of competition with the purpose of noticing the social appropriatnessof this policy. He has discovered that implementation involved annual costs of about 1 milliard$, but the potential benefits could have been higher, respectively of about 100 billion $ a year. But Baker didn't obtain his estimates of benefits from empiric evaluations of the outcome

regarding real antitrust cases over consumers. Instead, he sustained a quite high level as the conspiracy in point of prices fixing were expensive enough for the consumers (for example, the agreements among vitamin producers cost consumers at least 100 mil. $).

Nevertheless, as a real evidence according to which antitrust actions have reduced the costs for consumers or brought them some other benefits is not available, the fact sustaining that from these actions the increment of consumers is higher than the implementation costs of antitrust policy cannot be taken as real evidence.

Bibliography

[1] Kobayashi, B., (2002), „Antitrust, Agency and Amnesty: An Economic Analysis of the Criminal Enforcement of the Antitrust Laws Against Corporations", *Law and Economics Working Pap*er series 0204, George Mason University School of Law

[2] M.K. Block, F.C. Nold, J.G. Sidak, „The Deterrent Effect of Antitrust Enforcement", *Journal of Political Economy* 89,1981, p. 429-45

[3]http://www.usdoj.gov/atr/foia/divisionmanual/ch2.htm#a1

[4]http://www.law.cornell.edu/uscode/15/usc_sup_01_15_10_2_20_I.html

The Objectives of the Regional Development Policy in Romania

Moşnianu Cristian
„Ovidius" University of Constanta, Faculty of History and Political Sciences
cristianmosnianu@gmail.com

Abstract

Romania promotes a regional policy that has as an objective the decrease of the economic and social gaps between different regions and areas of the country, accumulated with time, the prevention of the apparition of new gaps, as well as the support of the sustainable development of all the regions of country.

Key words: Policy, regional, objectives, principle, instrument.
J.E.L. classification: A1; A10

The issue of the reduction of regional imbalances and of the support of the regional development processes has become a major concern lately. The explanation of the growing interest in such issues comes from the conservation and sometimes aggravation of the imbalances that have appeared in the previous period, as well as from the new perception on such issues in the present economic, social and political context. On the other hand, the present interest in regional issues is determined by the need to approach and solve the challenges generated by the processes of reorganization and reform, as well as by the issues concerning economical and political integrity.

The regional development policy is one of the most important and complex policies of the European Union, status that comes from the fact that, by its objective to reduce the existing economic and social disparities between the different regions in Europe, it acts upon essential fields for development, such as economic growth and SME sector, transports, agriculture, urban development, environmental protection, occupation and vocational training, education, gender equality etc.

Every country faces difficulties in the balanced economic development of the territory. The imbalances in the development levels between the regions of a country have appeared either due to a change in the economic conditions due to the development of new branches of the economy and to the decline of others, to the concentration of economic growth in certain regions, or to the existence of under populated regions or with production mainly in the primary sectors, that could not maintain economic development or social infrastructure at a satisfactory level. In order to reduce such differences in the uniform development of the territory, each country has tried to adopt a policy in favour of the regions in difficulty. But these attempts of the central authorities to reduce the differences between the levels of development of the regions of a country haven't emerged in clear regional development policies, as these differences did not affect foreign relations much. The moment the idea to create a unified European space and a unique market for commercial exchanges emerged, the differences in development within every country started to be felt more and more. The European regional development policy provides for the prevention of the concentration of economic activities and work force in developed areas, for the support of the development of the less developed regions and for the prevention of the highly inefficient use of the resources in the less developed regions.

The regional development policy adopted by each country does not consist of short term interventions but of the long term harmonization of the regional economic conditions in order to allow for the normal functioning of the market mechanism. If a few decades ago the general objectives of this development policy were to reduce territorial disparities and to establish a relative balance between the levels of economic and social

development of different areas of a national territory or to secure a certain inter-regional entity, currently regional development policies have to include a clear dynamics that satisfies the continuous and extended needs regarding regional and local restructuring, the boost of productivity and competitiveness, continual innovation and the internationalization of the economic activity.

Romania promotes a regional policy that has as an objective the decrease of the economic and social gaps between different regions and areas of the country, accumulated with time, the prevention of the apparition of new gaps, as well as the support of the sustainable development of all the regions of country.

The main objectives of the regional development policy in Romania, presented in Law no. 315/2004, art. 3 are:

- The reduction of the existing regional imbalances, through the stimulation of balanced development, the accelerated recovery of the delays in the development of unfavoured areas due to historical, geographical, economic, social and political conditions and the preventions of the production of new imbalances:
- The correlation of the governmental sectorial policies and activities at the level of the regions through the stimulation of the initiatives and through the exploitation of the local and regional resources, for an economic and social sustainable development and for their cultural development;
- The stimulation of national and international interregional cooperation, of cross border cooperation, including within euroregions, as well as the participation of the development regions in European structures and organizations promoting their economic and institutional development in order to develop projects of common interest, in accordance with the international agreements Romania is part of;
- The specific issues of the Romanian area, its historical evolution, its social and economic dynamics require the adoption of a specific regional development policy. From this point of view, three categories of objectives are important: the harmonization with the existing provisions of the European Union, the reduction of regional imbalances and the integration of sectorial activities within euroregions, in order to attain a higher development level of the regions.

One of the main political objectives of the Romanian Government has to provide for the reduction of the existing imbalances between Romania, seen as a macro-region, and the most developed regions of Europe, which is closely connected to Romania's accession to the European Union. This involves the alignment of the legislation to the norms of the internal market of the European Union and the gradual harmonization with norms for member states, finally reaching the acceptance of the European accomplishments in this field. It is expected that the alignment to the provisions of the unique market contribute to the consolidation of the economic reform and of industrial restructuring and stimulate commerce.

An essential element of this alignment is represented by the obligation of the candidate country to the European Union, to fulfil certain objectives, regarding social and economic development, among which the correction of the economic imbalance between regions has a high priority. The above mentioned may represent an indication of the general principle that should lay at the basis of the development of a regional policy in Romania, namely that this policy has to be set up in accordance with the principles of the regional development policy of the European Union, thus preparing the country for being eligible for financial aid from the regional development funds of the Union, as well as from other structural funds. Another objective should be the reduction of regional imbalances.

The differences between the levels of development of different regions are the result of their different endowment with natural and human resources, as well as of their different evolution, that shaped their development along history. This lead to the preponderance of agriculture as economic force in the regions in which the climate and pedologic conditions were favourable, of the heavy industry in the areas in which iron and coal ores were found and to the concentration of the branches of services in administrative centres. Some of the border regions have benefited from better services and cross-

border communication. The market forces have the tendency to favour the deepening of the existing gaps. Industrial centres or the areas in which the service sector is strong are, usually, better developed, while peripheral areas where agriculture predominates ore with defective infrastructures become marginalized.

Economic development policies are meant to level the economic environment by eliminating some of the gaps that constitute a disadvantage to some regions, in hope that their artificial elimination will lead to authentic economic and social which, in time, will lead to the elimination of the need for the intervention of the state, after 1989, Romania did not explicitly formulate a regional development policy, although the government had an important influence in this respect, through macroeconomic and sectorial policies. Specific regional development programs were established for the severely disfavoured areas.

Nevertheless, it seems that these interventions of the state within the regions were mainly carried ad-hoc, when specific requests have been made, being less the result of a regional development policy defined a priori. The reduction and prevention of the growth of the regional imbalances thus proves to be one of the main objectives of the regional policy of the country. Another objective is represented by the integration of sectorial activities within the regions in order to boost their level of development.

The regional policy could include all the activities significantly influencing the development of a region. In the public sector, this could include the changes in education and training, the reform of the labour market, the development of infrastructure, the protection and development of the environment, business development, technology transfer and the the attraction of foreign investments and the development of the SME sector. Each of these activities will probably involve a large variety of actors – the state administration, local administrations, NGOs, private businesses particulars. At the same time, each activity can be fathomed thorough the use of a large variety of instruments.

These objectives are attained in practice through the adoption of measures and strategies, through project financing and through different programmes, all these being developed and applied on the basis of set of principles, as follows:

The principle of the decentralization of the decision making process, by going from sentral/governmental level to the regional level;

The principle of the partnership, through the creation and promotion of partnerships between all the actors involved in the field of regional development;

The principle of planning, in order to reach the established objectives;

The principle of co-financing, namely the obligation of the different actors involved in the development of the regional development programmes and projects to contribute financially.

These national principles do not exclude and are not opposite to the principles lying at the base of the structural functioning at EU level, namely: the principle of programming, the principle of partnership, the principle of additionality and the principle of monitoring, control and evaluation; on the contrary, they emphasize the direction of the national policy towards the preparation of the access to the financial instruments of the regional development policies of the EU.

The experience of the Western countries can offer valuable shot term and long term information regarding the general objectives of the regional development policy if at the beginning of the 80s the most common general objectives were the support of economic development and the improvement of the social and economic structure of the regions, currently, even though these objectives remain important, regionally, accent falls more and more on the overall competitiveness of the region. The regional development policies have to imply a clear dynamics that satisfies the continual and extended needs regarding regional and local restructuring, the growth of competitiveness, continual innovation and the internationalization of economic activity.

The measures that are to be promoted through regional development programs will improve the economic performance within the regions of Romania. These actions will consolidate the actions already undergone, in establishing a strong private sector. A great importance will fall on the measures to

support the SMEs, for them to become more efficient and to reach economic performances that allow them to deal with international competition. At the same time, by these measures, assistance for the work force within the regions will be provided, in order to develop its capacity to deal with the specific problems of the market economy.

The Instrument that fundaments and applies the regional policy objectives is the Regional Operational Programme (R.O.P / P.O.R.). Through this program, the government establishes and fundaments the national regional development priorities, identifies the measures and programmes through which they can be attained and assures the institutional framework for their implementation. At the same time, it is an instrument that fundaments Romania's access to financial aid from the structural funds of the European Union.

The strategic objective of R.O.P. consists in the support of a balanced and sustainable economic and social development of the Romanian regions, according to their specific needs and resources, by concentrating on urban growth poles, through the improvement of the infrastructure and of the business environment, in order to make the Romanian regions, especially the less developed ones, more attractive to live in, visit, invest and work in. this objective will be reached through a differential allocation of the funds to the regions, depending on the degree of development and through good coordination with the actions of the other Operational Programs. Coordination will be reached at the level of the program through a clear definition of the intervention areas within the different programs and projects, through the use of the selection criteria and of a coordinated decision making process.

The regional strategy will give priority to the less developed regions and to the areas suffering from important infrastructure deficits and that need special public support in order to cope with the negative consequences of the development tendencies.

Bibliography

[1] Narcisa Roxana Moşteanu, "The financing of regional development in Romania", Economic Publishing House, Bucharest, 2003;
[2] Pascariu, G., Stănculescu, M., Jula, D., Luţas, M., Lhomel, E., "The impact of cohesion policy of UE on the economical and social regional development in Romania";
[3] Pascariu, G., "The policy of regional development in UE and member states", Regional Sociology Magazine, No. 3-4/2000, 69-95, Romanian Association of Sociology, Bucharest;
[4] Popescu Claudia Rodica (coordinating) "Regional disappearances as regards the social-economical development of Romania", Meteor Press Publishing House, Bucharest, 2004.
[5] The policy of regional development, Romanian European Institute, Bucharest, 2003

The Marketing Environment in Tourism

Muhcină Silvia
"Ovidius" University of Constanta, Faculty of Economic Sciences
muhcina@gmail.com

Abstract

Predicting the evolution of the environmental elements is a real necessity for marketing planners. The components of internal and external marketing environment are very important for the activity of tourism firms, because these organizations usually activates based on special natural resources conditions.

Key words: environment, tourism, marketing
J.E.L. classification: M31

1. Introduction

The tourism organizations act under certain concrete conditions, offered by their external environment. In order to adapt more easily to the environment's evolution, these organizations must know and analyze carefully both the components of the external environment and its own resources, meaning the components of the internal environment.

Knowing these environmental components' evolution, marketers could take more appropriate decisions and make more realistic marketing plans.

2. The internal environment of a tourism organization

For an easier adaptation to the external environment, the management of a firm must evaluate and know its potential, meaning that it has to know and analyze the internal environment, which is composed by all the elements which participate in accomplishing the firm's object of activity.

Knowing the internal environment, the quantity and the quality of internal resources of an organization (material, financial, humane, informational), encourages a more flexible adaptation to the evolution of the external environment.

Any tourism firm possesses, at a certain moment, certain resources, whose structure may be analyzed taking into account different criteria.

From a physical point of view, one can mention: possessions (buildings, equipments, technologies, infrastructure, etc.), the fields and other natural resources used in the activity process, financial and human resources (like in any other services activity, the human resources are more important in tourism activities) on whose quality depend the activity of the firm.

From the point of view of the category of the resources the firm uses, its potential may be structured in such way (Balaure, etal, 2000, pp.75-77):

- Technique capacity (productive potential; this one expresses the firm's capacity of making those products or services required by the market, in certain terms of quality and quantity);
- Commercial capacity (commercial potential; this one is about the quantity and the quality of products or services offered on the market, the market percentage obtained, the price policy, distribution and promotion, the degree of satisfying the demands etc.);
- Financial capacity (financial stability, capital cost, the cash flow);
- Organizational capacity (the management quality, the capacity of mobilizing and orienting, the flexibility of the organization).

3. The external environment of a tourism organization

In a broader approach, the external environment of a tourism organization contains a group of factors with a complex and heterogeneous structure, which acts directly upon the results of the firm's activities, the firm which, in a macro-economic vision, takes part she herself in this

environment.

Not all the components of the external environment of the tourism firm act in the same way and with the same intensity. The firm has certain direct relations with some of those components, relations which are determined by the necessity of accomplishing its object of activity, and which are characterized by reciprocity. In the case of other components, the relations are not that close connected, and the influences, in general, are manifested indirectly. For this reason, it is considered that the external environment of a firm is made out of two important categories of components: the microenvironment and the macro environment of the firm.

3.1. The microenvironment of a tourism organization

The microenvironment of the firm is made of some components which act directly upon the firm and which the firm itself can influence.

These components are (Balaure, etal, 2005, pp. 24-26):

- The goods, services and working force suppliers, meaning the representatives of some economic organizations or physical persons that based on some buy-sell relations, can provide for the firm the needed resources for its activities. For the material resources suppliers (raw materials, materials, equipments, machineries), he firm must have certain information referring to: who important they are, about where they are placed, the size, their rhythm of work and the quality of the offer, the commercial and price policy, the internal environment, etc. In the same time, for some services suppliers (electrical energy, water distribution, natural gases suppliers etc.) the tourism organizations must identify the prices, the commercial policies etc. The human resources suppliers are those environmental agents who supply the activity of the firm with human resources; here can be mentioned the high-schools or universities, those institutions included in the system of continuous formation, the training and hiring agencies or different persons looking for a job etc.);
- Services providers, meaning firms or physical persons who offer a series of necessary services for the accomplishment of the object of activity of the firm. For tour-operators, can be mentioned the following:
  - The agents who based on their marketing channel positions can handle the retail distribution (tourism agencies);
  - The independent services suppliers (hotels, food & beverage suppliers, transporters);
  - Other specific services suppliers like financial intermediaries, the insurances persons, marketing services providers etc.
- Clients, meaning (going from the marketing channel position, tour-operators, travel agencies or services suppliers) other tourism firms, institutions, individual tourists towards whom the offer is directed. All these categories represent the central theme of marketing studies, because it is necessary to know the needs, the request, the buying and consuming perception etc. For a good marketing plan, knowing the following elements is very important: defining the target – client (or the group responsible for the decisions), the advantages of the target – client, buying behavior etc.;
- Competition, microenvironment agents that fight for the same category of clients or for the same providing source. In tourism, the competitors can be similar economic organizations (tour-operators, travel agencies, tourism services' suppliers) or individual households, which offer host-services (Muhcina, 2007, pp. 38). In the tourism case, the competitive advantage is necessary to be determined, a process which supposes the implementation of a set of benefits superior to those offered by the competition. These benefits must be as important as the target – clients need them to be (in other words, the offer of a superior alternative comparing to that of the competition;
- Public organisms, meaning the microenvironment agents who are interested directly or indirectly in the firm itself, or who influence the capability of a firm of accomplishing its objectives:

interest groups, professional associations, consumers association, mass-media etc.

A special position has the interest groups, which work outside the political system and can be categorized from different criteria as (Pender, 1999, pp. 45) *permanent* groups (which exists all the time, and typically fight for a general cause) or *temporary* groups (which are set up to achieve specific objectives) going from there permanence action and *sectional* groups (which fight for the common interests of their members, over a wide range of issues (like the unions from airlines industry) or *promotional* groups (which are concerned about a specific cause).

3.2. The macro environment of the tourism organization

The macro environment of a firm is composed of environmental factors, which have a general and exogenous character in what concerns the agents who are part of the microenvironment. These ones act on long term and the firm cannot control them in a direct way. The components of the macro environment are determined in the following way:

- The demographic environment, meaning the population situated in the area of activity of the firm, whose significance is determined by some pieces of information such as: population size, age distribution, density, population location (urban – rural), sex, occupation, education, family size etc. The role of this environmental agent is more important in tourism activities because it forms the organization' market and, on the other hand, is a human resources generator;
- The physical environment, which means natural environment or, in some opinion (Pender, 1999, pp. 46), can be split into the natural environment and the built environment. The natural environment refers to weather, climate, geology and geography, fauna and flora resources, elements that have a very significant influence on tourism activity. The built environment can be split, on its turn, into habitation (such as accommodation) and infrastructure (such as roads, airports, rail etc.). This kind of approach is connected to the tourism attraction nature (natural or as a human action result), basic element in tourism product assembling process;
- The economic environment, all the elements which represent the economic life of the activity space where the firm develops its activity, characterized by a series if indicators (national income, per capita income, income distribution, disposable income, discretionary income - the money an individual or a household has to spend after the essentials of life, household income and expenditure, business expenditure, other factors like credit availability, propensity to save, inflation, interest rates etc.). This environment is directly or indirectly reflected in the situation of the market (the volume and the structure of the offer, the dimension of the request of products, prices, the competition etc.);
- The technological environment, all the components through which it is explained the way in which the firm obtains the products or the services it uses at a given moment. This branch is one of the most important components of the macro environment and it implies for the firm a feed - back relation between the beneficiary and the provider. The evolution of this environment can be expressed by some specific elements such as: inventions and innovations, research expenses size, policies and adjustments regarding the elimination of the polluting technologies etc.;
- The socio-cultural environment, all the elements referring to the values system, customs, traditions, beliefs, rules which impose people's status in the society. This environment is the base of the following: the needs that form the request, the attitude towards buying and consuming, the delimitation of the market and the types of buyers. The culture and the social class are important elements that determined the tourism products consumption;
- The politic environment elements like political system, structure of governance and mechanics of political decision-making, political forces and the relations between them, the stability of the politic climate, etc., all these can influence the market activity of tourism firms;

- The legal environment, the law, the jurisdictional rules assembly that influence – directly or indirectly – the market activity of a firm. Among these one can mention the rules voted by internal or international organisms in what concerns the harmonization of commercial practices, the free circulation of people, the custom proceedings, conventions, etc. - especially when talking about different activities such as transportation, insurances, etc.

Anyone of these environmental forces can exercise a favorable or a negative influence on the organizational behavior, its buying decisions, marketing plans etc., and that's why these organizations must co-ordinate marketing strategy with environmentally particularities.

4. References

[1] V. Balaure (coord.), *Marketing*, Ed. Uranus, Bucureşti, 2000
[2] V. Balaure, I. Cătoiu, C. Vegheş, *Marketing turistic*, Ed. Uranus, Bucuresti, 2005
[3] C. Florescu, (coord.), *Marketing*, CoEd. Marketer-Expert, Bucureşti, 1992
[4] Ph. Kotler, *Managementul Marketingului*, Ed. Teora, Bucureşti, 1997
[5] S. Muhcina, *Marketing in turism. Teorie si aplicatii*, Ed. Muntenia, Constanta, 2007
[6] L. Pender, *Marketing for Travel and Tourism*, Stanley Thorne Publisher, London, 1999

Loan and Interest Rate in Romania. Evolutions, Correlations and Perspectives

Munteanu Irena
Negrea Alexandru
„Ovidius" University of Constanta, Faculty of Economic Sciences
irena.munteanu@yahoo.com

Abstract

The relation between the volume of loan and the interest rate occupies an important role with economic theories. In the real economy, these theories are sometimes confirmed and at other times infirmed. This study proposes to identify the existing connection between the evolution of the loan and of the interest rate in Romania.

The present macroeconomic context is very much different from that of the economic boom of 2004-2007 when the non-governmental loan grew every year, but also from the previous period when the credit products were very few and the categories of the eligible ones were even fewer. Although Romania's economy has been through several stages during the past ten years, the study emphasizes the evolutions of the volume of loan and the correlation between the two macroeconomic indicators.

Key words: non-governmental loan, active interest rate, reference interest rate.
J.E.L. classification: G21

1. Introduction

The bank is an institution whose main function is colleting, transferring and distributing the financial available resources. The main function of the bank is that of granting loans to the credit applicants that meet the eligibility conditions. [1]

On Romanian territory there are 42 banks, out of which 2 are Romanian juridical persons and 10 are subsidiaries of European Union banking groups.

2. The evolution of the non-governmental loan in Romania over 2000-2010

The non-governmental loans represent the main position over banking actives having over 40% of them. The percent differs according to the size of the loan institution. Therefore, the large banks have least leaned towards currency actives placements, preferring the opportunities offered by the national currency opportunities. On the other hand, the preoccupations of the small and medium size banks have leaned towards staying on the market, or even increasing their market share, determined a more pregnant compliance to the request off the customers for currency credits.

Over the analyzed period, the increase of the loan has been supported either from the internal resources of the banks (increase of their own equity), or from the attracted sources (capital injections from the mother-banks). Other important factors that have influenced the structure of the loan are the administrative restrictions imposed by the Romanian National Bank with the purpose of limiting currency credits. Although the general tendency of credit was to grow, over the past years, it suffered from the international economic-financial crisis, beginning 2010 with a decrease of the loan level.

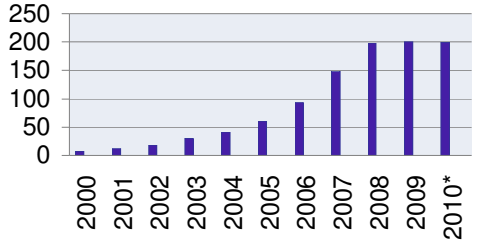
From the point of view of the maturity, we may say that over the years, the long-term loans have known an ascending evolution, strengthening their prevalent character year after year, for both lei and currency loans. [2]

Under the aspect of structuring loans after the categories to which they are destined, those for the population have known a higher growth level than those for companies. They

have influenced the non-governmental loan evolution in a positive manner.

Over 2005-2009, the growing credit brings about several risks such as fueling the aggregated request excess, risks regarding the financial stability in Romania which refers to the increase of budgetary deficit, the increase of debt duty in the incomes of the population, the proliferation of the currency risk, the capacity of the banking system to manage the growing risks, the escalation of prices in real estate through the transfer of the risk in bank guarantees.

Graph 1 : The evolution of non-governmental credit over 2000-martie 2010 (Mil lei)



Source: Personal processing of the data published in the NBR Reports 2000-2008, http://www.bnro.ro/Publicatii-periodice-204.aspx * May 2010

From Graph 1 we may notice that the level of the loan over 2000-2010 has grown from 75,006 million lei in 2000 to 1,992,809 million lei in 2009.

The period of 2000-2005 was characterized by a slow growth. This period of growth came after a loan regress period (1989-1999). The factors that have influenced the development of the financial-banking sector were: the development of the private sector, the consume orientation of the population, as well as the handling of the risk management of the loan institutions.

Over 2006-2008 we may say that the growth rhythm was increasing by the year. although during this period there were introduced new regulations in order to restrict credit, the boom was due to the following factors: the reduction of interest rates for loans, the extension of the loan granting terms, the growth of the resources attracted from the international markets by the credit institutions and the realization of capital increases, especially on the account of the infusions made by mother-banks, the favorable expectations of the banks regarding the financial situations of the clients, as well as the decrease of the adverse selection risk. Another factor having a determinant role in the increase of the loan level was the presentation of various promotion campaigns for loans granted in "untraditional" currencies for the local market (Swiss francs, yens) bearing very attractive interest rats at the time.

The period of 2008-2009 is characterized by very small variations of the loan level with an increase of 5.4% in 2009 compared with 2008. The inhibiting factors of the loan demand were the growth of loan costs, the depreciation of the national currency and the uncertainties regarding its evolution, as well as the significant drop in the dynamics of the component denominated in Swiss francs, the banks having an almost complete abandonment of this currency. Although 2009 was a weak year for credits, its balance registering significant decreases compared to the previous year, this fact was not visible in its evolution due to the depreciation of the leu compared to the euro.

2010 began with a drop of the loan level. This is mainly due to the global economic context, the market liquidity problems, the negative perspectives related to the economic growth and unemployment. In this economic context, in order to re-launch credit, the National Bank of Romania decreased the reference interest rate. [3]

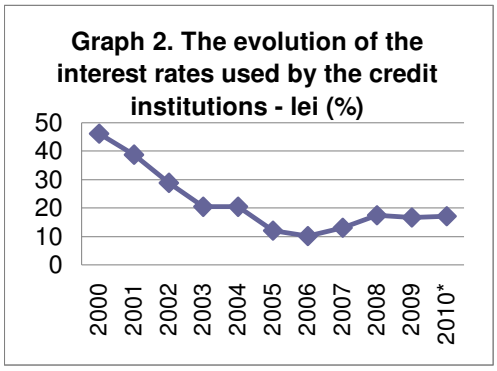
3. The evolution of the credit interest rate over 2000-2010

One of the most important factors that influence the credit decision is the level of the credit interest rate or the credit cost.

During 2002-2006, the improvement of the credit conditions, the signals from the central bank regarding the reduction of the reference interest rate in the context of the decrease of the inflation rate, the reduction of the deficit and external debt duty financing cost, which all determined the interest rates to launch on an descending trend.

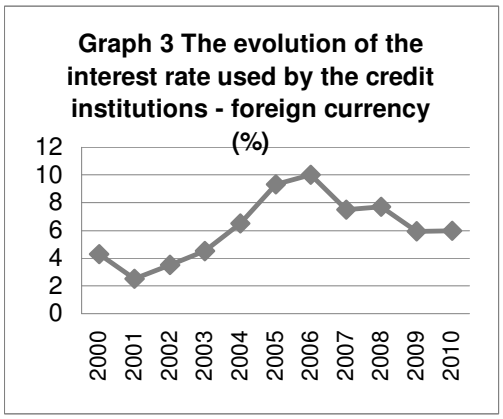
During the expansion period of the loans for the private sector, the medium active rates did not record major drops until 2005 and only for the national currency credits.

The relatively modest diminution of the newly granted credits could represent another reason for the idea of an oligopolist banking market, but we can also identify other explanations such as: the superior expectations regarding the inflation level, the lapses in implementing the corporatist governance principles, the precariousness of exerting creditors' rights (especially the difficulties in executing debts) and the possibility of obtaining superior earnings, especially in the conditions where several mother-banks in Europe are going through a period characterized by lower profits.[4]



Source: Personal processing of the data published in the NBR Reports 2000-2008, http://www.bnro.ro/Publicatii-periodice-204.aspx * May 2010

Regarding to 2010, there are expectations for a drop of the interest rate in order to help credit and exit the present economic and financial crisis.



Source: Personal processing of the data published in the NBR Reports 2000-2008, http://www.bnro.ro/Publicatii-periodice-204.aspx * May 2010

Graph 3 presents the evolution of the interest rate for the foreign currency credit over 2000 – March 2010. We may note that over the past years there has been a downward tendency due to the modification of the interest rates on the international markets.

4. Correlations between the evolution of credit and the interest rate

The interest rate is one of the most important factors which influence the evolution of credit as there is an inter-conditional relation between the two which is reflected in their structure.

By analyzing loan and the interest rate, we note that there exists a correlation relation between them, where the cause is represented by the interest rate, and the effect is credit. The intensity of the connection shall be calculated with the simple correlation coefficient. This is a value without dimensions, which makes the X and Y variables to be expressed in any type of measuring unit. The correlation coefficient has values comprised in the [-1, 1] interval. Its sign indicates the connection type: reversed for the negative value and direct for the positive value. [5]

According to the econometric theories, the values of the correlation coefficient "r" generate the following conclusions:

- $0 \leq r \leq 0{,}2$ there is no significant relation;
- $0{,}2 \leq r \leq 0{,}5$ there is a very weak relation;
- $0{,}5 \leq r \leq 0{,}75$ there is a medium intensity relation;
- $0{,}75 \leq r \leq 0{,}95$ there is a strong relation;
- $0{,}95 \leq r \leq 1$ there is a relatively determinist, functional relation.

Table 1. The level of the credit and of the interest rate for lei

Year	Credit (mil lei) Y	Interest rate (%) X
2000	3041	46.23
2001	4753	38.83
2002	6673	28.80
2003	13504	20.36
2004	15683	20.40
2005	27092	11.98
2006	48637	10.20
2007	67713	13.05
2008	83643	17.47
2009	79711	16.58
2010	79506	17.00

Source: Personal processing of the data published in the NBR Reports 2000-2008, http://www.bnro.ro/Publicatii-periodice-204.aspx

In the case at hand, the X variable is represented by the interest rate, while the Y variable is represented by the level of the credit.

Based on the data in Table 1, we calculate the Pearson correlation coefficient:

$$r = \frac{\sum_{i=1}^{n}(X_i - \overline{X})(Y_i - \overline{Y})}{\sqrt{\sum_{i=1}^{n}(X_i - \overline{X})^2} \circ \sqrt{\sum_{i=1}^{n}(Y_i - \overline{Y})^2}}$$

where:

x= interest rate, the factorial variable, the cause

y =credit, the result

r= -0.6462

According to Pearson correlation coefficient calculated, between the two phenomena there is a reversed, medium size relation. Therefore, an increase of the interest rate level has as a consequence the diminishing of the credit level; on the other hand, a diminution of the interest rate has as an effect an increase of the credit volume. Moreover, it is also important to mention that in Romania there have been other factors, as well, such as economic growth, financial stability and the monetary policies.

We must also stress out that establishing the level of the interest rate is one of the most difficult decisions for a banker, its level being influenced by a series of factors.

5. Conclusions

In 2010 the credit process entered a descending trend, for the first time in the recent years, a natural phenomenon if we take into account the dimensions of recession in Romania. The revival of credit is a precondition for a more rapid economic upturn. Therefore, any delay in accelerating the credit activity risks generating a meager and difficult economic growth.

Moreover, there are reasons to worry generated by the new risks that may affect credit, such as the country risk and the systemic risk.

According to the latest Moody's report, the perspective for the banking sector in Romania is a negative one, reflecting the difficult local economy conditions caused by the global financial conditions. As said by Moody's, until now, despite a high risk profile, Romanian banks had been able to absorb various shocks, and the support program agreed upon with the International Monetary Fund and the European Union has diminished the macroeconomic pressures for now, and has dispersed the fears regarding the liquidity and solvability of the Romanian banking system.

As to the credit perspective, an important role is played here by the NBR, which has changed its policy and supports, with the aid of the monetary policy instruments, the stimulation of credit under healthy banking management. Thus, the monetary policy interest rate has dropped over the past months reaching 6.25 in June 2010 and being kept at the same level up to September.

Although an increase of credit is sought for in order to revive national economy, loan must not grow based on the retail component, as it would only stimulate consume and generate inflationary pressure.

Banks have become more and more reserved and cautious as to granting new loans as the unemployment level has rapidly grown over the pas year, while the income of the active population has significantly reduced.

An important component could be savings; still the present income of the population is not sufficiently large to allow for that. The population of Romania is 2-3 times poorer from the point of view of the financial assets compared to that of the Czech Republic or Hungary and, if the population is poorer, then the banking sector cannot attract any local money for credit.

"Beside the fact that they are very few, the assets of the population in Romania tend to be equal with its liabilities, which means that the population has almost reached its debt level upper limit, compared with the Czech Republic or Hungary where there is still room for credit. This means that the past boom has lead the population to its debt level upper limit, therefore we must be understanding towards the banks who analyze ten times before granting a new loan", explained the chief-economist of the NBR.

Concerning the evolution of the bad loans in Romania, these have had a greater level compared to other emergent countries, mainly de to the credit growth level. Taking into account the negative perspective of the loan, we may say that there is envisaged a bad loan increase over 2010. Another manner to cover credit risk would be increasing bank provisions, taking into account that most bad loans are covered from bank provisions.

Another solution to stimulate credit could be the debt rescheduling. The banks in the Romania banking sector have begun to understand the economic situation in Romania: the decrease of the population income, the increase of unemployment, by proposing the rescheduling or the maturity deferral.

As a result, the perspective over credit continues to remain a negative one for Romania, although there are attempts to stimulate the process of loans destined to companies, as they could be one of the keys to exiting the present economic-financial crisis.

6. References

[1] I. Munteanu. „Monedă şi operaţiunile instituţiilor de credit", Ex Ponto Publishing House, 2007, pp 119-121

[2] D. Antohi, T. Stere, I. Udrea, G. Bistriceanu Working Papers no. 21, „Evoluţii monetare în economie românească: determinaţii şi implicaţii", July 2007, pp. 17-21

[3] NBR – Monthly bulletin, March 2010, pp. 11-16

[4] F. Neagu, A. Mărgărit, M. Copaciu, I. Racaru, R. Mircea, A. Andrassy, NBR Working Papers no. 15 /2006 „Creditul neguvernamental în România: perspective şi implicaţii", 2006, pp. 15-22

[5] J. L. Rodgers, W. A. Nicewander. "Thirteen ways to look at the correlation coefficient". The American Statistician, pp. 59–66, February 1988

[6] *** - „Moody's va menţine în 2010 perspectiva negativă pentru sistemul bancar din România", Financiarul Journal, 26.04.2010

[7] Sabiescu Ana „Lazea BNR: Sărăcia oamenilor împiedică reluarea creditării" Wall Street 17.02.2010

The Implication of Risks on Tourism Human Resources

Murgoci Cristiana Ştefania
Dridea Catrinel Raluca
Ionescu Ştefan Alexandru
Romanian-American University of Bucharest
murgoci.cristina.stefania@profesor.rau.ro
dridea.catrinel.raluca@profesor.rau. ro
ionescu.stefan.alexandru@profesor.rau.ro

Abstract

Taking into consideration the fierce competition between different business societies, the market globalization phenomena and the fast changes experienced, companies must permanently need to manage the performance of human resources.

The risk and incertitude issues in the modern society have preoccupied both the specialists and the practitioners and common people over the years.

Key words: risks, human resources, particularities, tourism
J.E.L. classification: L 83

1. Introduction

The human resources play a crucial part in meeting and fulfilling any company's objectives, as they represent the most important asset and resource of competitive organizations.

The human dimension in a business society has dramatically changed in a positive way, triggered by the production technology, by the constant need to increase competitivity, by interpersonal communications, and by the respecting the of environmental requirements.

As for tourism concerns, knowing that the quality of services depends only to those who offers it, the human resources represent a key element in the company's business.

2. Human resources risks

The risk phenomena presents itself in every aria of economic and social life ; in consequence, knowing and understanding its mechanisms, its determinants, and its manifestation's forms, especially, the proper and efficient way to manage it represent major concerns of modern management.

Many of those that studied the risk field, have connected its appearance as a concept, as emerged from sea adventures from the pre-modern period, motivating its connections with the marine insurances and explaining it as a potential danger that could compromise the vacation: *the possibility of an objective danger, an act of God, a major force, a storm or another danger at sea, that it's not caused by a navigation error.* The definition used on that time, excluded the idea of error or human responsibility, the risk been perceived as a natural event, like storm, flood, or epidemics. In these circumstances, the attempts to estimate the effects of such events and to reduce their impact have been extremely restricted.

The modern concept of risk presents a new vision over the world and its manifestations, over the possibilities and uncertainties.

It was assumed that unpredictable results are the consequence of human actions, and not necessarily factors associated with chance, and therefore it contributed to explain the *insurance* term, related on one hand, with the idea of chance or possibility and on the other hand, with loss and deterioration. These perspectives have generated a new ground for: *The general insurance model it's a gamble one: a risk, an accident like a roulette number, like a play card from the deck. Insuring it, the game becomes a symbol of modern world. "*.

From this point of view, risk becomes a neutral concept underlining the probability of arising a positive or negative event. Therefore, the new significance of risk, both

positive and negative, has dominated until the middle of 19th century.

In the commune language, risk has a tendency to refer itself, almost always to a threat, or a danger, or a negative aspect. The term is used rather to express an unfortunate situation, annoying, than a disastrous one. The risk and uncertainty have the tendency to signify at a conceptual level the same thing: the risk term is usually used to exemplify the phenomena that have the potential to harm or destroy, the probability of its effects being or not estimated.

The risk is the probability of an event to take place. In the diseases aria, the risk represents, in general, the probability that a special result will be generated after a particular exposure.

Table1.1. The potential risk of human resources activities

Human resources activities	Potential risk
Compensations and benefits	Financial abuse
Recruitment and employment	Discriminatory practices Employment of un proper candidates
Health and labor security	Environmental Personal injury or death
Employee supervision	Abuse Reputation and notoriety in the community Communication of personal information
Employee conduct	Reputation in the community Abuse

Source: realized by the authors

The human factors are one of the most important "soft parts" of every corporate management systems. „ The soft part" refers to the management of human capital created and affected by human factor. The human resources are one of fundamental sources for risks, but also human factors are the main element that influences the risk management systems.

The human resources play two parts in risk management. First, people are a risk source, for instance, the lack of employees, people that don't take work seriously, an employee that refuses a extra task, or an employee that quits in two months, after graduating a year of professional training. Secondly, people are important in risks manipulation, for example: with the help of ingenuity, people can resolve unexpected problems. The risks are inevitable, and organizations have a moral and juridical obligation to participate to the well being of those that work with them, for them or come in contact with their operations. This is known as diligence obligations.

Organizations must take into consideration all risks encountered during their work existence and risks management programs in all planning and decision making processes. A special interest represents the anticipation and management the risk regarding the human resources.

In elaboration a risk management plan for human resources activities, there are a series of field of interests that need more focus. In the human resources activities there were previously mentioned potential risks that can appear in an organization, from the point of view of the employer.

As for *compensations and benefits*, a potential risk can be represented by **financial abuse**, this being influenced by the authority of people designate to sign the documents, by the number or necessary signatures, and the existence of controls. Talking about *recruitment and employment* there can interfere risks regarding **discriminatory practices** and very important, the risk of selecting the unsuitable person, this representing the imperfect results or lack of employment proceedings

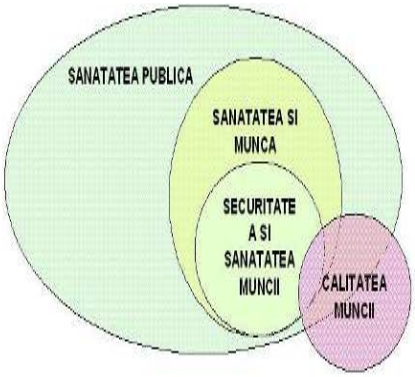
Taking into account that health and labor security are important issues and also analyzing the impact of work on employees' health, it results that health associated with work is strictly related to the quality of work.

The quality of work of every individual is depended on work health and security, which are determined by safe working conditions, by using effectively the working equipments and very important for the organization

represents the implementing of appropriate policies procedures and work force training.

These aspects are illustrated in the next image.

Figure 1.1. Link between work quality and work security



Source: Adapted from SR OHSAS 18001:2008

Another activity from human resources aria, described as risk oriented is considered to be the *supervision of employees*, their activities and behavior, and the lack of a proper supervision can generate the risk of not meeting their obligations, the risk of notoriety and reputation in the community, the risk of communicating personal information.

These can be the outcomes of the fact that organization doesn't offer enough information for employees' training and orientation or the improper supervision, especially for those activities that take place outside the organization, and very important, the lack of a management or performance.

The employees 'conduct influences the organization activities and image on their specific market. Employees' behavior represents the organization, with emphasis on the service organization.

3. Human resources particularities in the tourism industry

An important sector of economy is the sector of tourism. The majority of jobs in this sector are considered to be poorly paid and without carrier perspective. Regarding the fierce competition between companies that activate in the tourism industry, and the globalization phenomena and the rapid changes that affect this market and others, companies are in permanent need of top notch management in order to successfully cope with these pressing issues. Human resources are the most relevant resources, as they manipulate and coordinate the other resources – informational, financial, material ones.

The efficient usage of human resources, the evaluation opportunities of the employees, the proper selection methods, special programs for personal training, are just a few examples for obtaining success of company's activities.

About tourism, as service quality strictly depends on those that offer it, but also the implication of consumer in the production process, human resources are described as key factors for successful business of every company.

Due to its mass character and its complexity tourism engages vast human and material potential, with important implications to the economy and society development, and to national and international human relationships.

Therefore, the study and research in this field of expertise, can be appreciated as a human experience, a social behavior, as a geographic phenomena, and last but not least, as a business, an important revenue source, as an industry – the tourism and travel industry.

It is reminded that people are crucial for a successful tourism activity and in consequence, those that work in the tourism industry are widely opened like a critical dimension in exploiting effectively the organizations in the tourism sector. *The successful story of the organization in one that consist mostly of people - the way those are trained and educated, the way those are appreciated and gratified , the way those are supported by a continuous learning process and carrier development. None of this happens by accidents.*

Developing a tourism business must base itself on a well planed human resources utilization strategy, focusing on the anticipation, evaluation and management of labor risk that can emerge.

On the labor market in tourism, there can be identified specific risks derivates from the general classification of risks.

The strategic risks – the risks that reflect the specific nature of human resources management and consider the interaction on internal components with external factors. It must be mentioned that human resources strategies contributes essentially to: determining the required numbered of employees for every tourism entrepreneur; the proportion between permanent employees and temporary ones; the proportion of added value correspondent to the incomes; establishing the types of employees the firm needs; describing the aptitudes and skills required, etc.

The lack of policies and strategies in the human resources sector attracts more important risks that can produce large imbalances in the organization.

The selection and recruitment of human resources is an decisive factor that influences the future activities of the tourism company, as many tourism jobs doesn't require college diplomas and the selection taken place on secondary market.

The economic risks – the risks that implicates the management of company's capital. In the context of global economical crisis, the majority of companies that activate in the tourism industry are financially more and more damaged because of the reduction of people' revenues and also the people 'expenditure for tourism products have declined. The business tourism has an overwhelming impact on tourism companies, especially regarding the economic crisis, when companies have reduced the budget for travel. These economic and financial factors affect the outcomes of tourism firms, bringing them to incapacity of maintaining an adequate level of payment and motivation, or the incapacities of payment the financial simulations.

When referred to tourism human resources, it must be underlined that the level of wages is extremely diminished, aspects that determines the increase of labor migration.

The human resources market from the tourism industry confronts itself with a number of issues like:

✓ The superior use of live work force – comparing to other appropriate sector of the economy. The quality of services depends on the quality of the person that offers it, because the nature of activities in this domain implies the existence of humans and not machines in the activities of lodging, alimentation, leisure, etc.

✓ Moral and material responsibility – is determined by materials values the employees manipulate (raw materials, equipment, installations, furnishing); the responsibility towards the tourists assets. The tourism worker plays an important role in stimulation demand, creating a atmosphere of relaxation, formulating the purchase decision, attracting and maintaining the interest for a special tourist product or destination.

✓ The level of training – in tourism as in other arias of activity there are jobs that don't need especial qualification, but the majority of jobs in tourism require technical knowledge, specific one and high training.

✓ Personnel fluctuation – tourism is a high seasonal activity, and therefore on the peak of season there is a considerate need for employees, but in the low season the persons employed previously are fired, this aspect determining the economic agents not to invest in the training offered, and therefore attracting the risk of the migration of labor force towards other arias of activity that provides permanent work.

✓ The migration of labor force – as previously mentioned, appeared as a result of tourism seasonality, or because of the low financial retributions, or because of the large accessibility of markets in the context of globalization.

✓ The aging of the population – the demographic changes, like the reduction of natality, can generate, over time problems in occupying the available tourism jobs.

✓ The discrimination – the ethnic component of labor force that has become very diversified, can generate problems in the management of companies, but also the integration of those belonging to different minorities. Women represents a larger proportion in the work field (□ 64.7 in Romania), and will continue to hold an important percentage for the period to come.

4. Conclusion

In conclusion, it can be said that on the tourism labor market, the diversity of risks is determined by numerous and varieties causes and the existence of risks determining the development of management of risk systems.

More than that, employers must develop working strategies that stimulates employees to have a positive outcome, by offering a different opportunities – time flexibility, development of work social relation, increased possibility of promotion, and others. The existence of risks in the tourism labor market is inevitable, but organization can diminish the already known risks by creating people oriented strategies.

5. References

[1]. Abrudan, Maria Madela, *Managementul Resurselor Umane*, Editura Universitătii din Oradea, 2005;.

[2]. Bălteanu, D. Cheval, S . Şerban, M. *Evaluarea şi cartografierea hazardelor naturale şi tehnologice la nivel local şi naţional*, Institutul de Geografie al Academiei Române, Bucureşti, 2007, p. 2.

[3]. Bernard F., Pizzati L., Labor, *Employment and Social Policies in the EU Enlargement Process*, Washington, 2002;

[4]. Chapman,R. E, Leng, C.J. *Cost-Effective Responses to Terrorist Risks in Constructed Facilities,* U.S. Department of Commerce Technology Administration, National Institute of Standards and Technology, Gaithersburg, MD 2004, p. 75.

[5]. Chann, Jo; Turner Lindsay, „The Economic Structure of World Tourism", *Tourism Economics*, IP Publishing Ltd, volume 15, number 1, March 2009, pp 5-21, ISSN 1354-8166

[6]. Dridea C., , Sztruten G., *The migration of human resources from services based organizations in Romania*, Proceedings of the 3rd International Conference on Business Excellence,
vol 7, no 7/2008, ISSN 1583-624X, Brasov;

[7]. Ewald F., *Two infinities of risk*, in The Politics of Everyday Fear, University of Minnesota Press, Minneapolis, MN 1993, p.226;

[8] Failte Ireland., 2005, *A human resource development strategy for Irish Tourism Competing through People, 2005–2012.* Dublin: Failte Ireland. philosophies, New York: Wiley

[9]. Murgoci Cristiana tefania; Firoiu, D. Ionescu, .A. Ionescu, E. *The financial crisis and its impact on the Travel and Tourism sector,* Annals of DAAAM for 2009 & Proceedings of the 20th International DAAAM Symposium, ISI Proceedings, ISSN 1726-9679 (ISI Proceedings)

[10].Comisia Prezidenţială Pentru Analiza Riscurilor Sociale şi Demografice *Riscuri şi inechităţi sociale în România,* 2009, p. 15

[11]. www.beswic.be

European Post-Accession funds for SMEs: Challenges and Realities

Nancu Dumitru
„Andrei Şaguna" University of Constanta, Faculty of Economic Sciences
nancu_dumitru@yahoo.com

Abstract

Structural and Cohesion Funds offers Romania a unique opportunity to develop its potential growth and to accelerate the catching-up process. Post-accession EU funds allocated to Romania – if they will be integral used - represents an annual injection of resources of 3-5 percent of GDP in the period between 2007-2015. To understand the magnitude of these numbers, we need to say that the average of public capital expenditure between 2004-2006, including the exceptional growth to 3.7% of the GDP in 2006, was 3 percent of GDP.

Key words: structural and cohesion funds, cohesion policy, accesing eu funds, absorption of funds,
J.E.L. classification: F36

1. Introduction

Countries that joined the EU in 2004 have had mixed results. For example, the Czech Republic and Poland have had a very modest initial evolution, applications for interim payments in 2005 represented less than 5 percent of commitments for the 2006 period.

Slovenia, Estonia and Hungary are doing well. After a year since the accession, Slovenia started to access structural funds, because its organizational structure and procedures for accessing those funds were too complicated to be effective. After modifying the system in early 2005, Slovenia became the most advanced of the newly integrated countries in terms of attracting EU funds.

2. Lessons for Romania

General requirements for managing EU funds are defined by EU regulations, but countries are free to find their own solutions in accordance with these regulations. So far, two models were identified among the new Member States: the Baltic counties, which have polarized management of EU funds around the Ministry of Finance which acts both as the authority for payment, as well as a management authority, and Central European countries – these model is based on framework-systems less centralized, where the paying and management authorities function in the structure of separate institutions.

2008 was decisive in accessing EU funds for small and medium enterprises sector, because for the first time in the SME sector could benefit from a opportunity in relation to structural funds: the ability to get them to develop their own activities and.

Accessing EU funds and their management means a challenge, requiring appropriate technical and financial training.

It's hard to say which of the above mentioned models is more efficient: the leaders of the absorption process - Slovenia and Estonia - are different models. However, there are two general lessons: the first one shows that the initial framework systems were over-regulated, usually in order to prevent the misuse of European funds and the second one shows that the absorption is supported by a strong central management authority. Indeed, some countries acquired these lessons. For example, in late 2005, Poland created a ministry of regional development to strengthen the supervision of the funds, initially allocated to various ministries, thus accelerating the process of absorption.

Romania is a country, with serious regional disparities, which requires a certain degree of decentralization. However, at least in early stages, the existence of a central management authority political sustained at a high level, is essential. Meanwhile, Romania has to develop rapidly the institutional capacity of regional and municipal authorities that will implement

the EU projects and to ensure the appropriate use of the public funds. In addition, it is required the development of the advisory capacity - more in the private sector - to develop technical and feasibility studies related to projects financed by the EU.

Based on recent reports and the approval of all seven Operational Programmes (Romania being the first country among the member states having all the Operational Programms approved) reflects that Romania has made an visible progress. But these efforts pay dividends in the long term and require perseverance and patience and permanently political support for the authorities with responsibilities in the field and keeping them in the function regardless of the political changes. Structural funds are a significant opportunity for the SME sector.

Taking the example of Hungary, we can say that SMEs in this country have succeeded to access in a satisfactory way, EU funds. In 2004, over 10 000 applications were lodged within the European funding programs. Of these, over 6 000 have received funding totaling approximately 330 million Euros. Overall, about 74% of all projects that received funding in Hungary have been obtained by SMEs.

From the states that joined in 2004 the European Union (EU 10), Slovenia has the highest rate of absorption and the lowest one was recorded by Cyprus. Lithuania is situated close to the EU average.

3. The role of the cohesion policy

In another order of ideas, regarding the structural assistance given to Romania in 2007-2013, I see two likely scenarios for the evolution of cohesion policy content and the orientation of EU funds:

- the "Lisabonization" of the cohesion policy, so the exclusively orientation of it to competitiveness, an orientation that would mean either "freezing" the volume of transfers, or maintaining them at a low level.
- the simultaneous orientation of cohesion policy in the direction of two major objectives: increasing competitiveness and reducing regional development disparities, while maintaining the distribution of substantial amounts from the Community budget to this purpose, but at the same time, substantial changes in the orientation of their use.

These two currents of opinion shape the tend of change of the concept regarding the role of cohesion policy, similar to the changing of the conception regarding the role of the state in the economy in the 80s (from massive source of social transfers to way to counter the market failures). The "new paradigm", formulated by the European Commission for regional development himself, D. Hubner, would be a shift from direct delivery of aids to the provision of "public" goods for lagging regions. In this new vision, the role of cohesion policy should be to "help the economies of these regions to find their place in the world markets and to encourage their internationalization.

This new paradigm reflects in fact the position of the majority EU 27 member countries, namely the binomial "competitiveness-cohesion" is not an antinomy (competitiveness vs. cohesion) but a tandem of objectives inseparable and interdependent

4. Conclusions

As a conclusion I would mention that the experience accumulated at institutional level will contribute to the operation of the correction, which inevitably will be imposed because the trials and errors will show what works and what does not for Romania in the absorption process of EU funds.\

5. Bibliography

[1] Bache Ian ,George Stephen, *Politics in the European Union*, 2nd Ed. Oxford: Oxford University Press, 2006

[2] Farta Constantin, "Asistența structurală. Politica de coeziune şi implementare în administrația publică locală" in Economie şi administrație locală, no. 3, p. 22-25, 2007

[3] Mureşan Mihaela, "Arhitectura politicii de coeziune în contextul extinderii",.in Tribuna economică,v. 16, no. 45, p.82-84, 2005

[4] Onica Daniela, "Implementarea fondurilor structurale şi de coeziune în România", in Finanțe Publice şi Contabilitate Journal, v. 18, no. 6, p. 20-30, 2007

[5] Pascariu, Gabriel, Stănculescu Manuela, "EU cohesion policy and Romania's regional economic and social development", Bucharest, European Institute in România, 2003

Positive and Negative Effects of Consulting Companies in Crisis Period

Necsulescu Catherine
"Danubius" University of Galati, Faculty of Economics
necsulescu.ecaterina@yahoo.com

Abstract

Consulting, regardless of its area of expertise, is the star of western practitioners who have gained ground in Romania. Companies struggle with the economic crisis took most of the time as draft reorganization and growth performance. The general impression is that management has become more interesting to analyze how the company creates added value. Instead of perceiving business processes as a black box that arise between resources and revenues, management tries to follow the logic: "understand - measures - optimize / transforms – automates". Management is more realistic in terms of return on investment. Instead of expect a return on investment in the short term, most have reset expectations to 2-3 years, in the opinion of consultants this approach being more realistic and healthy for the Romanian companies.

All these changes have been catalyzed by the economic crisis that has succeeded in making a good part of the Romanian management of the state of dreaming and self-sufficiency. The pressure on profitability, efficiency and attention to the customer will continue and transform the organizational environment of the Romanian companies in a more structured and more healthy.

Key words: consulting, Socio-economic instability, blocking sphere
J.E.L. classification: O

1. Introduction

The purpose of consulting companies is to provide the best services in finance, accounting, tax, human resources etc. providing solutions that help businesses improve their business by increasing efficiency and productivity of these companies, giving them a quality product by withdrawing from the chaos of practical solutions to legal and financial issues facing client companies.

Knowing the positive and negative effects on companies is important for management consultancy companies on this basis that management decisions can be taken to counteract negative influences that can capitalize on these factors and to capitalize their positive influences.

2. Role consulting companies to support economic agents

To create a society is the first step in developing a business. Consulting firms have developed to achieve the industrial objectives, to ensure the consulting in areas of management, audit, legal, technical. They have an important role in standardization of technical norms and regulations, commercial, financial, accounting and law in the business of national and international businesses.

Through direct involvement in market transactions between corporations, these firms have made possible the development of mega-business in mergers and acquisitions.

Consulting companies struggle with the economic crisis took shape mostly projects of reorganization and growth performance. These projects are also subject to the second edition of the study of BPR (Business Process Reengineering) which is being finalized and examines how companies responded before and during the crisis. Analysis of such projects over the past two years clearly shows the features of management which has managed to help the company fight for survival.

Projects that have registered significant success in companies that were organized avoid a "hey-break" and pay more attention to improving relations with customers, continuous improvement and to link projects with the company strategy. Even more

gratifying is that management wants less efficient to increase the future level of proactivity.

The general impression is that management has become more interested to explore how to create added value in the company. Instead of perceiving business processes as a black box that arise between resources and revenues, management tries to follow the logic: "I understand - measures - optimize / make - automates" [1]

The economic crisis seems to have had other beneficial effects on managers of consulting companies. They are more attentive to the way that explores the impact of projects.
All these changes have been catalyzed by the economic crisis that has managed to remove a large part of the management of the Romanian state of dreaming and self-sufficiency. The pressure on profitability, efficiency and attention to the customer will continue and transform the organizational environment of the consulting companies in a more structured and healthy.

In these conditions has only a single management option to ensure their survival: increasing levels of professionalism and assimilation of modern management tools and techniques of the company.

3. Positive and negative effects on the consulting companies

Knowledge of these effects is important for management companies on this basis that management decisions can be taken to counteract the negative influences of these factors and to capitalize their positive influences [3].

This period of great complexity, has a major influence on the Romanian management through the following factors:

a. **Effects of positive** character are as follows:

- empowerment company and reducing state intervention in economic activity
- internal and external demand for solving various problems encountered by economic agents;
- depoliticization of company management;
- proliferation, development of management science and its knowledge by all decision makers, and the methods, techniques and principles of modern management;
- contemporary scientific and technical progress and scientific research;
- competition - leading to increased workload, increase its quality, increase efficiency, lower prices;
- development of informatics, telecommunications, computer engineering;
- formative increasing skill, both managers and the contractor;
- Internal and external demand for solving various problems encountered by economic agents.

b. **Negative effects** that act in the transition period are:

- socio-economic instability;
- expression of business risks and the prospect of bankruptcies;
- negative inflation that affects the possibility of a corrective action plan;
- strained relationships between managers and unions at the enterprise level, especially in the state;
- power struggle within the state-owned enterprises;
- crisis management, that is - the crisis of competence.

4. Lack of co-financing are hitting the firms of consultancy

Difficult economic period spread various traps to consulting firms, which have lowered the number of projects to 30 percent compared to previous years. [2] Their work is affected by external factors, the program started late, until funding issues.

Stuck consultation activity comes from the draconian requirements of the banking system, another effect of the economic crisis. Projects are still, but the problem is financing from banks. Consulting has done, because there are so many steps in absolutely all areas. After approval of the project, because there is a novice businessman, not granted loans. Ought to be some support measures for businesses in this category. From ten projects approved, two are dropped.

Most projects are requested by the public sector. Consultants say that worrying is the increasing number of people who obtain approval for the proposed business projects, but give them the lack of money to support

the business. The phenomenon comes to the disadvantage of the local economy, businessmen, business stagnation that leads to job cuts, layoffs and even lower tax increase received from the state budget.

Consulting firms in human resources is no simple task. Competition in the crisis led to lower tariffs for services provided by around 20 percent and the number of projects fell to 30 percent. There is an area which flourish in times of crisis, although it is a period during which advisory services are required. And prices have dropped, because other companies have opted for lower tariffs, but also lower quality. There are marketing consultancy offers a month free but the services are not always competent.

According to representatives of companies that prevent the market is negative and invest in consulting, crisis period is considered the right time, as there are many companies that do not have sufficient funds for counseling services.

5. Consulting on-line

Dozens of economic consulting firms have opened sites on the Internet and give advice including messenger and e-mail. And that obviously when you have financial problems the speed to solve is becomes fundamental .

Most clients of business consulting services came from the internet (72%) and a 55% learned through advertising opportunities online, visit the rest from searching, references, or direct visits.

Development consultancy services on-line has a high potential for the business looking for ideas to identify solutions for implementation, Internet search software are increasingly replacing traditional touch. But the initial contact, the information comes via the Internet.

According to experts, the services provided by specialized websites grow continuously. From the simple presentation page offers advice reached by e-mail and even on-line messaging systems, including video conferencing.

Business development comes online consulting business to help came through true "jungle" tax in Romania. Without expert advice, it's hard to be up to date with all the taxes.

Multiplying these Internet sites, offering alternative services consulting, turnkey, business environment, represents an opportunity, both in terms of the variety of supply and service cost.

6. Conclusion

Consulting companies struggle with the economic crisis took shape mostly projects of reorganization and growth performance. Increasing domestic and external demand for solving various problems encountered by businesses have led to slight increase in revenue. Development consultancy services on-line has a high potential for the business looking for ideas to identify solutions for implementation, Internet searching software increasingly replaces traditional contact.

7. References

[1] D. Ariton, G. Negoescu, accounting and consulting techniques, Ed Algorithm +, Galati, 1998

[2] F. Buhociu, G. Negoescu, economic analysis, Ed Eureka, Braila. 1999

[3] G. Negoescu, F. Buhociu, C. Bontas, C. Obradovic, Creditworthiness operators, Ed, Algorithm +, Galati 1998

The Economical Background of Romanian Cities. Case Study: Cities Pitesti and Nehoiu

Nedelea Adelin
Puncioiu Ana
University of Bucharest, Faculty of Geography
adelindely@yahoo.com
anda580@yahoo.com

Abstract

The economy is all human-affine activities undertaken within the production, distribution, trade and consumption of intangible assets. When the economy of a country or a city is well developed the standard of living is decent. If a city is dependent only on one or two branches of the economy, the situation becomes more complicated because if the purchasing power decreases, it will decrease the power output, with negative impacts on jobs or production units. Currently, both Romania and other countries in Europe and all over the world they are facing this problem, which is called the economic downturn.

The global economic downturn began in July, 2007, the United States of America, expanding to Europe, the first signs being incurred by the Bank of England and European Central Bank. In Romania, experts have argued that the effects of the economic downturn will be felt starting from 2009. For Pitesti and Nehoiu villages the economic downturn footprint was felt during the year 2009 at a beginner level, but at present the effect deepened. The effects are becoming more acute at both national and local level. Among the effects caused by the global economic downturn, the most important are: the closure of industrial units, the loss of many jobs, a succession of important investments are in a position to no longer be produced and also some of the funds allocated for supporting programs are targeted towards social programs.

Key words: economic downturn, deprivations, dropping investments
J.E.L. classification: O.; O1; O11

1. Introduction

The two cities, Pitesti and Nehoiu that were mentioned by several authors in their works. Thus, Cucu V., in "Cities of Romania", published in 1970, stated that medium-sized cities have a balanced economic profile, with mixed functions (Pitesti) [1]. "The History of Pitesti municipality "written by P. Popa, S. P. Voinescu Dicu in 1988, deals besides the history, landscape and population also the economy of Pitesti [5]. Rozica Posirca in her study "Water resources in the High plain of Pitesti and Pitesti city water supply", published in 2004, deals with a chapter regarding the industry of Pitesti, existing until 1990, and also the units that have subsequently appeared [6]. Other facts on the economy of Pitesti are highlighted in The General Urban Plans from 1994 and 2009 and in The Integrated Urban Development Plan.

The urban center of Nehoiu and the surrounding area are located on the upper river stream of the river Buzau, in the north of the county being declared a city on April 25, 1989, becoming one of the youngest village in Buzau County. The village was mentioned in several papers, as follows: in the work of Constantin Stan "Buzau - the improvement and modernization ", published in 2005, lists the major economical branches of the county towns, and adding their evolution from the appearance until today [7].

In the paper "Unemployment in Romania" author, Irena Mocanu remembers the current state of unemployment of the Romanian cities, focusing on unemployment in small towns - including Nehoiu city - which has a

data rate rising especially in the current period [3].

Dumitrescu Bianca mentions in her "Mono-industrial cities in Romania - between forced industrialization and economic decline - that Nehoiu city (and all the others small towns in the country) are in a noticeable economic decline, the prospects of economic recovery being bleak [2].

2. Materials and methods used

The materials used for this study were statistical data on economic activities in the two cities analyzed, data from the National Directorate of Statistics in the two counties of Arges, Buzau and various studies on urban economy. Among the methods used in preparing the study data collection method can record statistics on the economy, data examination method and explanation method.

3. Case study

Pitesti, in comparison with other cities in Arges county, registered a faster growth rate from the economical point of view. Among the causes that have contributed to the development of the city, the most important are: the location at the crossroads of ancient trade routes of the city and city location at the boundary between two different agricultural zones, namely the hilly and plain areas, which led to the practice and development, over time, of trade agricultural products from different geographical areas.

The year 1989 represents a new stage in the history of Nehoiu town, whose social and economic development is similar with those of most small towns in the country with a population less than 10,000 inhabitants, appeared somewhat by force.

The top of the evolution of this city to the status of urban settlements has been a period of forced industrialization, when in the area undertakings have emerged (or divisions of large undertaking in the residence county) that attracted human labor from neighboring regions. The rapid development through industrialization, the criterion "harmonious development" of all areas of the country, regardless of economic efficiency has been one of the main reasons for which this town was declared a city in 1989, so in these cases the industry was the main generating factor of the city.

The industrial activity has emerged and developed in direct connection with natural resources in the area. Thus, in the case of Nehoiu city, industrialization has played a decisive role, being the element that caused the appearance of urban areas in this region In conclusion, the city's economic function until 1989 was the industrial one.

After 1990, the changes that have occurred in the evolution of the two cities have influenced their place in the national urban hierarchy, following the closure of industrial workshops, the first consequence affecting the population, thus pointing out its downward trend.

The trend is clearly downward current rank, given that the cities' depopulation will probably continue in the coming years, as a result of de-industrialization and lack of adequate services.

The difference between these two urban areas is highlighted both by the number of inhabitants and economic activities within them. For the city of Pitesti, the economic aspect has crossed several stages; the early stage of industrialization (1960 - 1965),the stage of industrial development (1966 - 1990), the stage of management and restructuring of industry (1990 - present).

The first stage (1960 - 1965), the beginning of industrialization, is characterized by the reorganization of production space and increased workload in the industrial units.

The second stage (1966 - 1990), the development of industry is based on increasing industrial units and their location on the outskirts of town, something that involved employees and thus increase the city's population and the number of dwellings [4].

The third stage (1990 - present), the one of management and restructuring of industry, is considering the privatization of industrial units, which until then belonged to the State, the restructuring of several sub – branches belonging to industrial units, thus reducing the production capacity and hence the number of employees of the establishment and the decreasing number of population in the city. In this third stage we can identify three sub-stages: pre-economic downturn (1990 - 2008), economic downturn (2009 -

present) and post-economic downturn (after the downturn period).

In the two stages Nehoiu city economic development had a much shorter evolutionary time. The early stage of industrialization began in 1910 when, for turning wood, the company Geotz "anonymous society founded on exploitation of forests and steam saws. So a sawmill was put in function in the town Nehoiu and a wooden factory in Nehoiasu city (town belonging to the urban area of the city Nehoiu). In addition to the wood processing plant, in the city Nehoiu has developed a hydroelectric plant and water landscaping or knitting Nehoiasu CHE, a Hidroelectrica Buzau branch.

The second stage (1990 - present), the stage of management and economic restructuring was felt especially in the quality of life for all residents: the purchasing power has declined sharply, many families with low living standards, are often put in a position to make efforts to meet their needs, the only advantage being that of procurement of food goods (wood products industry) to lower prices. However, after the period 1990 - 1996, due to the closure of some of these sections in many industrial and employee layoffs, important changes took place in most units (changing the economic profile of these industrial departments) revealed a social and economical decline. We are currently witnessing a continuous degradation of this location for many of them existing a project for conversion of buildings in other units to capitalize the local resources.

Next, we will analyze for the two villages, the sub-stage of economic downturn, which made its presence in early 2009.

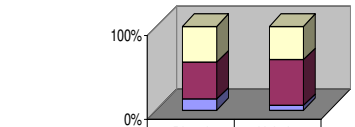
For the city of Pitesti, this period has left its mark, in addition to the economic branch, and population employment. With the beginning of 2009, Pitesti municipal economy is characterized by a descending direction, some units went bankrupt, others have stagnated or reduced their production capacity and interest. Following these situations, reducing jobs, increasing unemployment, increasing number of workers sent on leave without pay become effective etc..

The period 2000 - 2009 has brought, for Nehoiu city, as for most industrialized areas in Romania, a significant decrease in employment. The main factories in the cities, the most active labor are in economic decline or change their business profile. As a direct consequence, a majority of young people migrated to other counties or cities or even in other countries, looking for a job.

A widely used method in recent years by researchers, is the questionnaire method, which has been applied to the analyzed population, in this case (Pitesti and Nehoiu). The questionnaire was applied to100 people aged over 18 years. Interviewed people work in different fields, each interpreting in their own way the evolving economic situation of the two localities.

From the questions of the questionnaire, four of them refer only to the economic situation of the villages. Thus, the first question ("At present, the city of Pitesti and the city of Nehoiu are characterized by: a) economic growth b) economic decline, c) economic stagnation?) shows that most people in the two villages consider that the economic decline is more evident, especially in the present economic downturn crossing (Figure 1).

Figure 1. Pitesti and Nehoiu - The inhabitants of the economic evolution



	Pitesti	Nehoiu
economic stagnation	43	40
economic contraction	44	55
growth	13	5

growth economic contraction economic stagnation

For the second question ("What economic activities would require the two cities to record an economic progress?") respondents opted for both settlements for industrial parks which have recently begun to restrict or even dissolve, leaving many people jobless and whitout business centers (employment) (Table 1).

Table 1. Activities needed an economic progress

Economic activities	Answer Pitesti	Answer Nehoiu
Industrial Parks	**82**	**65**
Hotel Services	**5**	**10**
Auto Services	**11**	**4**
Business Centres (offices)	**45**	**24**
Fun Centre (club, casino)	**13**	**6**
Retail	**30**	**21**
Other	**14**	**7**

For the third question ("What services would be needed in the two towns to realize an economic progress?") respondents noticed for both townships, the lack of parking, recreation centers and sports (Table 2).

Table 2. Services needed an economic progress

Services	Answer Pitesti	Answer Nehoiu
Stores	**6**	**3**
Malls	**9**	**2**
Commercial Markets	**23**	**14**
Sports Centre	**49**	**4**
Multistorey car parks	**62**	**16**
Recreation Areas	**54**	**15**
Fun Parks	**48**	**7**
Other	**16**	**23**

For the fourth question ("What do you think is the main difficulty facing the two cities regarding the economic area?) respondents noticed the lack of jobs and high unemployment rate.

4. Conclusions

A conclusion to the previously mentioned matters would be that the underlying economic branch supports the city, both financially and offers stability among its inhabitants. When a city's economy goes well, the lack of jobs and unemployment will not be a problem, so much for the people within it and those in neighboring villages. Following the survey conducted in the two villages, different in size (rank), the opinions of residents reveal relevant issues of this city's economy.

The current economic downturn has affected to a greater or lesser extent all branches, whether located in rural or urban areas. A special situation, more difficult, had small and medium-sized urban centres, with mainly based industries. In these geographical areas were located some negative social-economical phenomena (poverty, unemployment). The way each of these urban centres reacted to this new situation of downturn was precisely the element of differentiation between them and both of them and the rest of the country's urban centers.

5. References

[1] Cucu V., *Romania cities*, Scientific Publishing House, Bucharest, 1970, p. 65.
[2] Dumitrescu Bianca, *Mono-industrial cities in Romania - between forced industrialization and economic decline*, Academic Publishing House, Bucharest, 2008
[3] Mocanu Irena, *Unemployment in Romania*, Academic Publishing House, Bucharest, 2008
[4] National Institute of Statistics Arges
[5] Popa P., Dicu P., Voinescu S., *Pitesti History*, Romanian Academy Publishing House, Bucharest, 1988
[6] Poşircă Rozica, *Water resources in the high plain of Pitesti and its water supply,* „Economic Independence" Publishing House, Pitesti, 2004
[7] Stan C., *Buzau – the improvement and modernization*, Romanian Event Publishing House, Buzau, 2005

Effects of Reducing Salaries With 25% in Romania Upon The Process of Tax Evasion

Negoescu Gheorghe
"Ovidius" University of Constanta, Faculty of Economic Sciences
negoescugl@yahoo.com
Necsulescu Catherine
"Danubius" University of Galati, Faculty of Economics
necsulescu.ecaterina@yahoo.com

Abstract

Tax evasion by 25% due to reductions of wages occurs at all levels of social hierarchy, being amplified by a lack of education and tax payers, plus some legislative and administrative shortcomings of tax administration. The phenomenon is even more striking, as the man, by the nature of his mental, emotional and educational, has the inclination to put individual interests before the general society. The specific economic determines behavior of individuals, underdeveloped areas, periods of economic recession, economic transition, economic reorientation and reshaping the workforce requires major compromises for subsistence.

Key words: tax evasion, life, work force
J.E.L. classification: M

1. Introduction

A decent budget revenue and expenditure is an economic and social concept, with a high degree of complexity and relativity and is underlying the measurement of poverty. Its complexity comes from the multitude of material, cultural, educational, health, etc. entering in its composition, and relativity, from the interaction and changes which are subject to those elements that show us the consumer needs of human beings and their dependents (family, household) and created interdependence between these needs and the economic and social system that manifests itself.

2. Decent income and expenditure budget for a family with two school children

Regarding the standard of living in present from families where at least one member is working to the state (police, health, church, etc.), about 75 percent are able to meet current consumption needs with income from wages. A reducing of earnings by 25% leads to drastic decrease of the share from 75 percent to 30 percent.

To assess the ability to pay should be calculated budget - revenue and expenditure balance for a family with two school children.

We have to know the amount of money the family earns or receive each month. If the amount of money received each month is less than it should be spent, is a financial issue. If you are in such a situation, it is better to abandon the thought of borrowing or lending. In that case something must be done to increase the monthly income, or monthly expenses to be reduced.

If monthly income is equal to the costs, it is better to postpone a loan and once to assess if your project is really needed to be carried out or the state may remain a mere aspiration. If family income is greater than the costs, then they can afford to resort to a loan, if necessary. However, ensuring that the monthly return of loan rates and higher spending does not cause excess monthly income. Ideally, in addition to all these accounts and some reserve money to pay for unforeseen expenses [1].

Its purpose is very unusual for the Romanian society: fixed-term planning of savings to purchase a house, cars and sending children to school.

Decent living is a controversial issue of education depends on each individual. For example, according to Larry John: "I think to live decently when they can do what I want in life, can travel wherever I want, buy what I want and I can live anywhere in the house that I drive the cars that want, without having ever given, ever, to check my bank account "[4].

Fighting tax evasion will be successful if it promotes the action started at people's level. It must start an action on the part of those inside the state bodies (health, police, church). We need a change of attitude and perhaps a change of people, consistency.

Table 1. Budget of income and expenditure

Family income and expenditure budget

INCOMES	Lei	**EXPENDITURES**	Lei
INCOME FROM WORK		**FIXED COSTS FOR LIVING**	
salary	600	rent	-
indemnities	-	maintenance (included water, gase)	250
occasional income from work	100	telephone	100
profits	150	electric energy	100
others	-	radio, TV, internet	65
Subtotal	**850**	others	-
		Subtotal	**515**
SOCIAL BENEFITS			
indemnity for baby	80	**TAXES AND FEES**	
indemnity of unemployment	-	on incomes	136
others	-	others	298
Subtotal	**80**	**Subtotal**	**434**
PENSION		**INSURANCE**	
for age limit	-	for house	60
for disability	-	for car	100
for survivor	-	for health	50
for maintanance	-	others	-
others	-	**Subtotal**	**210**
Subtotal	0		
		OTHERS	
INCOMES FROM LIBERAL PROFESSION		child care	400
from properties	250	(sachet)	
interest from investments and savings	50	transport	300
others	300	others	-
Subtotal	**600**	**Subtotal**	**700**
		RETURN RATE LOANS	
TOTAL INCOME	**1.530**	rate loan for house	6.400
		rate loan for cars	2.800
		others	-
		Subtotal	**9.200**
		DAILY EXPENSES	
		food	1.200
		wardrobe	250
		health	300
		free time (vacations - summer + winter)	7.332
		others (weekend)	2.000
		Subtotal	**11.082**
		INCIDENTAL EXPENSES	
		house reparation	100
		gifts	150
		others	-
		Subtotal	**250**
		GENERAL TOTAL EXPENDITURE	**22.391**
BALANCE = GENERAL TOTAL INCOME – GENERAL TOTAL EXPENSES			**-20.861**

With a budget, you'll be able to figure out if you have end of financial reserves with which you can finance projects and other aspirations. Based on the amount of money that has been identified as necessary in a month for a decent living, you can find the best way to carry bills on wage growth and performance in the best conditions.

Because wage declines to earn extra money, policemen, doctors and so on are

using tax evasion in order to survive in a poor economic period. Their belief in a decent living is determined by earning a salary of at least 22.391 lei to meet all critical needs for subsistence.

3. Average income of families in Romania, the effects of tax evasion trial

Romania ranks last in the European Union which has total revenues as a percentage of GDP budget.

With a share of 32.1% of GDP, Romanian budget has less money available to the budgets of European countries, EU average being 42.2%. In the richest countries is leading Sweden with 55.7% of GDP, followed by Denmark (55.4%) and Finland (53.2%).

The conclusion is that we are poor not only because of the crisis, but because we have problems in economic structure, because we have the lowest percentage of collection of taxes in the EU's largest economy, etc. level.

Priorities in the distribution and redistribution of income will be hold on families with children and encouraging young people entering the labor market and labor market remain unemployed and those at around the age of retirement at the same time will ensure minimum income for elderly without pension and other categories that do not have salary or pension income.

Wage inequality in Romania are not determined by gender but by the nature of the public employer. Average earnings of publicly owned units were approximately 50% higher than those of privately-owned units, while those in RAs were approximately 40% higher than those of commercial societies. There are glaring inequities, unimaginable in a one thousand in an economy based on competitiveness. The Romanian economy is given by seniority credit (which does not necessarily mean efficiency) and employing the state (where one lives from the taxes collected especially from those who are at risk from the private sector). [2] Young people who have major needs early in life: buying a house and basic necessities, a family, raising children earn 2,4 times less than their parents' generation, who have accumulated in their lifetime and have no dependent children.

A major problem in Romania is the noncorrelation of primary income (from wages, profits, etc.) with taxes / social security contributions and income from transfers based on these taxes and contributions (pensions, unemployment benefits, guaranteed minimum income, allowance disability allowances, etc.). The methods used to achieve the most tax evasion because of a low income families in Romania:

- registering full income;
- social security contributions and related health and unpaid wages, not shown
- underground work
- bribery

Tax evasion is theft by any means in whole or in part from taxes, fees and other amounts owed to the state budget, local budgets, state social insurance budget and special funds for extra-budgetary persons [3].

Among the violations committed by the subjects prevailed taxable and taxable animated by the desire to pay as little taxes and state taxes due, but to avoid stabilizing, checking and tax prosecution.

In Romania material deprivation are reported in most of the population, but more pronounced in certain segments, including: families with many children employed, unemployed families and some families of retirees.

4. Conclusions

Tax evasion has become an omnipresent phenomenon in the economic and social. The extent which tax evasion is alarming due to lower wages with 25% in the public domain.

In the economic situation of the state's balanced budget would lead to macroeconomic balance and ensuring economic development conditions in all areas of public sector providing a decent living to every citizen.

To combat tax evasion would be made a viable legal system, not least fiscal education of citizens.

We observe that the Romanian society is headed by more individualistic interests - or at most by a small group of interests - , rather than by principles to serve the national

interest. And poverty, economic underdevelopment, violence could not be removed except by increasing the cultural, educational and moral perfection, as the social status of a society is determined by its economic status, intellectual and moral.

5. Bibliography

[1] Gh. Negoescu – *For a revolution in business management*, Algorithm + Publishing, Galati, 1997.
[2] Gh. Negoescu - *Risk management by projects*, Teaching and Pedagogical Publishing House, Bucharest, 2003.
[3] Gh. Negoescu, *Risk and uncertainty in the contemporary economy*, Alter Ego Cristian Publishing, Galati, 1995.
[4] Larry J.- *Think rich to get richer*. *The four golden rules for success in busines,* Pro Ed Publishing and Printing, 2006

Ingenious Methos to Reduce Taxes and Contributions Owed to the Romanian State

Negoescu Gheorghe
Popovici Veronica
„Ovidius" University of Constanta, Faculty of Economic Sciences
negoescugl@yahoo.com
verovnp@yahoo.com

Abstract

The tax payers (Romanian individuals and legal persons), owe different types of taxes and contributions to the state and local budgets. In the first category of the individuals are included those tax payers performing economic activities based on free initiative or conducting any free profession individually or by association. By legal persons are understood those entities represented by individuals, legally registered and having a distinct patrimony with the purpose of performing a certain activity.

Amid the economic crisis in Romania bringing a major budget deficit, the Romanian state has increased the financial pressure exerted on tax payers, currently being noticed a tendency to increase taxes both vertically and horizontally.

In this paper we intend to approach the issue of taxes and contributions and to underline a few methods through which the average tax payer can reach the objective of minimizing the payment of taxes and contributions owed to the state and local budgets.

Key words: tax payer, contribution, tax, income standard
J.E.L. classification: H; H25

1. Introduction

The issue of taxes and contributions preoccupies any agent active on the market. Under the circumstances of traders' incomes suffering from a shrinkage phenomenon (due to decreasing sales volumes explained by consumers' diminished purchasing power or salary reductions performed by employers) and of expanding costs (due to inflation), choosing a cutting expenses method becomes essential. Given the fact that taxes and contributions (calculated as a percentage to income) tend to increase their share in the total expenditure of a tax payer (whether trader of employee), there is a growing interest among tax payers to find methods of limiting this type of expenditures.

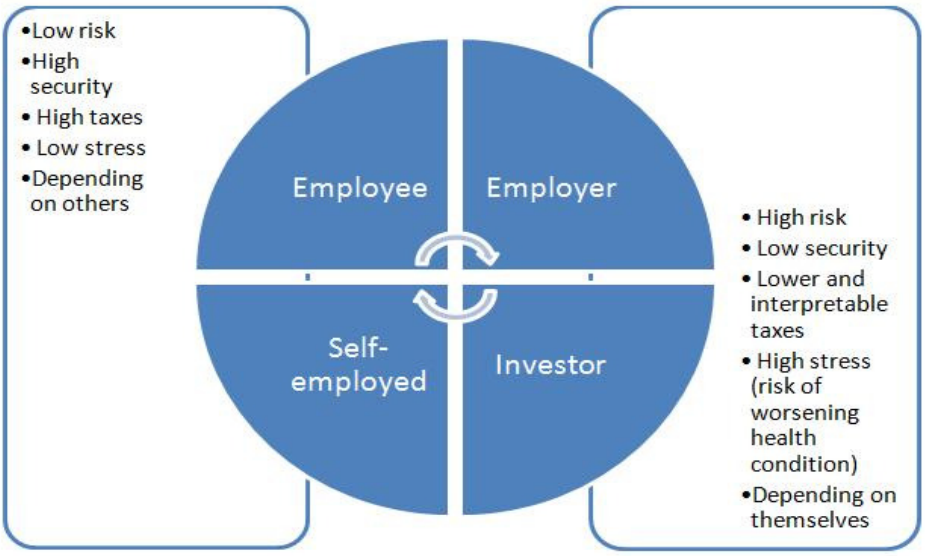
2. The Cashflow Quadrant

Robert Kiyosaki (born in 1947) is an investor, business man and American author of motivational literature. Three of his books – "*Rich Dad, Poor Dad*", "*The Cashflow Quadrant*" and "*Rich Dad's Guide to Investing*" – were simultaneously in the Wall Street Journal, USA Today and New York Times Top 10 Best-sellers.

In his book „*The Cashflow Quadrant*", Robert Kiyosaki identified four hypostasis from which one can earn money, as follows: employee; self-employed; employer; investor. He showed that the four quadrants can be split in two distinct areas (Figure 1):

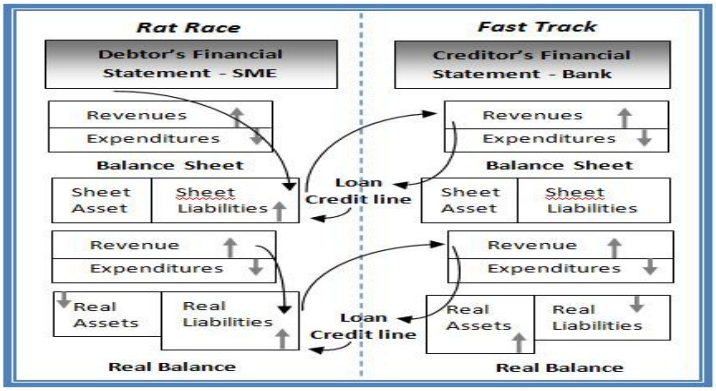
- The left area, characterized by low risk, high security, high taxes
- The right area, characterized by the perception of high risk, low security and lower and interpretable taxes

Figure 1. The Cashflow Quadrant



Source: Adapted after "The Cashflow Quadrant" published by Kiyosaky R., Lechter S., in "Rich Dad's Guide to Becoming Rich", Curtea Veche Publishing, Bucharest, 2009

Figure 3. From "Rat Race" to "Fast Track"



Source: Own contribution

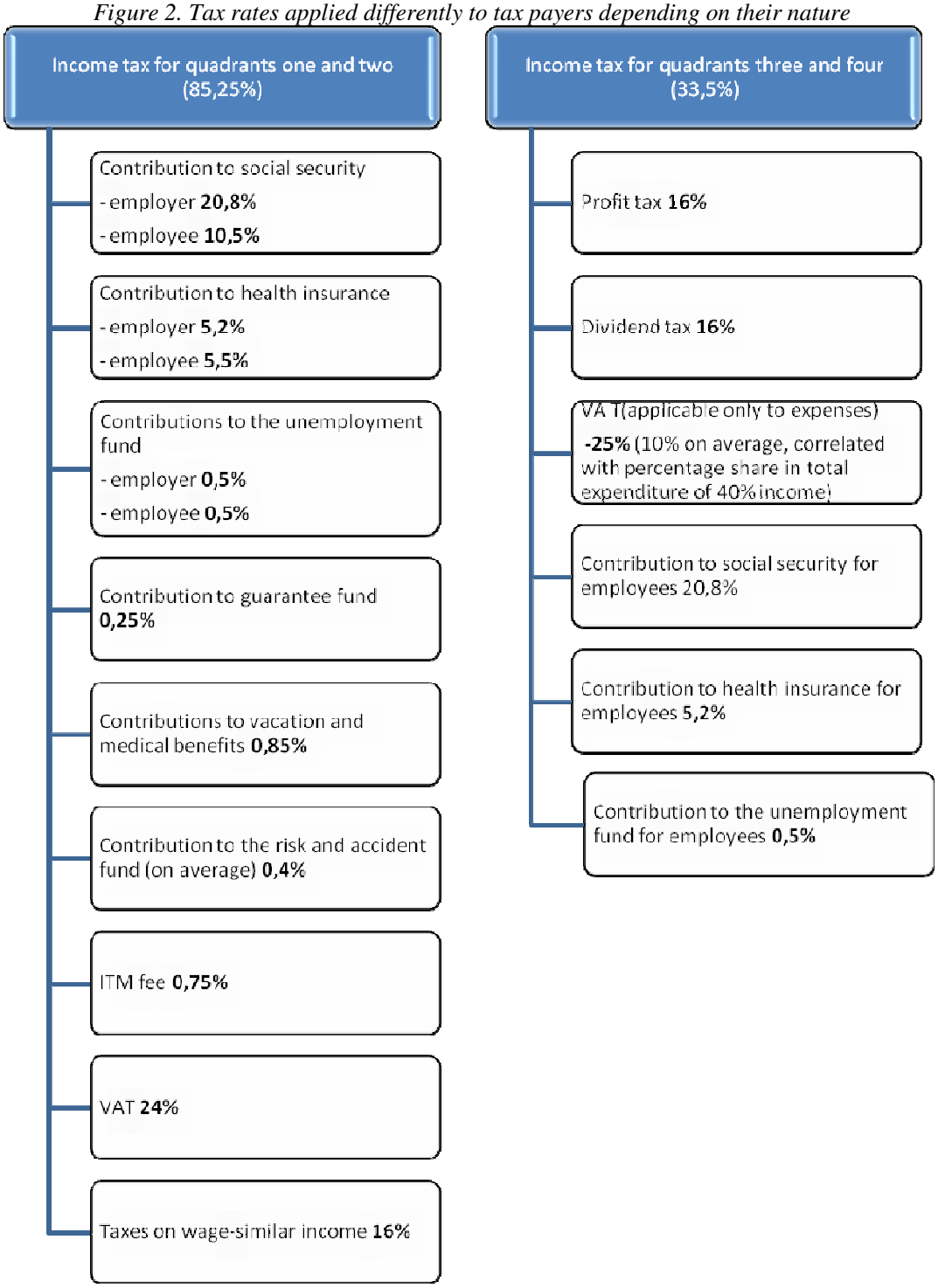
As in other countries as well, in Romania can be identified the same four hypostasis from which one can earn money. What is particular for Romania is that, in order to have a decent life, especially throughout a financial crisis period, young people must develop capabilities for the activities in quadrants three and four, because the degree of taxation is very high in quadrants one and two, as shown in Figure 2 on the next page.

From the data presented in Figure 2, employees and self-employed persons are evidently paying substantially higher taxes (85,25%) than employers and investors. The latter pay an absolutely lower total amount in taxes and contributions (33,5%).

According to Robert Kiyosaki, taxes, contributions and any other financial obligations are split into two categories: good ones and bad ones. In essence, the good debts are those that lead to increasing the real assets and diminishing the real liabilities, while the bad debts are those diminishing the real assets and increasing the real liabilities.

The figure below emphasizes the financial flows when an entrepreneur obtains a loan and how their use enhances or diminishes the financial performance of the loan.

Figure 2. Tax rates applied differently to tax payers depending on their nature



Source: Adaptation after legal regulations in effect on taxes and contributions

3. Advantages and disadvantages for traders usually present on the market

Legal persons can do business in a variety of forms, according to Law no. 31/1990 (published in the Official Monitor no. 126-127 from 17th of November 1990). The law defines the different types of companies that can be established in one of the following forms:

a. Collective-name companies;
b. Sleeping Partnership Companies;
c. Partnerships Limited by Shares;
d. Joint-Stock Companies (SA);
e. Limited Liability Companies (SRL)

Out of all these establishment forms, the most frequent are the Joint-Stock and the Limited Liability Companies. Except these two, it is noticed an ever more frequent presence on the market of authorized freelancers (PFA) and NGOs.

NGOs are institutionalized structures of a private nature that can work either as informal groups or as legal persons, independent of any public authority. They envision neither the access to political power, nor obtaining profit.

The following table presents the main advantages and disadvantages as well as a summary of establishment conditions for traders usually present on the market:

Table 1. Summary of establishment conditions, main advantages and disadvantages for traders usually present on the market

Type of trader	Establishment conditions	Advantages	Disadvantages
Limited Liability Company (SRL)	At the National Trade Register Office – minimum social capital of 200 Lei Statute Legislation L31/1990	Company whose social obligations are guaranteed by the social patrimony. Partners are required to pay only their social shares.	Taxes and contributions higher than those paid by Joint-Stock Companies.
Joint-Stock Company (SA)	At the National Trade Register Office – minimum social capital of 25.000 Euros Statute Legislation L31/1990	Company whose social obligations are guaranteed by the social patrimony. Shareholders are required to pay only the counter value of their shares.	The establishing conditions of Joint-Stock Companies are much stricter than those for other types of companies, the law setting a series of requirements regarding their way of establishment and functioning.
Authorized Freelancer (PFA)	At the National Trade Register Office without social capital Statute Legislation OUG 44/2008	Authorized Freelancer is the legal organization form allowing people to have small-scale businesses with a minimum accounting effort	Social obligations are guaranteed with the individual's patrimony
NGO	At the National Tax Administration Agency to which the headquarters belongs Articles of Incorporation and Statute Legislation L 246/2005	They are institutionalized structures of private nature, independent of any public authority	They cannot register profit ; they are subject to much stricter regulations regarding their way of functioning

Source: Adaptation after legal regulations in effect on traders' establishment and functioning

4. Authorized Freelancer (PFA) – income standard

The Authorized Freelancer is the legal organization form allowing people to have small-scale businesses with a minimum accounting effort.

Determining the net income from independent activities, based on income standards:

The net income from an independent activity is determined on the basis of income standards. The Ministry of Finance determines, by order of the Minister, the classification of activities for which the net income is set based on income standards and establishes the rules used to determine these income standards.

The general directorates of the National Tax Administration Agency have the obligation to annually establish an publish the income standards before the 1st of January of the year while those standards will be applicable. If a tax payer conducts an independent activity for a period shorter than one year, then the income standard applicable to that activity is adjusted so that it reflects the exact period during which the respective activity has been conducted. If a tax payer conducts two or more designated activities without partners, associates or employees, then the net income from these activities is established according to the highest income standard for those respective activities.

Other specifications regarding the income standard:

- If the Authorized Freelancer with income standard gets hired with an employment contract, then the taxes to be paid by him/her will be calculated at half of the income standard
- Anticipated tax payments are due quarterly, on the 15th of the last month of the quarter
- Starting with the year 2010, by amending art, 49 (2) of the Fiscal Code, the classification of activities approved by the Ministry of Finance through OMFP no. 1847/2003 is only a guide for local directions, these having the power to establish also related activities at the county level.

5. Literary pursuits regarding minimizing traders' efforts with taxes and contributions

Lately, publications regarding minimizing taxes and contributions payment began to be more frequent in the literature. A remarkable contribution is "96 tips & tricks for the minimum payment of taxes and contributions owed to the state", author Rentrop & Straton, digitally distributed, ISBN 978-973-72255-1 (Figure 4 on the next page).

Out of the 96 presented tips & tricks for tax payment, we consider as most important the following:

- How to correlate the internal legislation. The convention for avoiding double taxation and the EU legislation
- VAT exemptions. What to do?
- Protocol expenditures. The consequences of overrunning the deductibility limit
- VAT – How to choose the fiscal period?
- How to emphasize the VAT reverse charge?
- Authorized Freelancer (PFA) vs. Limited Liability Company (SRL)
- The real calculation of profit tax !!!
- Tax incentives in case of technical unemployment
- Client in bankruptcy. How about their debts towards us?
- What exemptions ca foundations benefit from?

Figure 4. Extract from "96 tips & tricks for the minimum payment of taxes and contributions owed to the state", author Rentrop & Straton, digitally distributed, ISBN 978-973-722551-1

RENTROP & STRATON
Digital

96 DE TRUCURI pentru plata taxelor și impozitelor

96 de Trucuri pentru plata minimă a taxelor și impozitelor datorate statului

ISBN: 978-973-722-551-1
© 2010 RENTROP & STRATON

Autor: RENTROP & STRATON

Manager produs: Iulia Munteanu
Manager Centru de Profit: Irina Profir

Lucrare editată de:
RENTROP & STRATON
Grup de Edituri și Consultanță în Afaceri
(recunoscut CNCSIS conform Deciziei nr. 284/2007)

Președinte: George Straton
Director General: Florin Câmpeanu
Director Economic: Mariana Netoiu

Sursa: "96 tips & tricks for the minimum payment of taxes and contributions owed to the state", author Rentrop & Straton, digitally distributed, ISBN 978-973-722551-1

6. Conclusions

The tax payers (Romanian individuals and legal persons), owe different types of taxes and contributions to the state and local budgets. Under the circumstances of traders' incomes suffering from a shrinkage phenomenon (due to decreasing sales volumes explained by consumers' diminished purchasing power or salary reductions performed by employers) and of expanding costs (due to inflation), choosing a cutting expenses method becomes essential. Given the fact that taxes and contributions (calculated as a percentage to income) tend to increase their share in the total expenditure of a tax payer (whether trader of employee), there is a growing interest among tax payers to find methods of limiting this type of expenditures. Hence, publications regarding minimizing taxes and contributions payment began to be more frequent in the recent tax literature.

7. References

[1] Gh. Negoescu, V. Daghie, D. Mihaila, C. Bontas, N. Cosug, *Legislatie Economica,* Algorithm +, Galati, 1998.
[2] Rentrop & Straton, 96 *Tips & Tricks for the Minimum Payment of Taxes and Contributions Owed to the State,* Rentrop & Straton Digital, ISBN 978-973-722551-1, 2010.
[3] Irina Coma, *Consilier Culegere Completa de Formulare si Declaratii Fiscale,* Rentrop & Straton Digital, ISBN: 978-973-722-470-5, 2010.
[4] R. Kiyosaky, S. Lechter, *Rich Dad's Guide to Becoming Rich,* Curtea Veche Publishing, Bucharest, 2009.
[5]http://www.ongportal.3x.ro/index.php?target=lege&id_lege=11

Marketing Strategies which Can Be Adopted by the Tourism Entrepreneurs in the County of Tulcea

Nenciu Daniela Simona
Secară Mirela
„Dimitrie Cantemir" Christian University,
Faculty of Tourism and Commercial Management, Constanta
nenciu75@yahoo.com
mirela_secara@yahoo.com

Abstract

The accentuated growth of the exigencies and demands manifested in the internal and international tourist's market has major implications in the marketing policy of the Tulcea entrepreneurs in this, in the meaning that they are trying a new approach of the adopted marketing strategies in order to adapt their offer of tourist's services and products to these changes and to the mechanisms of the Unique European Market. The success of the entrepreneurs of the Tulcea tourism shall be determined by the manner in which they shall take into account the exigencies standards which target the tourist's products and services, standards which they must reach. The quality of the traded tourist's services and products, as well as the weak promotion of the tourist's products in the Tulcea county area are major problems with which the tourism of this area is confronted. This reality is a consequence of applying inadequate marketing strategies and of the lack of careful study, from certain entrepreneurs, of the wishes and needs of the tourists.

Key words: strategy, marketing, tourism, competitiveness, quality.
J.E.L. classification: M 31 , L 83.

1. Introduction

The county of Tulcea has a special tourist's potential which was not put to value up to now at a superior level. The Reservation of the Danube Delta's Biosphere offers to the tourism entrepreneurs from this area a diversity of natural and anthropic resources that could be put to value by creating and trading new, original tourist's products that could attract both internal and external tourists. This is why the tourism companies from this county should study the tourist's demand for this area and especially which are the requests and expectations of the tourist's groups who want to direct to this area. One of the major stops of the tourists' access to the Reservation is represented by the high cost of the transport from Tulcea to the different locations in the Danube Delta.

The county of Tulcea will not be able to become competitive so long as the entrepreneurs of the area will not apply viable marketing strategies which should follow creating quality tourist's products able to cater for the tourists' demands.

The marketing strategy is thus conceived so it can generate demand in the future by specifying the market segments to be reached, the products which shall be created and on which shall be placed the accent, and the associated action programs in order to establish the potential identified for this target products: the market segments.

For the private sector, the strategy refers also to the capacity of the company to convince enough clients to buy a sufficient number from its products in order to ensure an income which can exceed the long term costs and ensure the clients' satisfaction [1].

The challenge for the county of Tulcea is represented by organizing and developing its natural and cultural resources in to a range of tourist's products with a wide attraction for the public, and transforming these attractions into flow of tourists and benefits for the area. This needs the development of an integrated product and a strategic marketing approach.

2. Market strategies

Some of the representatives of tourism in Romania launched the conclusion that, in numerous cases, the development strategies for the Romanian tourist's products and the operation practices are not in accordance with the requests of the foreign tour-operators from the markets supplying tourists.

These appreciations refer especially to the activity of hotel managers targeting [3]:

- The failure of determining the market's potential and adapting the marketing and promotion activities to the market tendencies;
- The non observance of the standard system of previous contracting and giving rooms to the foreign tour operators at preferential prices;
- The failure of obtaining maximum benefits from the participation in national and international tourism fairs;
- The lack of ensuring certain facilities and free services for the foreign tour operators' personnel in order to familiarize them to the tourist's products traded in Tulcea;
- The low number of the activities of informing the mass-media representatives with general and special profile (who's main purpose is represented by publishing articles, broadcasting specialized programs about the tourism in this area etc.).

In order to identify new ways of increasing the real tourist's demand, the entrepreneurs from the county of Tulcea should adopt stimulation and development strategies. These strategies are viable only if they can be framed within the coordinates of development of tourism in this area.

Many of the tourism companies which carry out their activity in this area apply a non-differential strategy, which, in the present context, in which tourists' demands are more and more exigent and different, does not find an optimum applicability, the results being of low efficiency. For the tourist's products and services, traded by the companies in this area, to satisfy different segments of consumers, marketing programs specialized for each segment should be carried out and adopted a differentiating strategy. In this way, they can sell tourist's products which can put to value the hunting and fishing possibilities from the Danube Delta, tourist's products targeting tourists who want to discover the Delta's beauties, tourist's products which can put to value the beach side from Sulina and Sfântu Gheorghe etc.

In order to increase their sales onto the present markets, some tourism companies should apply a rephrasing strategy which has as an effect the improvement of the traded tourist's products and services quality.

In recent years, the tourist's products and services from Tulcea were les and less searched by foreign tourists, who in the past were faithful customers for these products. In order to regain these markets, the companies should apply market development strategies. This approach supposes trading quality tourist's products and services which can raise interest in these segments of tourists.

Also, in this area, at present, it is needed to adopt some strategies of concentric, horizontal and lateral development. The first type of strategy targets the market launch of same new tourist's products (new routs, complex theme trips etc) in order to attract new tourists' segments.

The horizontal diversification strategy is applied by the companies which have a good position onto the Tulcea tourism market and which associated with different other service supplying companies thus succeeding in coming up with new products, but that target the same consumer segments.

The lateral diversification strategy is used by the companies which conceive new tourist's products, different from the products traded previously by the company and which target other consumer segments [1].

3. Strategies specific to the marketing mix

At present, the tourist's market is subjected to a continuous change, and the tourist's products traded in Tulcea county shall be subjected to a competitive pressure so that it is needed their updating and development in order to correspond to the tourists' needs and market imposed conditions.

The county of Tulcea has a wide range of development opportunities of the tourist's products and services. The diversity of the offer and putting it to value by adopting

viable marketing strategies can represent key aspects of the tourism development of this area.

The entrepreneurs in the Danube Delta should create a tourist's product natural and cultural sustainable in which they should put to value the special landscape of the reservation, the cultural patrimony of the area, the hospitality of the population here and the local gastronomy and tradition.

In order to permanently adapt the tourist's offer from the Tulcea County to the tourists' expectations, the entrepreneurs can apply a flexibility strategy of the tourist's product by carefully studying the market and tourist's demand evolution. The entrepreneurs from this county should put to value the special natural resources of the Danube Delta and the culinary traditions establishing a new tourist's products which can satisfy the most sophisticated expectations and requests of the tourists.

The differentiation strategy is not sufficiently used by the entrepreneurs from this area who have at their disposal "several sustain elements: the product in its complexity, the services associated to the product, the personnel implicated in the trading activity and services rendering activity, the image (the product, the enterprise, the resort etc.)" [1].

The tourist's products traded in the Danube Delta target mainly the tourists passionate about nature, fishing, hunting and sun baths. The luxury tourism is practiced by a fairly small segment of tourists who usually go to 4 star floating hotels where they have at their disposal quality housing services, food and amusement and which move around to different locations during their stay in the Danube Delta.

There are also many tourists practicing non-organized tourism and who put up their tents on different natural levee deposits and who do not have at their disposal any tourist's service.

The tourism operators from this area should try to arrange camping sites in certain locations within the Danube Delta where tourists, against a sum of money, could have access to bath facilities and meal facilities.

Acting on fairly segmented markets the companies from the Tulcea tourism should chose mainly for a strategy of adapting the quality of the tourist's products specific to the area in comparison to the exigencies of the different segments of tourists or for a strategy of qualitative differentiation in comparison to the competitors' offer.

A special role in supplying quality tourist's services is that of the tourism worker. In the Delta the tourist's board and lodgings' personnel are usually family members, without tourism training and who are kind and hospitable but do not have training in this area. This is why, in order to increase the quality of the tourist's services rendered in this area it is necessary that the workers in the rural board and lodgings should be qualified for this domain and motivated to render quality services.

Regarding price strategies, the Tulcea tourism entrepreneurs, should take into consideration for the future marketing policy targeting prices, the possibility of applying the all-inclusive price, which represents a commitment by which the tourist pays a sole price for the room and for all the facilities from the resort.

The strategic variants mainly used by the Tulcea companies for the distribution activities are represented by the selective distribution adopted by the entrepreneurs who use a limited number of intermediaries and the intensive strategy used by the tourism enterprises which sell their products and services through a significant number of intermediaries.

From the point of view of the promotional policy, the typology of the strategies which could be adopted by the entrepreneurs of this area is quite diversified. According to the importance given by tourists to the products, services or tourism company, the latter can formulate and apply the adequate strategy (strategy of global image promotion or exclusive products and services promotion).

According to the time development manner of the activities [1], companies can choose either the permanent or intermittent marketing communication strategy.

In the County of Tulcea the promotion of the tourist's products is generally sustained by the area entrepreneurs who adopt especially the written advertise, this being a promotion technique not needing a very large budget.

Other promotional communication strategies which might be used by the Tulcea entrepreneurs are offensive, differentiate, mix

approach strategy (for the individual consumer segment as well as for the organizational consumers), strategy of the combined use of the communication ways, combined sustain strategy etc.

The Tulcea entrepreneurs should adopt, within the personnel policy, strategies of attracting qualified workers of the domain, strategies of making faithful the personnel, strategies of increasing the quality of their service rendering by ensuring professional training and strategies of increasing competitiveness by awarding certain facilities to the best workers [2].

4. Conclusions

The sustainable development of the tourism from the county of Tulcea can be realized by the higher capitalization of the natural, economic and cultural potential, by simulating entrepreneurs and capitalizing the human capital by means of tourism qualification and training courses, by promoting the local traditional tourism, by the preservation and protecting the biodiversity and natural habitats, by preservation of the cultural patrimony and by the economic growth of the local communities situated on the territory of the Reservation of the Danube Delta's Biosphere, with the involvement of the local population.

The success of the entrepreneurs in the Tulcea tourism shall be definitely dependent on the investments in the human resources and strategies adopted in order to higher put to value the special tourist's resources existent in this county.

5. Bibliography

[1] Balaure V., Cătoiu, I., Vegheş C., *Tourist's Marketing,* Uranus Publishing House, Bucharest, 2005, p. 410.

[2] Nenciu D.S., *Marketing strategies for the development of the Romanian tourism*, Publishing House EX PONTO, Constanta, 2009, p. 271.

[3] Master Plan for the National Tourism's Development 2006 –2026, taken from http://www.mturism.ro/fileadmin/mturism/noutati/masterplan_efg.pdf, p. 318

Studies and Analysis of Acquisition Methods and Processing Technology of Information Obtained by IMU/LIDAR/Soundings

Nidelea Marinela
„Titu Maiorescu" University of Bucharest
matemaia@yahoo.com
Alexei Adrian
Research Agency forMilitary Technics and Technologies, Bucharest
alexei_adrian@hotmail.com

Abstract

Geographic information represents, within the European Policy for Geographic Information a complex part of information society which changes continously and which has a wide range of applicability. This can be groupped into two categories: spatial, geographic information and descriptive, qualitative information. These two types of data can be integrated within the same information management system by creating a Geographic Informational System. The terrestrial surface can be represented starting from a series of measurements to determine the position of characteristic points after which these points shall be projected on a plane surface depending on how large the surface is. The position of these points is determined from other points the position of which is well known. These points form a an infrastructure which is called geodezic network. The multitude of georeferentiate points form an image defining the structure of a map. In order to realize this map with the highest degree of accuracy and veracity, the immages aquired through various aquisition methodes are subject to more sophisticated techniques for modelling and processing.

Key words: GPS, Geographic Information, radio transmission
J.E.L. classification: L15

1. Methodes for the determination of terrestrial geographic position and image

In what follows we will present the principles and the phenomena which lay at the foundation of GPS as well as the positioning systems used to obtain spatial data within the research project named "Inovative Technology for Marine and Terrestrial Scanning for digital modeling of ground".

2. The principle for positioning by GPS with the use of radio signals on artifficial satelites

By placing radio signal transmitters on artificial Earth satellites, the coverage aria is extended to the whole planet and thus we can "3-D" determine the coordinates of a point (latitude, longitude, altitude). Determining the position of a receptor requires knowledge of the distances from this receptor to the three transmitters compared to two as it was necessary in the case of terrestrial systems [1].

Another important difference is that now transmitters are mobile (they are not fixed(they move constantly on circumterrestrial orbites. This implies the need for highly accurate information on the parameters of the orbite as well as on the moment a determination took place. This information is contained in the complex signal emitted via the satellite. Moreover the respective satelites are permanently supervised from many stations set up in different locations on the globe having the mission to determine the corrections of the parameters of the orbites and the forecast of these perameters for the

next 24 hours. A "chain" of geodezic satellites that send necessary signals fot the positioning of location forms "a satellite navigation system". The most well known but not the only one is GPS.

2.1. Positionning by DGPS

"Diferential GPS", is a concept that contains a series of measurement techniques to improve measurement accuracy (related to autonomous GPS positionning)

In fact, diferential measurements presupose the pinpointing (in a point called basis) of differences between the spatial position produced autonomously and the spatial position very well known by previous measurements [2].

These differences (also named differential corrections) are then applied either post-processing (in the bureau phase: post-processing DGPS) either in real time (in the field: real time DGPS)

There are a series of advantages in the case of post processing: redundancy, feedback, optimal filters of raw data, higher precision.

2.2. Practical implications of reciprocal radio transmission by GDPS of the RTK type

The GPS user shall stop in the point for which altimetric and planimetric positionning is wanted only for the strict amount of time. Time is determined by various factors among which type of receivers (one or two frequencies with unidirectional or bidirectional radio transmission) the quality of radio modems, the distance from the GPS base of the mobile stations (rovers) the satellite configuration (the geographic one as well) the obstruction degree both at the base and in the rover, the latency of GPS receivers and last but not least the fixing/tracking degree on the same satellites of the base and of the rover.

The satellite configuration received by the base is transmitted by radio under the form of bynary list of the rover and this has to comply and to couple from the point of view of the received signal at the same satellites in the respective configuration.

3. Ways to remove noises

The immage captured by the satellite is composed of information and noise from many sourses reminding of the noise produced by the sensor during the aquisition or the noise from digitized photographic document. Any operation that processes any pixel independently of the value of the neighbouring pixels, results in undiferentiated rise of the level of the noise and of the information in the immage.Whether it is Gaussian noise, uniform noise, salt and pepper noise, it is necessary that the resulting immages are subject to a corresponding minimizing noise level removal a prosess which is done by filtering[3].

3.1. Spatial filters for noise removal

The main categories of spatial filters used to remove noises are mediation filters.

Ordered filters are non linear filters implemented by ordering the neighbouring pixels from the one with smaller value of gray levels to the one with the greatest value of the gray levels. This is done to select the „correct" value whereas in the case of mediation filters an average value of the neighbours was some way or other.

Mediation filters are as a rule linear filters applied by an operation of convolution of the immage with a nucleus of convolution and they function better with uniform noise or with Gaussian noise. Ordered filters work better with salt and pepper noises, negative exponential noises and Ryleigh noises.

In practice both filter types lose high frequency information when trying noise removal. A filter which changes behaviour relying on the characteristics of the gray levels of the neighbours is called an adaptive filter.

4. Aplication. DYNASCAN project. The inovative technology for integrated digital modeling terrestrial and undersea of coastal and riberane zones

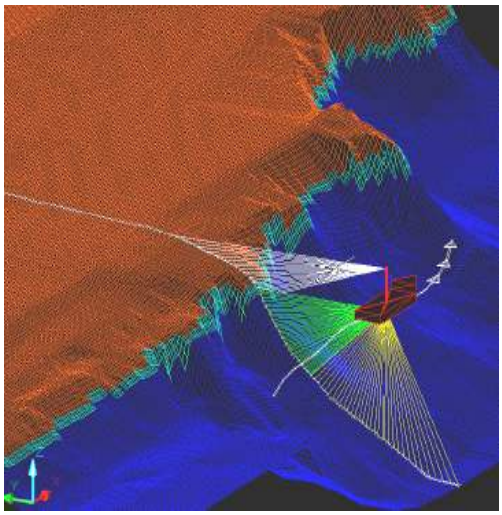
The used technology relies on the research and development of a solution of system interconection used in modern methods of relief investigation : LIDAR scanning (Light Detection and Ranging), high and low frequency echosounds

scanning, unifascicle and rotative, positioning on the basis of global satelites system, assessement of the moving targets and syncronization [4].

To develop new technologies the project includes the realization of a prototype of inertial platforme equipped with complex underwater and over terrestrial scanning systems that can be placed both on ship and on ground, as well as the validation of new mixed water ground technologies as an alternative to unifunctional air solutions terestrial or marine [5].

This work is something new at national level. During the development of the project and with the end of the rehabilitation of the Sulina cannal immages of the same type were processed and groupped in data sets as can be seen from the following immage.

Fig. 1. Integrated relief scanning solution. Sulina Cannal.



Geometric processing of immages in the proceses that occur at the level of digital fotometric systems is done by the soft of digital fotometric application ti bring in coincidence the stereo immage plan with the plan on the field [6].

5. Conclusions and findings

The digital model of the field presented as application of the project is in compliance with requests for projecting and monitoring engineering works through objectivity, accuracy and the density of spatial data, as well as through the rapid provision of the final product, the rise in labour productivity the difficult arias included.

The linear filtering applied with the end of the improvement of immage quality calculates the new value of a pixel in the immage as a linear combination of a number of values in the original immage. Thios is done by a simple mediation mask.

As a conclusion the fact must be noticed that the immages obtained are subject to a complex technologic process so that we can obtain from detailed content of these immages with a high degree of accuracy, the geometric position of the topographic objects.

Of course we must emphasize that during the whole process of data aquisition and processing, errors may appear that cummulate and in the end these must not surpass the current standards.

6. Bibliography

[1] Michel Kasser, Yves Egels. *"Digital Photogrammetry"*, 2002, pp. 20-25.
[2] James Neild, *"Sharing Multiband Imagery Analysis Using ArcSDE/*ESRI Product management, june 2004, pp.10-13.
[3] N. Millet, S. Evans, *"Working whit the Geodatabase",* Environmental Systems Research Institute, jan. 2003, pp. 34-45.
[4] "Tehnologie inovativa de scanare fluvio-maritima si terestra pentru modelarea digitala a terenului" acronim DYNASCAN, raport de cercetare depus la AMCSIT, sub nr. 5073/28.11.2008, p. 100-123.
[5] www.info.umfcluj.ro,
[6] Alfred Leick (2003) – GPS Satellite Surveying, Wiley, USA, pp. 25-40.

IPSAS Agriculture – Problems of a Start

Nistor Cristina Silvia
„Babes Bolyai" University of Cluj Napoca,
Faculty of Economics and Business Administration,
cristina.nistor@econ.ubbcluj.ro
Cozma Ighian Diana
North University, Baia Mare, Romania

Abstract

The Agriculture theme raises a lot of problems from the point of view of its reflection in the public sector accounting. In this context, at international level, there was need for a separate international regulation on this topic. According to IAS 41 Agriculture, a project has been subject to public debate – Exposure Draft (ED) 36 *Agriculture, by whose modeling based on subscribed observations and proposals, to be able to build an international standard for public sector on the topic of agriculture. Through a positivist research, based on the combination between quantitative and qualitative research, we analyze the impact of this proposed standard on the respondents, tracking and quantifying the degree to which it meets the needs of specialists from different countries. The study is very topical, considering that in the current period, at IPSASB level (International Public Sector Accounting Standards Board) there is the process of final elaboration of the standard, taking into account the particulars brought to ED.*

The study is of great importance for both the theoreticians from accounting field, who can make an image on the research trends in this field, and the practicing who can get the answer to some problems of agriculture, whose solution will be achieved by international standard approval.

Key words: IPSAS, agriculture, comments, terms, debate
J.E.L. classification: M 40, M 41

1. Introduction

At international level, half of the world's population works in agriculture. There are great differences between the roles played by agriculture in different parts of the world. In developing countries, such as Nepal, almost 90% of the populations work the land. In contrast, in industrialized countries, like Great Britain and United States of America only about 2% of active populations are working in agriculture.

The lack of normalization, the diversity of activities and the economic importance of the agricultural activity contributes for the increase of existing pressures in endowing the users with the financial information of the sector with relevant and reliable data, allowing them to know the real financial position and evaluate the performance of the organizations [1].

This raises the need for regulation of agriculture in public sector accounting. IPSASB recognizes the lack of such a standard and proposes for debate the ED-ul 36 Agriculture, in March 2009 with subscription term for the responses, June 2009. The current period marks the progress of the construction process of the referential, in its final form [2].

In this context, this study aims to identify the degree of acceptance of ED 36 in its current form, identifying the themes and subjects that encourage most discussions and observations. Starting from an overview of agriculture in the sphere of accounting regulations characteristic to public sector, we further detail the content of the possible standard created on this topic. Through an empirical research of the answers given by the IFAC member countries that participated to the process of the debate of the subject, we can appreciate how the final shape of

referential will require extensive restructuring of content and form.

Next, we try to interpret the position of some countries and how they support or not this extensive process.

The topic presents a real interest, also for Romania, whose agriculture sector is in a slow process of development. EU membership requires continuous updating of regulations, in order to achieve accounting harmonization and convergence with international regulations. Thus, after including the referential of agriculture in IPSAS (International Public Sector Accounting Standards), also the Romanian accounting public sector should attend to its regulations[3].

Please follow the steps outlined below when submitting your final draft. These guidelines include complete descriptions of the fonts, spacing, and related information for producing your proceedings manuscripts.

2. Review of Evolution and Content of ED 36 Agriculture

The historical evolution of the creation of the international standard IPSAS on the topic of agriculture can be synthesized as follows:

- October 2008 – The IPSASB members raises the issue of accounting treatment and presentation of information related to agricultural activity, a topic that is not covered in other standards. The first debates about the elimination of possible duplication of content between IPSAS appear, meaning that some specialists consider that defining the term "government subsidies" and presentation of the requests and recommendations regarding the booking of government subsidies in the context of agricultural activity, should not be included in this standard. This is because IPSAS 23 "Non-exchange transactions incomes" presents requirements and guidance regarding the booking of incomes from governmental subsidies.
- February 2009 – A lot of issues related to definition and range of application of agricultural products appear. IPSASB agreed that the definition should include agricultural products subject to sale. The range of application section will include a paragraph stating that the biological assets for service delivery are outside the range of application of the proposed IPSAS. The IPSASB members voted in favor of issuing the ED with 17 to 0.
- March 2009 – IPSASB issues ED 36 Agriculture. The comments on the text content are expected to IFAC's address until June 30, 2009.
- September 2009 - IPSASB analyses the answers of representatives of professional bodies from different countries for ED 36 Agriculture. IPSASB agreed to clarify the principles of measurement for non-exchange transactions, and the conditions for exclusion from the range of application of IPSAS for biological assets used in providing services. They also agreed that transitional arrangements for accounting systems that adopt for the first time the accrual accounting should be developed.

By considering the content of ED 36 Agriculture, IPSASB wants to find answers from expert bodies from different member countries of IFAC, with reference to the following subjects:

1. The definition of agricultural activity. The agricultural activity is managed by an entity that deals with biological transformation of living animals or plants for sale, including conversion to agricultural products, to additional biological goods or their preservation.

2. The biological treatment for goods during growth, degeneration, production, procreation and for measuring initial agricultural production, at harvest. It requires measurement at fair value minus costs of sales from initial recognition of biological assets to the point of harvest. However, IPSAS XX (ED 36) does not deal with processing of agricultural products after harvest, for example, processing grapes into wine or processing of wool into yarn.

3. There is a presumption that fair value can be measured reliably for a biological asset. However, this presumption may be refused, only on initial recognition of a biological asset for which market prices or established values are not available and for which the alternative estimations of fair value are determined to be clearly viable. In such cases, IPSAS XX (ED 36) requires an entity to measure biological assets at their cost less

accumulated depreciation and accumulated impairment losses. Once the fair value of such biological good becomes reliably measured, an entity measures the fair value minus cost of sales. In all cases, an entity must evaluate the agricultural assets to the point of harvest, at its fair value less costs of sales.

4. IPSAS XX (ED 36) requires a change in fair value less costs of sales of a biological asset be included in the surplus or deficit of the period in which it appears. In agricultural activity, a change in physical attributes of a live animal or plants directly enhances or diminishes the economic benefits. Under a transaction based on historical cost model, an entity that owns forest plantations would not present any income until the first harvest and sale, perhaps 30 years after planting. Furthermore, an accounting model that recognizes and measures biological growth using current fair value reported to changes in the fair value over the period between planting and harvesting, is better supported by specific of agricultural activities.

5. IPSAS XX (ED 36) does not establish new principles for land related to agricultural activity. Instead, an entity follows IPSAS 16 "Investment Property" or IPSAS 17, "Tangible assets", which is more adequate to the situation. IPSAS 16 requires that the land, subject of investments must be evaluated at its fair value or at cost minus loss of accumulated depreciation. Biological assets, which are physically attached to the land (e.g. trees in a plantation forest), are evaluated at fair value without the cost of sales, separate of land. IPSAS 17 requires the valuation of land to be at cost less any accumulated impairment losses or at a revalued value.

6. IPSAS XX (ED 36) does not deal with accounting of revenue related to biological assets and agricultural products from non-exchange transactions or related government subsidies. IPSAS 23 "Incomes from Non-Exchange Transactions (Taxes and Transfers)" provides requirements and guidelines for accounting for government subsidies related to agricultural activity. IPSAS XX (ED 36) deals with the evaluation of biological assets acquired in non-exchange transactions, both initial and subsequent recognition.

3. Research Design

The main objective of the study is the possibility of increasing the portfolio assessment of IPSAS by creating a new one, on agriculture. So, we formulate the following hypotheses:

H1. To create an IPSAS Agriculture is considered useful by most professional bodies of respondent countries, members of IFAC.

H2. Defining specific notions of agriculture (e.g. biological assets, agricultural activities) is clear and concise.

H3. Standard issuance will be done in the shortest time.

To validate or invalidate the formulated hypotheses, we will analyze and interpret the answers given by respondents with reference to the six topics of discussion raised by the IPSASB on the final form of IPSAS XX Agriculture (ED 36).

In this approach we started from a theoretical approach of the problem of the public accounting regulations with focus on agriculture. Subsequently, through an empirical research we will determine the degree of acceptance of the standard on three levels: on each topic questioned, on each respondent country, and as whole. By quantifying 1 (YES) or 0 (NO) we will appreciate the acceptance or refusal of each point (N = 6) under discussion.

Subsequently, we will motivate positive or negative responses depending on specific public accounting system of responding countries.

The scientific research contributes to the efforts to deepen the knowledge required by retrospective nature imposed by the realized normative research, and by the prospective nature, given by the realized empirical research. Among the human socio science methods used in this approach, we can specify: analysis of documents, comparative method and observation method.

4. Results

After analyzing the comments sent to IFAC by the specialized bodies of the nine respondent countries, the following situation results (table no. 1):

Table 1. Estimation of answers

Countries / Subjects	1	2	3	4	5	6	DEGREE OF ACCEPTANCE/ COUNTRY
South Africa	0	1	1	1	1	0	66.7%
England	0	1	1	1	1	0	66.7%
Australia	1	1	1	1	1	1	100%
Canada	0	0	0	0	1	1	33.3%
Swiss	1	1	1	1	1	1	100%
France	0	1	1	1	0	0	50%
Japan	0	1	1	1	1	1	83.3%
New Zeeland	0	0	0	0	1	1	33.3%
U.S.A.	0	1	0	0	1	0	33.3%
DEGREE OF ACCEPTANCE/ SUBJECT	22.22%	66.66%	66.66%	66.66%	88.88%	55.55%	

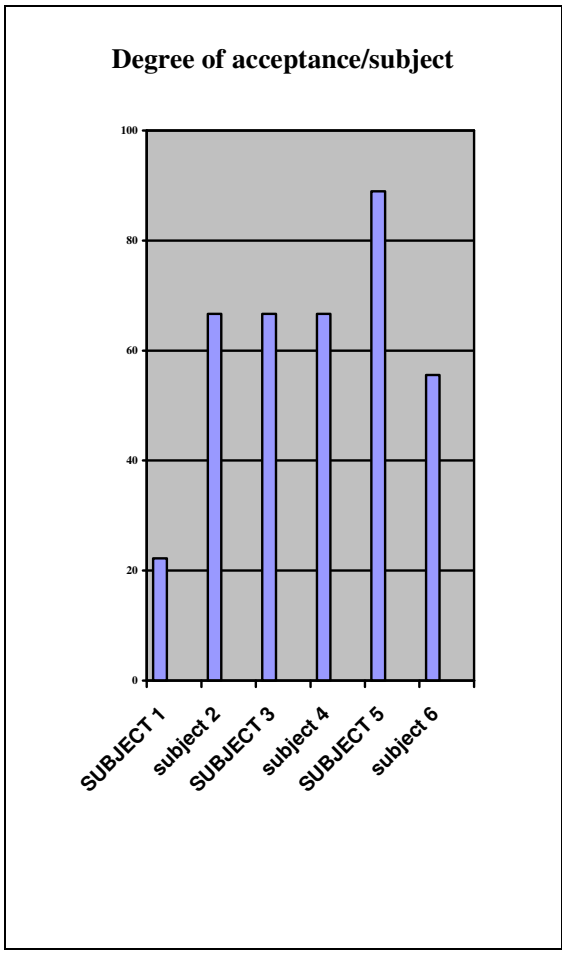
Source: Author processing

Considering the degree of interest shown by respondent countries for the topic of booking the specific elements of agricultural domain in the public sector, we can say that the hypothesis "To create an IPSAS Agriculture is considered useful by most professional bodies of respondent countries, members of IFAC" is true. If we calculate an average of acceptance / total standard, it is above 50%, which reinforces the conclusion that the need for a referential is also evident.

But there are some problems regarding the delimitation of the scope of the referential. The main discussions occur about IPSAS 17 "Tangible assets", IPSAS 23 "Incomes from Non-Exchange Transactions (Taxes and Transfers)", IPSAS 12 "Inventories". If we want correctly positioning all the aspects, it will be necessary the restructuring of these IPSAS, which will affect the deadline for the new standard. But in December 2009, because of the importance of agriculture in the public sector, a standard was issued, IPSAS 27 "Agriculture". It is not considered the final form but it is a step for issuing the final standard. In other words, the hypothesis "Standard issuance will be done in the shortest time" proves to be true.

In detail, the degree of acceptance of the six subjects under discussion by IPSASB is as follows (figure no. 1):

Figure 1. Degree of acceptance/subject



As you can see, the theme with the lowest degree of acceptance is subject 1. The vast majority of countries deemed to be insisted on clarifying specific terms of the agricultural sector for being uniformity in understanding and applicability in good conditions of their content. Japan considers that this standard does not include the important biological assets that are used to provide services, including plants and trees used for environmental protection. USA believes that there is a clear breakdown of agricultural products.

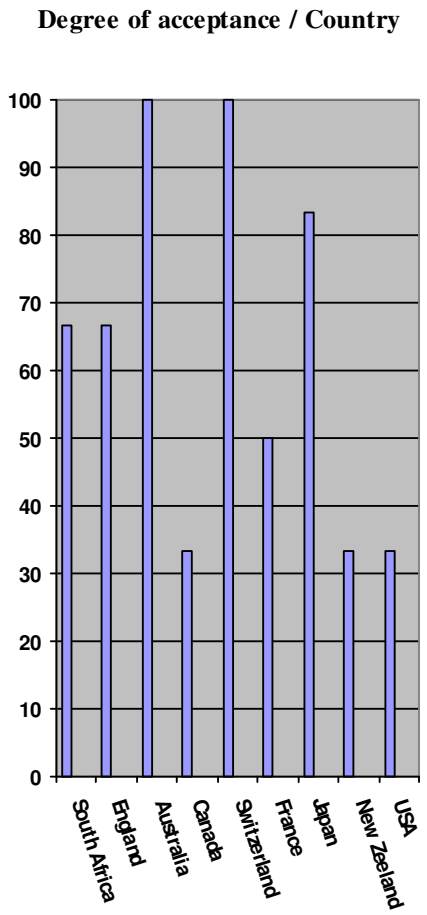
Therefore we can say that the hypothesis "Defining specific notions of agriculture (e.g. biological assets, agricultural activities) is clear and concise" proves to be true. Also, subject 6 has a weight of acceptance at limit, the motivation can be given by France that suggests the confusion between accounting of biological assets acquired from non-exchange transactions or government subsidies and the incomes related to biological assets and agricultural products realized from non-exchange transactions or from government subsidies. Subjects 2, 3, 4 and 5 are accepted, outlining the idea according to which the fair value occupies a fundamental place in the evaluation of agricultural assets, their particularities imposing this thing. Some authors [4] argued that fair value accounting has the capacity to enhance the stewardship function by providing relevant information to stakeholders, thus alleviating social conflict. The latter occurs when the discrepancies that exist between agriculture widely practiced and that performed at a small level (like farmers), cause discontent in terms of efficiency, quality, exploiting the possibilities of agricultural products. The fair value sustains the interests of both parties, in realizing a correct evaluation of agricultural assets [5].

After the degree of acceptance by respondent countries to all six issues, the situation is as in figure no.2.

According to the formulated motivations, three categories of countries can be remarked:

- those that are fully supporting the current form of referential IPSAS XX - Australia and Switzerland;
- those that are supporting the current form of referential IPSAS XX, but with minor adjustments - South Africa, England, France. The comments of these countries specifically refers to the redefinition of terms, to provide clearer evidence of the range of application of the standard The comments of these countries specifically refers to the redefinition of terms, to provide clearer evidence of the scope of standard (e.g. South Africa sustains that IPSAS should be amended to refer constantly to the sale and transfer at all) or to a repositioning of assessment methods of agricultural assets (France sustains the cost of production);
- those that are refusing the current content of the standard, suggesting that it should not be taken up until there will be a review of costs, benefits and a clear relevance of it. (New Zeeland, USA, Canada).

Figure 2. Degree of acceptance / Country



5. Conclusions

The agricultural sector issue proves to be extremely exciting. Public accounting tries to align to existing international standards for economic entities, but the own peculiarities make the process very difficult. Through this study we captured some aspects of development and acceptance of the new IPSAS XX Agriculture. The study has theoretical foundations and relevant practices, because there are analyzed the opinions of some accountants from countries whose accounting systems are defining for Anglo-Saxon model (e.g. England, Australia) and continental one (e.g. France), namely their foundation is based entirely on

international standards (eg England), or specific national rules (e.g. France). The subject is not closed, because there are a lot of unqualified aspects, whose evolution is a future research subject. Also, it will be interesting to research the opinion of theoreticians and practitioners, namely of the specialized body CECCAR, regarding the vision of Romanian accounting system on the provisions of ED 36. These topics will be developed in future researches.

6. References

[1] Azevedo, Graça Maria do Carmo , *The Impact of International Accounting Stan1rd 41 'Agriculture' in the Wine Industry*, available at SSRN: http://ssrn.com/abstract=975508, 2007.
[2] www.ifac.org
[3] Nistor, C.S., Trecut, prezent si perspective in contabilitatea publica romaneasca, Casa Cartii de Stiinta, Cluj Napoca, 2009.
[4] Barlev, B. and Haddad, J.R., *Fair value accounting and the management of the firm*, Critical Perspectives on Accounting, no.14, 2003, pp. 383-415.
[5] Elad, C., *Fair Value Accounting and Fair Trade: An Analysis of the Role of International Accounting Standard No. 41 in Social Conflict*, Socio-Economic Review, Vol. 5 (4):755-777, available at SSRN: http://ssrn.com/abstract=1157711 or doi:mwm013, 2007

Forms for the Formation of Population's Savings

Nițu Oana
"Ovidius" University Constanta, Faculty of Economic Sciences
oana.oprisan@yahoo.com
Nițu Claudiu Valentin
„Dimitrie Cantemir" Chiristian University of Bucuresti
valynitu@gmail.com
Nicodim Liliana
"Ovidius" University Constanta, Faculty of Economic Sciences
nicodimlili@yahoo.com

Abstract

The notion of saving has undergone a series of interpretations both economic and psychological and sociological. However these notions on contemporary concepts derive from the argument that marks the whole Keynesian literature. In his view J.M. There is several motives Keynes's preference for liquidity and are known as:

- *mobile transactions, including:*
- *mobile income;*
- *mobile business;*
- *precautionary motive;*
- *mobile speculation.*

Key words: savings, personal savings, income reason, business reason, barriers to saving
J.E.L. classification: E12, E32, E622

In economics, the economies were defined as personal income minus consumption expenditure. In other words, income is not consumed by immediately buying goods and services are saved. Other ways to save can occur, such as corporate retained earnings (profits minus dividend and taxes) and government budget surplus.

There is disagreement about what constitutes savings. For example, a portion of personal income is spent on mortgage rates are not immediately spent on consumption and savings is as defined above, even if the population does not see the pay rates as a way of saving. However, gross domestic product figures from the United States (eg National Income and Product Accounts), the interest payment is not treated as "economy" only if the institutions or persons who receive a save.

"Saving" differs from "savings". The first relates to increasing the estate, an increase in net profit, while the second refers to a part of someone's property, usually savings accounts, or all one's property. It refers to an action save that take place in time, a mobile version, while savings refers to something that exists at a time, a fixed variable.

Saving is closely related to investing. By purchasing goods and services we enable investing resources by using them for production of fixed capital such as factories or machinery. Saving can be so vital to increase the capital stock available, leading to economic growth. However, economic growth does not always correspond to increased investment, if savings are deposited with a financial intermediary such as a bank; those savings are likely to be reused by business investment. That means that savings can increase without increasing investment, can cause a current lack of demand (a buildup of inventory, a decrease in output, employment and income, so a recession) than economic growth. This phenomenon is often called "economic paradox". In short, if the savings fall below the level of investment may lead to an increase in demand and an economic boom. In the long run, if the savings fall below the level of investment will reduce future investment and growth. Future growth is now possible by growing consumption to increase investment.

In a primitive form of economy based on agriculture, took the form of storage can save the best for sowing corn crop the following season. If the whole crop would be consumed, the economy would deteriorate, leading to a hunting and gathering economy next season.

Saving money is very important for many reasons. Some reasons, such as saving money, have to do with security and safety, other important reasons aiming at a more practical one of being prepared for future major expenditures.

With regard to emergencies, it is very important to save money. Although nobody likes to think of the possibility of remaining unemployed, disabled, or a disastrous financial crisis must be borne in mind that they can happen anytime. Even smaller emergencies, such as the need to repair your car, are better handled by saving the time, but by trying to raise money during a crisis time. Saving money is very important for these types of situations. If possible, you should have savings which amount to three months worth of expenses, to help in an emergency.

Saving money is also important for future plans. Almost every parent wants to see their child to college, for example. However, many children will not get a scholarship for college. They will have time to find a possibility to pay taxes or make loans for studies. Saving money is an important part of education to give children desired. Education is not the only area for which parents must save, as they relate to children. Just as parents save for education, they can save for children's marriages, to help achieve first car or home purchase.

Finally, saving money is an important part of enjoying life. A trip to Disney World is much more enjoyable when you know that you paid all the money in savings than using credit cards or knowing that you will pay for next years trip.

Mobile income

One reason is to keep cash needs arising during the time of collection of revenue and spending. The vigor, with which this cell act on the decision to keep a certain amount of cash income mainly depends on the size and duration of the normal range of collection and spending. This is the aspect in which the concept of velocity of circulation of money in relation to income as it may prove adequate.

Handset business

Saving involves keeping business needs cash to cover expenses in the period between the times of need when doing business and achieving sales proceeds (cash kept by commercial intermediaries to meet needs in the period between purchase and sale of goods is included in this category).

Precautionary motive

Precautionary saving is another reason to keep liquidity in an effort to be prepared for contingencies, which would require immediate costs for the unexpected opportunity (to make advantageous purchases), but also the desire to keep a good-value fixed in money terms for payment of future obligations, and fixed it in money terms. Also in this category are long term and saving yourself, or training of children and saving for old age.

The vigor of all three types of motives that will depend in part on how cheap and safe methods of obtaining cash when the need arises, through a momentary form of credit, especially by overcoming the bank account balance or through its equivalent. Surely it is not necessary to retain cash to meet the needs of different inactive intervals, if they can be obtained without difficulty when they are actually necessary.

Accumulation of care depends not only risk but also on risk preference (Caballero (1990.1991), and in particular Canetti (2003)). For example, a key factor is the rate coefficient of risk aversion [(Deaton (1991) (Carroll (1992.1996)], but information available suggests that there is a significant variable in this measure among people.

Differences in preferences may have important implications. For example, workers who are risk averse may turn to occupations (or certain employers in the industry) which provides security at work. If risk aversion is positively correlated with caution, these workers could save more, leading to decreases in estimates of precautionary saving ground (Lusardi (1997, 2000) and Fuchs-Schündeln and Schündeln (2005)).

Accumulation of caution is strongly affected by the presence of liquidity constraints. This leads to a situation, in which families can borrow, with the option to not need so much wealth to protect themselves from shocks. Indeed, theoretical models predict that the accumulation of

precautionary accumulation of income not strictly positive. If the population is faced with different lending opportunities, they will want to have different levels of precautionary savings. But individual lending opportunities are generally unnoticed in most studies.

Speculation motive

Saving all income is saved for speculative use value-added opportunities in capital (purchases of diamonds, action, hope to see homes in their price increases).

Unlike reason why transactions and precautionary, in which savings is a result of the overall activity level of the economic and monetary income, which is why speculation is acting to influence the economic system using settlement money circulation. So the demand for money to satisfy the first motives generally remain insensitive to any influence exerted on them except for actual changes in general economic activity and income levels. On the other hand, to meet global demand money for speculative reasons manifest usually continuous feedback from incremental changes in interest rates. In other words, changes to meet the demand for money mobile speculation are connected by a continuous curve of interest rate changes as resulting from changes in exchange rate and debt securities with different maturities.

In dealing with speculative mobile is very important to distinguish between:
- Interest rate changes due to variations in the supply of money to meet the mobile traffic and

- Changes in expectations due to changes that affect the function of liquidity. Open market operations may indeed influence the interest rate through both channels, because they can change not only the quantity of money, but also can lead to change expectations regarding future central bank policy or the government. Changes in the liquidity position (as a result of new information leading to the revision of expectations) are often patchy and will cause a discontinuity corresponding changes in interest rates. Only if new information is interpreted differently by different individuals or different affect individual interests may have been an increase in the volume of transactions in the securities market. If new information affects exactly the same requirements of all proceedings and the interest rate will immediately adapt to new situations without the need of carrying out market transactions.

Thus, in the simplest case, when everyone has the same features and is located in the same situation, a change in circumstances or expectations will not cause any movement of money. It will change the interest rate only to the extent necessary to balance the desire to have every individual to a previous rate of change in the amount of cash held by him under the influence of new circumstances and expectations, and will change as each opinion equally about the rate that could lead to alter the stock of cash, will not result in any transaction. Circumstances and expectations of each cluster will correspond to an appropriate interest rate, and will never question anyone to change their usual stock of cash.

In general, a change in circumstances or expectations will lead to some restructuring of individual stocks, because such a change will actually affect the different views of different individuals, partly because of differences in the environment and the reasons for their save money or because of differences in terms of knowledge and interpretation of new situations. The interest rate that matches the new equilibrium will be accompanied by a redistribution of money stocks.

So we can say that the aim of achieving savings by all subjects may have various reasons:

- to defend themselves against the risks of life;
- to ensure safety of life at old age;
- to gain revenue to cover expenditures that exceed the current income;
- to pay an expenditure already made as a result of contracting a loan to be repaid;

Also, in a country may occur in a time saving surpluses to investment costs and stocks, in which case it may become an exporter of savings, or otherwise may become an importer of saving. Accumulation of claims allows the export of capital and debt accumulation causes the importation of capital. These debts and obligations may be recorded but also as money in banks. Since permanent correlation of income and expenditure by business entities not part of the economic and social reality, the issue of placing savings income in certain periods of

time and use investments made in prior periods in which case the need to use the money saved.

Obstacles of saving:

1. Life Stage:

Savers tend to talk about key stages in their life or lifestyle changes, for example moving from house parents or spouse, getting a mortgage or childbirth. These changes have encouraged increased attention to savings and motivated them to start to put money aside. Were usually associated with greater financial responsibilities, more independence, and marriage or looking long term life.

Moving from the parental home is usually the first big step in gaining financial independence; some participants are less involved in paying bills and rent. Keeping some money to pay them was seen by some as a form of saving. An exception would be students whose parents pay his bills and also help those participants who had high enough savings to enable them pay bills and maintain the level of spending for other things. Being a long term relationship is another influence in prioritizing spending and encouraging long-term vision and growth finance savings. Similarly marriage plans or purchase a home often have a similar impact, changing the focus from spending today to make plans for the future.

One of the most powerful impacts of saving behavior is fatherhood. Parents trying to put money aside for their children's future - even if they do not save too much for themselves. Depositing money in a Children's Fund, by opening accounts in which family members to save for children, it was common examples. Typically, these savings plans to help children in academic or general concern costs to help them grow and when to leave the parental home.

However, these obstacles are not saving easier. In fact, for many, leaving home, investing in their own house and in particular, having children will mean increased costs and reduced disposable income. Despite this, it appears that these major changes in people's lives inspire a reassessment of personal finances and consumer habits. As a result of increased financial planning and savings continue to cover the financial implications of these changes. For example: Palace bills, mortgage repayment or savings for cutting wedding or childcare expenses.

2. Future plans

Another barrier was the ability to save individual to guess and anticipate future costs which could cope. Those who have saved regularly and consistently tend to be those with the clearest vision and aspirations for the future. This has encouraged the planning of both practical and financial. Sometimes this plan is for relatively small things, like vacations, cars or clothes. These criteria have been approached by people from all areas, speaking in particular about some of the ways of saving.

Participants also spoke about the cost too high demand dedicated to saving. Again, these things have tended to be associated with stages of life. Among the most common in the university came and were saved for a mortgage. Other people have invested money in a risky future, and start a business. These great men were often saving some extensive and ambitious plans for their future, and therefore a greater sense of need to save up the wall. While the stages of life and aspirations were by far the most important motivation for young people to save, there was also a large number of obstacles identified as direct and practical, which are discussed below.

3. Influence of others

Participants frequently discussed the influence of others regarding the importance and benefits of saving, particularly parents or bunicilor.Acesta sometimes takes the form of direct influence, where parents or grandparents have opened accounts for participants when they were children and then they paid money in those accounts, or encouraged them to pay money even themselves.

Another less direct influence, but with the same impact, has encouraged young people to put money aside for the future. For example, several participants witnessed a memorable scene and exemplary: parents and grandparents in old age enjoying the savings they have made in the days when they were young. Saving activities of partners have sometimes served as motivation to begin to save for their future. Friends here have been less influenced because few young people have also addressed other issues including,

but still remained a desire of saving the lifestyles and buying friends.

While some participants acknowledged the positive influence of parents on their subsequent behavior of saving, others have shown less positive experiences.

Some have said that their parents have opened accounts with forgotten or abandoned, while others believed they still have a small amount of money left untouched in these old accounts. Having a bank account in his youth helped participants to become familiar with the rudiments of Management that money. In addition, some were encouraged by their parents to take part-time jobs, so you gain a sense of ownership and a potential saving of their own money. In contrast, for some people, not only encouraging parents had a positive impact on saving their own behavior, but especially poor financial planning parents. Some participants have encountered financial problems and difficulties in life and they believed that they slept in their experiences motivated to save as much as possible to ensure that will never go through those issues.

4. Inheritance unexpectedly

An increase in income, for example, from an increase or a bonus payment, inheritance or gift has always been a key trigger saving. In addition, participants tended to argue that having more money does not necessarily mean that that person will need to save money immediately, any excess is not always spent immediately and allowing individual option to put some money aside.

Barriers to saving

Many of the factors identified as the trigger mechanisms of saving the young have often functioned as barriers. For example, as previously developed section and reaching a certain stage of life and / or maintenance of certain aspirations were key reasons for young people to start or expand what they want to save. On the other hand, a young person who has not yet reached some particular stages of life or has not had strong personal ambition was less incentive to save.

1. Living in the moment

The most persistent barrier to saving, and that was apparent in all groups wanted to present the idea that young people should 'live the moment "and not be too concerned about saving. Ideas about the importance of saving have always competed with the idea that young people should feel free to enjoy the money they have, and consider that they have no care, while they still have some responsibilities.

2. Economic factors

Many people say that they will start saving as soon as they receive the following salary or will get the next promotion. This argument was often made by participants from all groups, regardless of how high it was current income. While saving was considered to be desired by everyone, was also thought not to be detrimental to their current life style. To save, participants believed they would need a higher salary than to make some compromises in terms of current expenditure. After several studies found that some people may not be motivated to save, no matter how large they would be income.

3. Age and stage of life

For some participants, the idea of starting to save more in the future was not justified by any specific reference to the career or income, but was based on a general feeling that it will be easier and more convenient for them to start saving they are older and more stable. This seemed to be based on an assumption that impulsive and wasteful activities such as taking people on a regular basis were specific to young people and at the age activities to take place such as a more responsible behavior, and spending more rational.

Two related perceptions emerge: first, that people should enjoy the spender of money while they are young, and second, it always will be a better time in the future to start to make savings. Both perceptions have contributed to the belief that participants do not expect young people to start saving for the future.

Participants retain the idea that as the years pass they become more sober and responsible for their finances. This allowed them to continue to spend and enjoy their money while categorically stating that old age will be able to save more than they did in their youth.

4. Income - on retirement benefits

There is a general perception of all groups, but the point was the most powerful groups that do not save, and believed to have

savings or investments, reduce benefits and other forms of support from the state. Moreover, several participants argued that those who put money aside for their future were often forced to spend their savings paying for services (such as social assistance or care) that people have no free economy. For these people, setting spending that currently has a benefit for the future.

5. Practical problems

For some people who do not save, just a lack of aware of how saving works, how to open an account or how to choose between available options, were a barrier to saving. While some people seemed to understand, despite their literary limited financial knowledge, and participants admitted that things did not know enough to be able to open an account, others were influenced by the negative side of financial problems in the media.

6. Debt

Availability of credit and loans was another barrier to saving. It has often been argued that, while saving has been neglected, increased debts - especially for the university - are considered acceptable or normal. While many people have argued that they were borrowed and were forced to stand aside because of their experiences with credit cards, they have continued to be frequently used.

It was felt by everybody that those loans were too easy to obtain, and this was heavily promoted by banks and financial institutions. Many participants argued that during this stage of their lives have been the center of a large advertising and marketing business and most of the messages received from the media, banks, credit-card companies and organizations have promoted more loans and loan expense money rather than saving them.

Conclusions

Following four reasons why saving money will make you feel better:

- You can wait without fear of something unexpected. All we deal with emergencies - from job loss to loss of roof. With an emergency fund, it will bring peace with itself. Having a contingency reserve to cover unexpected expenses, it can relieve pain and can make you feel capable and control of the situation.
- You can be ready when you meet an opportunity. Your savings can give you a sense of freedom and independence - that is, you can change jobs, you can move to another house, you can start a business, you can invest. The fact that you can choose, this can give you a sense of abundance and well being.
- You can achieve your dreams. One of the best reasons to save the experience exciting and giving confidence to establish your financial goals and meet them. When you reach a goal, how do you prove you are really capable and competent? Devi is also a model for your children that you seek to ensure that life is good and dreams can become reality.
- You can give back with joy. Financial cushion that offers a savings and can help you feel confident can give back and make a difference in the lives of others. A gift in ways that have meaning for you gives you another source of good feelings that enrich your life.

Yes, we can save to buy things we want when we want, but we can also save because it leads to a richer life, fulfillment and satisfaction is full.

References

[1] Keynes, J.M., (1970) – "*The General Theory of use of labor, interest and money*," "Scientific Publishing,

[2] Sachs, L., Sachs, J.D., (1999) - *"Macroeconomics in the Global Economy "*- Ed Harvester Wheatsheaf.

[3] Schmidt-Hebbel. K. and Serven, L., (1999) - *"The Economics of Saving and Growth"*, Cambridge University Press, forthcoming.

[4] *** - "Political Economy", ASE Publishing House, Bucharest, 2000

The Saving Process in Keynesian and Post-Keynesian Theory

Nițu Oana
"Ovidius" University Constanta, Faculty of Economic Sciences
oana.oprisan@yahoo.com
Nițu Claudiu Valentin
„Dimitrie Cantemir" Chiristian University of Bucuresti
valynitu@gmail.com
Nicodim Liliana
"Ovidius" University Constanta, Faculty of Economic Sciences
nicodimlili@yahoo.com

Abstract

Keynes is principal actor of the what revolution personates it, but not the only one; the same inclination we can meet to the his disciples, The members of the group which has never borne the burden of clasicism- neo or postkeynesists. Below the aspect of economic growth, in „General Theory" exists the embryo of the theory of the economic dynamics. The demonstration of the great economist sugested that, as much as save up exists and investments flatly, economic system cannot be stationary. As a matter of fact, Keynes offered instrumentary(înclinations toward economy and consumption, function of investments etc.) who was used with trade by his companions from the frame school of Cambridge.

Key words: saving, Keynes, Post Keynesian theory, Keynesian theory, life cycle and permanent income
J.E.L. classification: E12, E32, E6220

At the begining of XXth century, on the background of a seryous economic and socialy distorsions, wherewith the national economy confronted and which have culminat with the economic crisis from 1929-1933, the researches orientated toward new teoretical concepts necesarily for the analysis of the dinamic macroeconomic process. First and most significant the reaction of accommodation of the economic science to these requirements realities belongs to the English economist J. M. Keynes.

The basic work of Keynes „General theory of using work hand, interest and money" is remarkable in forerank through the diversity of his containing: polemic against the dominant theory (the clasics one), real analyse, monetary analyse, the market of the labor, the interdependence markets, the dezequilibrium, the speculation, the incertitude, the conventions, the economic policy, the monetary and socialy reform.

The main thesis of „General Theory" is in chapter number III, as part as of a which model he dont envisages than functions of the bid and globaly demanding of goods. In a certain measure, Keynes reeditated the success of neoclasics. These rearward had shown that the price of a good depends not only of the production cost(the bid), but also of the good utility. In the same way, Keynes showed that the level of the national production depends, besides the conditions of the bid, of the demanding state. He defines an ascending function of the global bid, which gives, for any level of deal the capacity of work, the minimum level of incomes sufficient wherethrough întreprinzãtorii to offer this levels of deal the capacity of work, as well as a function of global demanding, also ascending, which „correlates the diversity of global volumes of business of the capacity of work with the receipts (incomes) which enterprisings expect to obtain". On a specific market, the function of the bid transposes the cost (inclusively a normal remuneration of capital), and the demanding function - the receipts.

The enterprisings are stimulated to increase the capacity of work in a tie among the bid and the aggregate demand, level which corresponds to the concept of effective demand of Keynes („prompt effectively":who cause the business of the capacity of work).

The keynesian scheme becomes more complicated when the aggregate demand is haggard in constitutive endogens (depending on national income, as the consume) and exogene (apart from national income, as investment).

According to Keynes reasoning, the favourising of the bid does not use to nothing incites how much time the application demanding remains constantly. He goes even farther, adding that a diminution of the global price of the labor has more chances to reduce the level of activity than to increase. Is not difficult to Keynes to show that because the competition between enterprisings, these shall be stimulated to deflate. Incite how much time the diminution of the prices commensurable to one salaries, the real salary is decreased alike as and prompt what comes from wage earner. Otherwise, the diminition of prices is analysed as a transfer of power of purchase in the advantage of the fund holders. Or, the inclination toward consume of a individual is as much elder with how much the income is reduced. Diminish the salaries affects in main the category wage earner with relative little income, so it has therefore right the effect of the diminution of the inclination to consume the community on the whole its, what tends to reduce globally product. Compensating the diminution of consum, it should that the investement breed, what is little verisimilar in a conjuncture of recession.

The conclusion changes if we situate in a very open economy, which may be analyzed as part of market mondiale as a specific specific industry as part as national market. At that conditions, diminish the national salaries can find a certain efficacity. If only that this condition is not accomplished, is waited in vain the realization business depline the capacity of work by reason of diminution of prices. The level of the capacity of work is not fixed on real level of demanding, he depends therefore, in substance, of the anticipated aggregate demand.

Thus we can say that the model elaborated of Keynes is represented of next ecuations:

- the income ecuation: Y = C + I
- the save up ecuation: S = Y – C
- the equilibrium ecuation: S = I

where: Y = income
C = consume
S = saving
I = investment

The genius of Keynes consisted in the invention of a new area of the economic politicy, theory of global capacity of work, concomitantly with the instruments of proper analysis. Today, Keynes' role is not only to clarify the future. No the impugnment of keynesian conclusion, nor the aparition of competitor theories had drove for the time being to an applied macroeconomy radically new. The structure of main macroeconomics models which underline the decisions of economic politicy remains fundamentally keynesian.

<u>Loop of life - postkeynesian theory</u>

As opposed to economic keynesian theory, what they consider function of consum in the likeness : C = c x VD, 0<c<1,where individual consume of a certain periods is binded just of the available income of that period, wherewith is direct proportional, loop of life of Modigliani starts from the hypothesis that the people plan their consume and economies on long term, from the desire of delivering better the sources for the satisfactionof needs, on the whole duration fit lifes.

According the theory of the loop of life, economies are the result, in main, of the desire of every person to assure the consumul to the oldage.

Function of consume has forms:

$$C = aWR + cYL$$

where:
a = marginal inclination to consume
WR = real property
c = marginal inclination to consume (in report of modification of income from work)
YL = income from work

To presuppose that a person thinks that would live NL years, to obtain an income from an activity, WL years, and to retire a number of coequal years the difference NL - WL.

Loop of life proposes to give the answer to two questions: which are the total possibilities of consumption of the person during his whole life? How shall deliver these individual possibilities, on all the rest of life?

Related to the possibilities of consumption, the income from labor (making abstraction of the incomes that could proceed from properties etc) would be equal with the annual income from the active life period multiplied with worked number of years .The total consume of a person cannot exceed this total income than in certain situations, of which we do abstraction, this being the superior limit of total consume. Fit the theory of the loop of life, consume is binded not only of current income, but especially of the total one, current income equalizing with zero after the individual retire from the field of work.

Related to the distribution of consume on the person's whole duration of life, in loop of life are considered that this he shall choose the alternative of a relative constant consumption on all the duration of life, without big .

Thence, in place to consume very many, in a certain period of life, and very little or not at all in the other period, the person shall prefer to consume about same amount in each period of life.

On this base, adopting the loop of life, the total consume equals the income:

$$C \times NL = YL \times WL$$

which, if is distributed to the number of years of life expect of to a person(NL), is obtained:

$$C = YL \times \frac{WL}{NL}$$

That is planed consume on year, which is proportionate with the income from labor.

The relation WL/NL express the quotient percent from the period of life hoped of to a person represents an active life, spent working. Through the apllication of this coefficient of proportionality to total income obtained from labor(YL), is obtained the equivalent of what shall consume a person, in every year from life. This part is proportionally with the rate among the active period of life and the duration total of life.

According this theory, economies can be calculating with the relation:

$$E = YL - C = YL \times \left(\frac{NL - WL}{NL} \right)$$

This means that the economies realised in active life are equals with a coequal fraction the report among the period of pensioneer life (NL-WL) and the period of total life (NL).

Because, on all the period, the consume remains constantly, to the value C, total consume shall be equal with C x NL. For the active time, the expenditures for consumptions shall be financed from the current income, and for the passive period life(to pension), from economies made in active life. Thus, fit the theory of the loop of life, the consume is planned in such way that to assure an uniform level of this. Through the economies which achieve them during the years of labors, the person follows to create his own savings of which lacks for finance consumes after the active time, to pension. This save up what is made continuously during the years of labors touch the maximum level at the end of active period of life.

Loop of life applied to economy process of save up shows that the persons save up in the period of work. They save up many when their incomes rise (comparing with the whole media of life) and make negative savings(expenditures), when their income is below this media.

If we take into consideration that total income is made from income from work and certain fortune (inheritance, gifts, etc.), then the totals possibilities of consumption shall follow same tendency, of having a relative constant consumption for the rest of the life.

The total consume of a person in the year T from life shall be related with:

$$C(NL - T) = WR + (WL - T) \times YL$$

This means that the size of consume in each period is related with:

$$C = aWR + cYL$$

where a = marginal inclination to consume from property = 1/NL-T

c = marginal inclination to consume from work income $= \frac{WL-T}{NL-T}, WL > T$

The explanation of the comportament in consumption and in save up of the individ, gave by the loop of life, can be sumed up thus:

- the fortune and the income from labor influence the decision of consuming;
- the marginal inclinations toward consumption depend of the person's position in the loop of life. If the person is elder, the marginal inclination toward consumption from fortune is bigger. The marginal inclination toward consumption from the work income depends so of the active number of years of life remained, but also of the number of years of passive life;
- the growth of incomes from work and from fortune shall cause a growth of expenditures for consumptions;
- with how much the active life is longer according with passive one, with as much the consume shall breed, according to growth of total income and reduce the period in which are done negative economies;
- Every year of life T, a coequal fraction 1/(NL-T) from fortune shall be spent, where(NL-T) represents the hope of life of a person in T;
- The current expenditures of consumption depend on of the current fortune and total income.

<u>The theory of permanent income – postkeynesian theory</u>

This says that the people adapt their behaviour of consumptions not depending on current level of income, but of the consume opportunities of long-term. Thus, the persons plan their consume not just on the base of incomes from certain period, but on the base of incomes obtained in longer periods of time. the expenditures for consumptions depend on medium income on long-term. According to that rate, the consume is direct proportionate with permanent income.

Therefore, the function of consume is C = cYP, where c is marginal inclination to consume, and YP is the permanent income (available). Because c is constant, the consumul variates in the same proportion as the and permanent income.

As in the loop of life, the theory of permanent income considers that long term report between consume and income is stable, binding only the current consume of permanent income, in which transformes also the richness. Because permanent income depends on medium income on long-term average, the report among consumption and income is constant.

Related to the mensuration permanent income, is considered that this represents that stable rate of consume which a person could maintain on all duration of life, considering the current level of the richness and of income gained currently and in future. Considering that transiently incomes does not have any influence on consume, results that permanent income depends on current incomes and past ones. This means that permanent income is binded with the income of the past year plus a fraction from current income variation against past year income. (δ)

$$YP = Y_0 + \delta(Y_1 - Y_0), cu 0 < \delta < 1$$

M. Friedman estimates permanent income as the weighted average of incomes realised in many previous periods as well as and in current one.

$$YP = \delta Y_1 + (1-\delta)Y_0$$

Fit the theory of the rational expectations if, in practice, the changes of incomes are, at large, at long-time, for the increasing, therefore the consumer shall appreciate any change as being permanent. In this case, the fraction is established from variation of the current income against the past one shall have a higher value.

Combining the relation C = cYP with the next ones:

$$YP = Y_0 + \delta(Y_1 - Y_0) \text{ and}$$
$$YP = \delta\ Y_1 + (1-\delta)Y_0$$

we can rewrite the consume function as:

$$C = cYP = cY_0 + c\delta(Y_1 - Y_0) \; sau \; C = c\delta Y_1 + c(1-\delta)Y_0$$

From the above relation results that the marginale inclination toward consumption from the current income $(c\delta)$ is smaller than average inclination toward long-term consumption c, because $\delta < 1$.

The marginale inclination toward short-term consumption is diminished than the average inclination toward consumption, because the individs are not sure if a variation of their income shall maintain on long-term not. Short, breed of the income cause a diminution of average inclination toward consumptions, because the individs cannot anticipate if this breed is definitive and if they shall adapt their consumption to the new level of income.

Conclusively, the theory of permanent income specify that:

1. An individual with incomes shall have a lower δ, while one with incomes more stables shall have a higher level of fraction δ.

2. The marginale inclination toward consume of the individuals with oscillatory incomes shall be very small, being equal on short-term with $c\delta$.

References

[1] Adelman, I., (1961) - „*Theories of Economic Growth and Development*", Standford University Press, Standford.

[2] Beaud, M., Dostaler, G., (2001) - *„Gândirea economică de după Keynes",* Eurosong&Book, Bucureşti.

[3] Brăilean, T., (2000) - *„O istorie a doctrinelor economice",* Editura Institutului European, Iaşi.

[4] Van de Klundert, T., (2001)- „Growth Theory in Historical Perspectives", Edward Elgar Publishing, Cheltenham

Multinational Corporations and World Economy

Orac Camelia
Ştefan Monica

Abstract

This paper is trying to illustrate the role of multinational corporations in the global economy and the result of the increase of the FDI share. The impact of multinational corporations in developing economies is based on the principles of economic efficiency and capacity of states to impose stricter regulation of corporations.

Developing countries are forced to reduce restrictions on multinational corporations considering tax policy, labor factor and environment protection.

Key words: multinational corporations, foreign direct investment, international trade, labor factor, profit maximization.
J.E.L. classification: F23

1. General considerations

Multinational corporations are operating at the intersection of production, international trade and foreign investment.

These companies are the heart of debates about economic globalization. They are known as transnational or multinational corporations.

A multinational corporation is a company that controls and organizes the manufacturing process using production capacities located in at least two countries.

U.N.C.T.A.D. estimates the number of multinational corporations at 63000, corporations that have 700000 subsidiaries in third party countries. Multinational corporations and their subsidiaries hold 25% of global output and a number of 86 million employees.

Basically, two thirds of world exports of goods and services are conducted through multinational corporations.

An important part of this international trade is conducted between multinational corporations and their subsidiaries in other countries.

In the U.S., for example, 33% of exports and imports 40% are realized between multinational companies.

In the past 20 years, the role of multinational corporations in the world economy has increased significantly. Foreign direct investment by multinational corporations has increased from 180 billion USD in the 80s, to 1000 billion U.S.D. in 2000.

In 2002, for example, the total stock of FDI was 7100 billion dollars, compared with 802 billion dollars in 1982.

Multinational corporations' business upturn was driven by two factors:

technology related changes: they allow for easy and relatively low cost organization of production operations at a global scale;

changes in national policies regarding the multinational corporations: in many of the developing countries, these policies have become more permissive.

On the background of oil price rising, oil groups dominated the Forbes 500 ranking in 2009 due to the lowering revenue of traditional manufacturing industry and banks.

The number American companies in Forbes 500 was reduced to 140, the lowest level since the start of writing tables, published by Forbes magazine in 1995.

Giant retailer Wal-Mart has remained the world's largest employer, with 2.1 million employees, exceeding the Chinese National Petroleum group, with 1.61 million employees, and other companies like State Grid, U.S. Postal Service and Chinopec.

Despite the additional revenue of 30 billion dollars, Wal-Mart has been demoted to third place of the Fortune 500.

The new rising industrial empire of the world is China, which entered the top ten for the first time with the oil group Sinopec

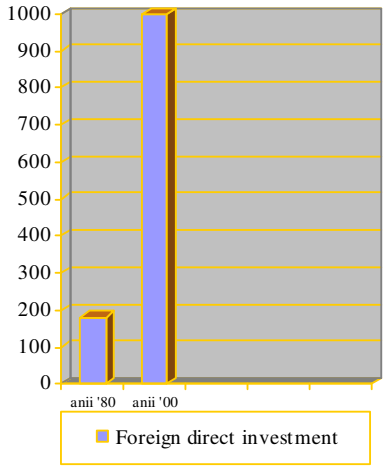
(China Petroleum & Chemical Corp.) ranked ninth, in front of the Toyota group.

In total, China has 37 companies in the Forbes rankings, compared to 68 from Japan. With the entry of nine new companies in 2008, China begins to challenge the positions of France (40 companies) and Germany (39 companies) in the ranking of world economic giants.

Among large American companies affected by the financial crisis it must be mentioned AIG, Freddie Mac and Lehman Brothers. AIG holds the sad record of being the company with the biggest losses in 2008, with a total amount of 99 billion dollars, followed by the companies Fannie Mae, Freddie Mac, General Motors, Citigroup and Merrill Lynch.

Instead, ExxonMobil still has the world record of profitability, with a profit of 45.2 billion U.S. dollars obtained in 2008, followed by Royal Dutch Shell and Gazprom.

Figure 1: The evolution of foreign direct investment of multinational corporations



2. Multinational corporations and the legal system

The activity of multinational corporations can be regarded as an element of economic globalization.

However, their impact on developing economies is not always favorable. As multinational companies are operating on the principles of economic efficiency by means of exploiting scale economies, their production capacities migrate from countries that require more stringent corporate regulations to other states with more permissive legislation in this field. As a result, developing countries are forced to reduce restrictions imposed to multinational corporations regarding tax policy, work factor and environment protection.

These processes outlined above lead to the manifestation of a contradiction between the desire of multinational corporations to maximize profits and the laws from the countries where these corporations operate. The contradiction itself aims at corporations and justice from the national states.

The U.N. defines justice as "the process of enlarging people's choices about their access to basic resources, education and the opportunity to live a healthy life.

However, some believe that the multinational corporations are locating their production capacity only in those countries where the work factor rights are not guaranteed. This leads to an erosion of national policy in favor of concepts imposed by the international corporations. As a result, the developing countries may lose their ability to protect the internal life of society.

At present, the elements that determinate the location of a multinational corporation in one state, are the following:
expanding markets;
the proximity to areas of consumption;
the tracking and monitoring of competition;
cost reduction.

3. The elements that determine the evolution of multinational corporations in the race towards zero limit

The race towards the zero limit is the gradual migration of capital and technology from countries with relatively high levels of wages, taxes and other regulations to other states with a more favorable legislation to international corporations.

For many developing countries, the multinational corporations represent the less "evil" that you can choose. If we only analyze the effects of multinational corporations in terms of job creation, infrastructure development or the stimulation of demand increase, it is clear that developing countries seek by every means to attract the location of these corporations on their territory. In fact, this analysis of the effects of multinational corporations is

extremely superficial.

However, economic reality creates favorable factors leading to an increased stroke towards zero limit. These factors are:

mobility: multinational corporations are free to migrate across national boundaries. This is possible only in those states where the national border control is minimal.

This process started along with the industrial age development after World War II, in the same time with the G.A.T.T. initiatives to promote world trade. The effects of this process were: reduction of trade tariffs, reduction of capital control, initially in the developed countries and then in the developing ones, and the introduction of regulations on intellectual property rights protection.

taxes and wages dropping in third countries in order to attract the location of production capacity of international corporations;

decreasing input prices and the easing of restrictions on multinational corporations.

On the other hand, there have been appeared opportunities favorable for locating production capacity for international corporations. These conditions concern:

homogeneity of goods: companies that are manufacturing the same type of product, have in general the same internal structure of costs and they are forced to compete among themselves based on marginal costs and relative advantages.

Multinational corporations such as Nike and Sony are seeking to compete on international markets only with homogenous products, while in their country of origin their output is extremely heterogeneous, due to their oligopolistic positions;

differences regarding the cost regulations: the multinational corporations aim at locating their manufacturing capacity in countries with the lowest costs. These costs also take into account the regulations regarding the environmental protection;

trading and investment costs: the changes that occur in the average costs are not felt immediately in the price level, wage growth does not immediately affect multinational corporations and the supply is not perfectly adapted to the changing of relative prices.

It is considered that companies are changing their location at the same speed with which the relative costs are changing, because of the desire to obtain a financial advantage. However, changing the location of a company involves high costs.

If the manufacturing operations are implemented with expensive costs and it involves intensive use of capital, the change of the location of a company is even more difficult.

At present, the evolution of multinational corporations is strongly influenced by intergovernmental, regional and global agreements.

International organizations have always been guided in their work from a certain world power: G.A.T.T. and F.M.I., by the U.S., U.E. Germany and France, O.P.E.C. and Saudi Arabia. These countries have imposed certain conditions on the international level, favorable to their own national firms.

In addition, they have campaigned for the establishment of international agreements (Multi-fiber Agreement, for example), agreements favorable for the U.S. and U.E., in their struggle to compete with similar companies in Asia.

International agreements have been concluded between the U.S., UK and Japan in connection with the banking and the lending systems and its implication in the investment process in third countries. All these agreements aim to respect the interests of the big world economic powers.

Another interesting phenomenon is that of moving the current "cascade" of multinational corporations from the country of origin to another country which has advantages of cost, then in another country with greater cost benefits and so on.

However, the overall policy is the result of combining national policies with the influence of pressure groups. Multi-fiber Agreement was imposed as a result of the influences of American textile companies and unions in the industry.

The environmental regulations are the result of the actions of activist groups, such as Greenpeace and the Environmental Protection Fund.

International regulations regarding the employment factor and human rights are linked to the activists' organizations in the

field.

On the other hand, the multinational corporations are influencing global regulations for the purposes of imposing some higher international standards. These corporations are able to self-taxation of certain regulations in an effort to prevent some other tighter restrictions imposed by the governments of the states where they activate.

4. Multinational corporations, national states and Justice

The multinational corporations are not seen as emissaries of justice, especially in situations where justice has to face their financial interests. In addition, the multinational corporations seek quick gains, in a short period of time and not gradual.

Some experts say that, in practice, multinational corporations are exploiting their host states and their populations by:

capitalization of all revenue derived from a particular location;

migration to another state that provides superior advantages;

exclusive pursuit of their own interests.

Although they are interested in attracting multinational corporations' production capacity in their territory, countries can use several means to fight against the negative effects of corporate activity. This can be achieved by:

the closing of national borders: the action is quite hard to maintain for a long period of time;

the harmonization of national policies in relation to the multinational corporations;

offering support to active civic groups campaigning for better conditions of life and environmental protection;

ensuring an effective public-private partnership in connection with the establishment of high standards to be met by international corporations. These standards should regard the social, the economic and the environmental factors.

As a consequence of these measures, the international corporations will be forced to reconsider their standards of activity in order to improve them.

An interesting example is the Shell Corporation, which has become an active participant in a number of programs to improve environmental and social conditions as a result of many actions undertaken against its interests in Nigeria and the North Sea.

5. Conclusions

At a global level, we are witnessing a new race to reduce the restrictions imposed by developing countries to the multinational corporations, hoping that they will gain benefit for their citizens from corporations that are locating their production capacities inside their national territory. This race is actually the materialization of the zero limit race, that is a drastic reduction of restrictions in order to attract the multinationals to developing countries.

Basically, the multinational corporations will never be global justice promoters, but they may be forced to change their operating standards in order to ensure world integration and global progress.

6. References

[1] Caves R.E., *Multinational Enterprise and Economic Analysis,* Cambridge University Press, Cambridge, 1996, p.1

[2] Dunning J.N., *Re-evaluating the Benefits of Foreign Direct Investment,* International Thomson Business Press, London, p.77.

[3] Falk R., *State of Siege: Will Globalization Win Out?,* International Affairs, 73, no.1, January 1997, p.125.

[4] Grimwade N., *International Trade: New Patterns of Trade, Production and Investment,* Rouledge, London, 2000, p. 134.

[5] Robinson H., *Who Pays for Industrial Pollution Abatement?,* Review of Economics and Statistics 67, no.4, 1985, pp. 702-706.

[6] Spiro P. J., *New Global Communities: Nongovernmental Organizations in International Decision-Making Institutions,* Washington Quarterly, 18, no.1, 1995, pp. 45-56.

[7] U.N.C.T.A.D., *World Investment Report,* Geneva, 2003.

[8] United Nations Organization, *Human Development Report,* Washington, 1990.

The Trade Integration from the Developing Countries Perspective

Orac Camelia
Ştefan Monica

Abstract

This paper aims to examine the implementation of economic policies and reviewing the progress of economic integration. The last wave of globalization started in the '80s in order to promote economic equity and managed to contribute to poverty reduction. As a result, the economic costs associated with employment protection, culture and environment incurred by developing countries have diminished.

The essential element in reducing poverty is the development of international trade. States that oppose globalization have become the most poorly developed. It is assumed that increased globalization leads to increased income of the poor in developing countries.

Key words: global economy, global economic development, international trade, investment flows, annual growth rates.
J.E.L. classification: F23

1. Fundamental concepts

The active participation in the global economy and the implementation of market-oriented economic policies represent a relatively recent evidence for the majority of developing countries.

The analysis of economic integration process can be performed considering at least two significant steps:
up to mid '80s
after the second half of '80s.

In the first analyzed step, most of the developing countries have only implemented economic strategies meant to develop their national industries in order to substitute the imports.

A first result of the implementation of these strategies was to regain control over the development of manufacturing industries through effective measures that were meant to:

- provide subsidies on loans for development of national industry;
- the introduction of trade barriers and other protectionist measures;
- develop of the public sector.

Meanwhile, as a result of consistent application of these measures, the developing countries managed to transform themselves from agricultural societies into industrial societies.

On the other hand, the government intervention in the developing countries determined to limit the participation to the global economy. This limitation has concerned both exports and imports in developing countries.

The limiting of the quantity and value of imports was necessary in order to protect the competition of domestic goods produced in developed countries.

In addition, the stimulation of domestic production was achieved without the implementation of similar measures needed to boost exports.

As a result, the developing countries have not considered a priority the participation to the G.A.T.T. negotiations and have not agreed to the tariff reduction measures, as required by developed countries.

From the second half of the '80s, the economic policy in developing countries has changed radically.

The items that have contributed to this change of attitude were:

- internal problems related to import substitution;
- increasing foreign debt;
- deteriorating international economic climate.

The cumulative effect of these processes has been one of guidance the developing states to the IMF and World Bank in order to obtain financial assistance. In exchange for this financial assistance, developing countries were forced to resort to structural adjustment. As a result, the state role in economy has reduced in favor to market mechanisms.

Since the IMF and World Bank experts have found that the 30 years of import substitution policy caused the development of inefficient economic structures in developing countries, they have encouraged these countries to facilitate access to investments of multinational corporations, to reduce trade barriers, to privatize state companies and to stabilize the macroeconomic environment.

After the signing of the "Washington Consensus", the developing countries have begun to implement reforms related to market economy, the only one able to efficiently allocate resources.

At a certain time, the developing countries were even forced by the IMF and World Bank to implement economic reforms, in order to receive financial assistance.

As a result, some countries in East Asia, South Korea, Singapore, Taiwan and Hong Kong have introduced economic measures able to create conditions of market economy development, rapid industrialization and exports stimulation.

Similar strategies have been implemented by countries in Latin America and Sub-Saharan Africa.

The collapse of communism in 1989 was the impetus for widespread economic reforms in all developing countries.

Basically, in just 10 years, the developing countries have changed their economic orientation and joined the increasingly global economy.

In the late '90s, analysts have made the first studies on the impact of reforms in developing countries.

2. The Economic Integration and Prosperity

Some specialists consider that globalization emphasizes the differences between the rich and poor countries.

It is believed that "globalization has dramatically increased inequality between and within nations." Furthermore, it was accredited the idea that, initially, the positive effects of international trade and investment benefit only the rich countries.

Other experts say that the last wave of globalization that started in the '80s promoted economic equity and contributed to poverty reduction. As a result, the economic costs associated with employment protection, culture and environment incurred by developing countries diminished.

In addition, more often it is stated that an essential element in reducing poverty is the development of international trade.

The evolution of international trade-poverty connection can be analyzed based on three elements:

The "historic" trend of widening inequality over 200 years: it is considered that the maximum level of inequality was reached in 1975. After this year, the development disparities have stabilized and even started to moderate. This positive trend was largely due to the accelerated growth of two large economic powers from Asia: China and India;

Accelerating the economic growth in developing countries: as an effect of participation in international trade and investment flows.

Depending on their attitude towards globalization, the developing countries are divided into two categories: the adherents of the globalization and anti-globalization.

The former have accelerated their participation in international trade and investment flows in the last 20 years. As a result, they have achieved annual growth rates higher than those in developed countries.

The states that oppose globalization have become the least developed countries. Annual growth rates have increased from 1% in the '60s to 5% today in the developing countries partisan of globalization, compared to 2% in developed countries and 1% in the anti-globalization developing countries;

Mitigation of inequalities: inequalities have diminished in states such as China and the Philippines. Still it cannot be found exactly a direct connection between globalization, international trade, investment flows, tariff level or by state control and the mitigation of such inequities. Inequalities arise more from differences over education, taxes and social policy.

However, it is assumed that increased globalization leads to increased income of the poor population in developing countries. The most convincing example in this regard is China; the country that has achieved the most dramatic poverty reduction in world history, as a result of opening its economy to

international trade and foreign investment flows.

Currently, we are witnessing a reverse process that consists in the occurrence of barriers imposed to developing countries in order not to obtain the benefits associated with globalization. These obstacles are:

- increased protectionist measures adopted by developed countries to limit their integration with the poor countries;
- difficulties of the developing countries in seeking those specific macroeconomic policies able to ensure prosperity in the context of globalization rise;
- increased internal and international migration of labor and population factor, which can create serious imbalances in developing countries.

For these reasons, it is necessary to realize a detailed analysis of poverty worldwide. The information on this phenomenon is collected from 137 countries. This information is related both aspects directly linked to economic issues and information on social assistance, health, education and culture.

This is because proponents of globalization call for classic examples (like China, Vietnam, Philippines, Malaysia), in which globalization and openness of the economy have led to significant growth.

There must not be omitted the fact that a part of revenue growth, as an effect of opening the national economies has as destination the culture, art and education reforms. In addition, a particular importance for poverty eradication has the distribution and redistribution of income policies in each state in development.

3. Globalization from the perspective of developing countries

The global economic development is closely linked to the global market size and the functioning of its mechanisms.

In this respect, A. Smith argued that a larger market would allow a better division of labor that would lead to innovation and progress through science.

The essential elements that have contributed to the increased economic globalization are:

- increasing flows of goods, capital and knowledge: these flows have initially contributed to achieving an increase in international trade that exceeds that of the global economy. Thus, if international trade in 1820 had 2% of global revenues in 1914, its share had become 18% of the same global revenues.

Between the great economic crisis of the '30s and the Second World War, globalization has taken a step back because of protectionist measures adopted by world countries. As a result, in 1950, the share of international trade in the world income was less than in 1914.

The expansion of the international trade resumed between 1960 and 1980, mainly as a result of the liberalization under G.A.T.T., but the trade was conducted mainly between developed countries. Many developing countries have remained insulated from this phenomenon, due to protectionist policies that were promoted in that period. The only exceptions were Taiwan and South Korea.

The capital flows have also increased during the first wave of globalization, but fell in the period 1930-1945 and have not reached the level from 1914 than in 1980.

- the development of transport and communications: in the covered period from 1920 to date, the cost of shipping has declined by two thirds, by 84% of air transport and a three-minute telephone call from New York to London by 99%;
- the population migration: during 1870-1910, approximately 10% of world population moved permanently from one country to another. In the past 25 years, only 1-2% of world population has had this behavior;
- increase productivity: determined the global economy to produce the entire output from the nineteenth century in just 2-3 days nowadays. And we should consider that in the nineteenth century produced no airplanes, automobiles, televisions, synthetic fibers, etc.

The positive effects of this process are felt primarily by the world's poor population. The number of extremely poor people who live on less than a dollar a day fell by 200 million since 1980 to present. This success is due to

the accelerated economic development of India and China, which together hold 60% of the world's extremely poor population.

The evolution of global inequality coincides with that of the economic strategies of several large developing countries.

After World War II, most of the developing regions have implemented strategies focused on internal development and on discouraging integration into the global economy.

These strategies were not effective and therefore, in the '60s and '70s, the developing countries have achieved economic growth rates lower than those of developed countries. Oil price shocks and inflation that hit U.S. economy in the '70s have generated great difficulties in developing countries, which have resulted in negative growth rates, rampant inflation and financial crises.

Since the '80s, some developing countries have changed their development strategies. China, for example, had an extremely closed economy until the mid '70s. The first Chinese government reforms aimed at agriculture and, from the '80s, openness to international trade and foreign investment, reducing tariffs by two thirds and non-tariff barriers by a greater extent.

These reforms have led to an accelerated growth in coastal regions and to a moderate one in regions within China.

Only in the period of 1978-1994, for example, the annual growth rate in China was 9%, and the growth rates of exports and imports were 14% and 13%.

China's economic reforms were accompanied by other reforms: ownership, land regime, the transition from planned to market economy. Currently, the phrase: "one country two systems" tries to quantify the economic efforts that the Chinese economy struggle to grow, after joining Hong Kong, a region with a highly developed market economy.

India, another Asian giant, has liberalized access to foreign trade and investment since the '90s. As a result, income per capita grew by an average of 4%.

Uganda and Vietnam are examples of very poor countries that have increased participation in international trade and foreign investment flows and that have achieved significant economic growth.

In turn, Mexico has grown tremendously, especially in the northern region, after joining NAFTA.

In order to highlight the effects that the opening of the national economy has upon the economic growth, it is used as indicator the relation between the growth rates of foreign trade and GDP. This report covers statistical data for the last 20 years and allows a classification of national economies.

In this ranking, the first third is occupied by countries that have joined the global economy, while the last part of the ranking comprises two thirds of the states that have not joined the global economy.

In the past 20 years, the developing countries opened to the global economy, have realized increased values of the above ratio by 104%, while developed countries have achieved an average increase of only 71%. This is done while the closed countries have a foreign trade volume smaller than 20 years ago.

Țările în dezvoltare deschise către economia globală au diminuat tarifele lor la import în medie cu 22%, în timp ce țările închise cu numai 11%.

The developing countries open to global economy have reduced their import tariffs on average by 22%, while closed countries have done that with only 11%.

Table 1. Average annual growth (%)

	'70s	'80s	'90s	'00s
Opened developing countries	3	4	5	5
Developed countries	2	2	2	2
Closed developing countries	3	1	1	1

As a general opinion, it is acknowledged that the latest wave of globalization has led to poverty reduction and to maintain certain equity. However, anti-globalization movement is growing continuously, based on a fund analysis meant to reveal the shortcomings of globalization. Elements forming the basis of these studies are:

- maintenance of protectionist measures adopted by developed countries: against imports of agricultural and labor-intensive factor. However, 70% of tariff barriers facing exports of the developing countries are required also by developing countries;
- the need for institutional reforms: this ones, along with the liberalization of international trade can contribute to a better economic integration. Many of the countries that oppose globalization, such as Myanmar, Nigeria, Ukraine, Pakistan, offers a climate hostile to foreign investment. Even if these countries liberalize their trade, it will not occur anytime soon positive effects as long as other reforms are not implemented. Furthermore, neither economically developed countries do not always advocate for globalization;
- acceptance of neo-protectionist measures, even in the W.T.O.: rules on intellectual property, on work and environmental factors are meant to encourage more development of the trade among developing countries than between them and developed countries.

In addition, regulations adopted by the W.T.O. meetings in Seattle and Doha – concerning the access to medical patents, the use of anti-dumping measures against developing countries and subsidies to agriculture - though they spurred the economic integration, they have created new barriers to integration of poor countries into the global economy;

- difficulties due to geographic reasons: places like China (coastal areas), southern India, northern Mexico and Vietnam have managed to achieve remarkable progress in economic development because they are located close to important markets and trade routes. Not the same can be said about Mali, Chad and other African countries for which their geographical position, far from major markets and trade routes, determines increases in transport costs, problems with health care or old-fashioned agriculture. For this last category of countries, trade liberalization is less important than developing a network of health care, infrastructure or stop migration of population;
- migration of the population: if the migration is realized from disadvantageous geographical locations to other locations, it can help reduce poverty in the first regions. This all the more as the nearly 100 million people are added annually to world population, 98 million being from the developing countries.

On the other hand, countries like Japan and those in the northern Europe are facing problems like aging population and employment problems in coverage. The work factor from the poor countries can balance the labor factor in those countries. In turn, migrant workers from poor countries can raise their standard of living and of those left behind. That's because fewer workers in poor countries will increase wages in these countries to be employed. In addition, large sums of money migrants send to their countries of origin and may influence investment flows from countries which have adopted. In the U.S., for example, 10% of the labor factor is composed of Mexicans, who are able to influence the U.S. labor market India receives six times more money from its citizens working abroad than from foreign aid.

4. Conclusions

There are also people who believe that inward migration has only negative effects. Supporters state that immigrants from poor countries affects culture and social organization of the states where they migrate, reduce wages and increase unemployment in these countries. In addition, they are contributing to the explosion of illegal labor.

As a result, neither a developed country does not accept free migration of labor, although many of them have revised their policy on migration. This review aims to attract more skilled workers from developing countries, a phenomenon known as brain drain.

5. References

[1] Burnete Sorin, *Comerț Internațional. Teorii .Modele. Politici,* Editura Economica, 1999, p. 208.

[2] Dollar D., Collier P., *Globalization, Growth and Poverty: Building an Inclusive World Economy,* Oxford University Press, Oxford, 2001.

[3] Dollar D., Kraay A., *Labor's New Internationalism,* Oxford University Press, Oxford , January/February, 2000.

[4] Rodrick D., *Foreign Policy,* March/ April 2001, pp.55-62.

[5] Samulelson Alain, *Relations Commerciales Internationales,* ed. II-nd, Paris, 1997, p.56.

[6] Stoian I., Dragne E., *Comerț internațional. Tehnici şi proceduri,* vol. I, Editura Caraiman, 1997, p.499.

Human Resources and the Risk Management

Panczel Zoltan Tibor
"Mihai Eminescu" University of Timisoara
panczel.zoltan@hucons-tm.ro

Abstract

That paper wish to show how important is to manage efficiently human resources in the period of crisis

HR professionals assume a central role in crisis management activities.

HR professionals, by assuming a leadership role in crisis management, can help their organizations prepare for it--whatever it brings.

Including human resources in risk management reflects the fact that people are fundamental to accomplishing farm goals. Human resources affect most production, financial, and marketing decisions.

People and risk are as integral to farming as are weather, prices and technology. Human resources must have careful attention if managers are to have a full understanding of their sources of risks and their alternatives for handling risk.

Key words: crisis, human resources, risk
J.E.L. classification: M12

1. The importance of crisis management

Never before has crisis management been more important. As recent events have shown, the business community, as well as communities at large, is vulnerable to disruptions that can be extremely costly. There are a lot of examples of recent crises that resulted in lost lives, displaced families and communities, shutdown businesses and damaged economy

Other serious events, such as financial failure from poor business management, workplace violence, fires, cybercrime, computer viruses, product tampering or union strikes, can also lead to substantial damage and loss.

In an emergency, the case for crisis management and business continuity comes into focus: protection of every aspect of the organization-- including people, intellectual property (e.g., company records) and physical facilities.

2. Human resources and the crisis management

Since one of the primary objectives is to protect an organization's human capital, HR professionals assume a central role in crisis management activities. HR has the responsibility to develop a viable crisis management framework, including an emergency communications infrastructure, a directory of crisis resources, safety and security training programs, and leadership succession plans. No one can accurately predict the future. But HR professionals, by assuming a leadership role in crisis management, can help their organizations prepare for it--whatever it brings. [2]

3. The role of human resources in risk management

Human resources have two roles in risk management. First, people are a source of risk, e.g., shortage of employees, people doing sloppy work, an employee refusing to take on additional responsibility, or a key employee leaving two months after completion of a one-year training program. Second, people are important in handling risk, e.g., people using their ingenuity to solve unexpected problems, employees going the extra mile for the good of the organization, a key employee redesigning her own job to avoid unnecessary delays in getting work done, or an employee persuading a talented friend to apply for a position in the business. Human resources include more than regular full-time

employees. They include all management and labor personnel, family and non-family members, full-time and part-time people, and seasonal and year-round employees. Human resources play important roles in farm businesses of all sizes.

Orientation and training matter counts as much for one employee as for 20 employees. A business with just two people can have serious conflicts that jeopardize the business' continuity and success. No team of people is so small as to avoid the need for leadership or so large as to make leadership impossible.

Risk specialists have traditionally focused mostly on important causes of risk such as weather, disease and natural calamities, and ways to deal with the risk. Risk management has paid little attention to human resources and human resource calamities such as divorce, chronic illness, accidental death, or the impact of interpersonal relations on businesses and families. Including human resources in risk management reflects the fact that people are fundamental to accomplishing farm goals. Human resources affect most production, financial, and marketing decisions. People can help or get in the way of accomplishing what managers have planned.

Smaller family businesses do not escape the impact of people. In these businesses, as in larger businesses, people are a source of risk and are important to the business' ultimate success or failure. Overdependence on family members for management and labor negatively affects family business effectiveness and efficiency. A family may have highly talented people in one management or labor area but fall short in another area. Confronting human resource risk may take the family business outside its usual boundaries to fill critical labor and management gaps. [1]

Like risk, human resources are pervasive in the business. Human resource management is most effective when integrated with decision making throughout the business. [3]

This leads to recognition that each production, financial, and marketing decision has a human component or influence. Which choice is made, how the decision is carried out, the follow-up and monitoring depend on people. Isolating management team and employee issues from production, financial, and marketing management frustrates people and creates unnecessary risk in a business enterprise. To understand fully how human resource management and risk management are interrelated, one must understand human resource management. It is the staffing, training, development, motivation, and maintenance of employees to help accomplish organizational goals. Effective human resource management also helps employees accomplish their career goals.

Human resource management is a process that can be broken down into specific activities: **job analysis, writing job descriptions, hiring, orientation, training, employer/employee interactions, performance appraisal, compensation, and discipline.** Understanding these activities helps explain the relationship between human resources and risk. Failure to successfully carry out these activities increases risk and penalizes the business by not taking advantage of what its people could be contributing.

The first activity is **job analysis** and **writing job descriptions.** Job analysis is determining the duties and skill requirements of a job and the kind of person to fill it. The emphasis is on what the farm needs rather than on who wants to be promoted or who could be easily hired.

The tasks that must be carried out to accomplish the firm's goals determine duty and skill requirements.

Job descriptions summarize for both employees and employers just what a job entails: job title, duties, compensation, and skills, knowledge, and abilities to do the job. In family farm businesses, job descriptions for family members often include both management and labor responsibilities. Such a combination of responsibilities makes job analysis and job descriptions more not less important in small businesses.

Hiring is the next human resource management activity. The objective of hiring is to staff each job with a person who can succeed in the position. In today's exceptionally tight labor market, hiring is one of the most difficult human resource activities. The position must be described carefully and creatively to potential applicants. From among the pool of applicants, people must be carefully chosen if they and the employer are to have a successful relationship.

The next activity after hiring is **orientation** and **training.** Orientation socializes new people to the business. It introduces them to the business' mission, its history, and its culture. It gives them the information essential for getting off to a good start. Training and experience give the employees the knowledge, skills, and abilities necessary to succeed in the position. Day-to-day **employer/employee interaction** includes leadership, motivation, and communication that build on hiring, orientation, and training..

The last three activities are closely related: **performance appraisal, compensation**, and **discipline.** Performance appraisal is the continuous assessment, in cooperation with the employee, of how she or he is doing relative to the standards and expectations laid out in the job description and follow-up training. Performance appraisal also includes identifying with the employee whatever corrective action may be necessary and steps by which the employee can advance his or her career.

Compensation includes the monetary and non-monetary rewards received by employees. The management team and employees carefully choose these rewards. The rewards need to be feasible for the organization while helping satisfy employee needs

Discipline is giving each employee expectations, rules, policies, and procedures and then working with the employee to get behavior consistent with employer expectations. Human resource activities lead to four important implications for risk management.

First, these activities are necessary to keep human resources in harmony with the risk management tools adopted by the management team. Risk management decisions are carried out by people. Having the "right" people in place, trained, motivated, and rewarded is essential to success in risk management.

Second, human resource calamities, e.g., divorce, chronic illness, or accidental death, can hamper carefully made and appropriate risk management decisions.

Risk management should anticipate the likelihood of human resource calamities. Human resource contingency planning needs to be an integral part of risk management.

Third, no management team stays together indefinitely. Every farm will eventually have different managers or be out of business. Management succession is a significant source of risk. Human resource considerations, plus legal and financial considerations, directly affect success in management succession and thus risk management.

Management succession requires each of the human resource management activities: job analysis, job descriptions, selection, training, interaction, performance appraisal, compensation, and discipline.

Fourth, human resource performance evaluation should be tied to risk management. Risk management strategies are carried out through people. Human resource failures can cause the best planned risk management strategies to fail. Risk management depends on explicit duties being specified in managers' job descriptions, delegation of power and authority to manage risk following indicated guidelines, and responsibility at the action level of risk management.

4. Manager's Skills in risk management

The effective integration of risk management and human resource management requires that managers have certain skills. Most important are: **leadership, communication, training, motivation, conflict management, and evaluation.** Every human resource manager has **leadership** responsibility. No group of people comes close to its potential without effective leadership.[4]

Planning, organizing, staffing, and controlling can substitute to some extent for leadership.

Delegation of authority and responsibility and other tools for empowering employees decreases the need for leadership.

Motivation, trust, and careful development of procedures and policies are also helpful. Still, each ship needs a captain. Some leadership is necessary.

Communication is an essential skill for effective human resource management. In human resource management, sending clear messages, listening, and use of feedback are especially important. Interpersonal relations,

interviewing in the hiring process, building rapport in the management team and with employees, orientation and training, performance interviews, conflict resolution, and discipline, all require communication. Mediocre communication skills tremendously complicate these activities.

Training is helping people learn. Effective training requires teaching skills, an understanding of how adults prefer to learn, patience, communication, a systematic approach, and evaluation of whether the training has been effective.

Motivation of employees challenges every manager. Employee motivation helps the organization accomplish its goals while also helping workers accomplish their career goals. No motivation recipe guarantees employee motivation. Nevertheless, some managers are more effective than others in developing a work environment in which employees are consistently motivated. These managers use a combination of understanding and satisfying employee needs, compensating fairly, making it possible for employees to do their jobs with minimum frustration, and treating employees equitably.

The skill to motivate employees is nebulous yet real. The employers who are best at it have usually worked long and hard to develop the skill. Attributing the ability to motivate people to nothing more than a natural gift understates how hard the best human resource managers work to develop this skill.

Conflict is inevitable in farm teams: among employees, between employees and the management team, and among the management team. Managers must learn to deal with conflict rather than avoid it. Avoiding the conflict and its causes simply postpones the pain and agony that come from personnel blowups.

Conflict management strategies provide the management team positive steps for addressing the conflict. Effectiveness with the strategies is an essential skill.

Most employees have a fervent desire for **evaluation**, i.e., information about their performance.

Many supervisors find it extremely difficult to share performance evaluations in an honest and helpful manner. Employees dread poorly done evaluations and evaluation interviews.

Supervisors lacking evaluation skills combat their frustrations by postponement, inflated evaluations, and vague communication. Both supervisors and employees need training in evaluation for it to be useful and pleasant for both parties.

5. Conclusions

People and risk are as integral to farming as are weather, prices and technology. Human resources must have careful attention if managers are to have a full understanding of their sources of risks and their alternatives for handling risk.

Like the rest of risk management, blaming others for management shortcomings neither solves problems nor provides escape from the problems.

The good news is that managers can make human resource management one of their strengths.

The result will be better risk management, more effective management, and greater satisfaction from working with people.

6. References

[1] Godard, J (2004). A critical assessment of the high performance work paradigm. British Journal of Industrial Relations , 42:2, 349-378

[2] Guest, D (2002). Human resource management, corporate performance and employee well-being: building the worker into HRM. The Journal of Industrial Relations, 44:3, 335-358.

[3] Marchington, M. and Grugulis, I (2000). "Best practice" human resource management: prefect opportunity or dangerous illusion. International Journal of Human Resource Management, 11:6, 1104-1124

[4] Storey, J (2001). Human resource management today: an assessment in J. Storey Human resource management: a critical text, Thomson, London

The Link between Multinational Companies and Intellectual Capital

Panczel Zoltan Tibor
"Mihai Eminescu" University of Timisoara
panczel.zoltan@hucons-tm.ro

Abstract

Nowadays it seems to be widely accepted that a multinational company has many different environmental, economic or social impacts on a territory.

Moreover, every region has the right to aim to achieve sustainable development. For those reasons, this work proposes a tool based on the territory's intangible assets.

This tool allows the management of the sustainable development of a region where a multinational company has located, paying special attention to the way that this type of company can influence the development of the region.

Key words: multinational companies intellectual capital
J.E.L. classification: M12

1. Introduction

One of the unexpected consequences of the current stage of globalisation is that academics, national

Governments and some supranational organization must think again about the nature and purpose of the development that is taking place in territories and the way in which multinational companies must contribute to that development.

It is clear that the location of a multinational company in a territory causes economic, social or environmental impacts.

The aforementioned impacts can be positive for the region, such as higher employment or the economic improvement of the regional suppliers of multinational companies, and that is why the territories themselves sometimes encourage the location of this kind of company.

However, there may also be negative effects, such as damage to the environment, or even serious problems such as those that occur when a determined region's economic and population growth is fundamentally based on the economic contribution of, and the jobs directly or indirectly created by, a multinational which, with the passing of time, decides to withdraw from the region.

Stiglitz(2002) states that the development of regions must be considered in a more balanced overall way, with higher social inclusion and in a much more participative way than previously.

It is notable that some economists consider that the development of a region has to take into account, on the one hand, issues such as the decreasing of poverty, tyranny, the lack of economic opportunities and public services, government repression and, on the other hand, the promotion of free choice of opportunities, with freedom as the main aim of development.[10]

In spite of that, corporative social responsibility is now becoming a more important issue for companies.

Moreover, companies have noticed that having a good reputation for social responsibility facilitates their access to funds and even improves their financial results. That is how concern for social responsibility has spread among multinational companies, and this is applicable in developed and undeveloped countries alike.

A large number of multinationals have created volunteer environmental programs in order to manage the environmental impacts of their facilities, installations and operations more efficiently.

Moreover, if these kinds of measures are always important, they are even more important when the multinationals are located in undeveloped countries with sensitive environmental and social conditions and non-existent or underdeveloped legal regulation.

Companies should avoid bad practices that could lead to image problems among the population.

In spite of that, there is still some debate among experts about corporate social responsibility. Some of them think that companies, as legal entities, have just two kinds of responsibility: to earn money for their shareholders and to comply with the legal regulations to which they are subject. However, others believe that the stakeholders should also be taken in consideration.

Market deregulation, entrepreneurship, educational improvement, the reliability of communications, less bureaucracy, and policies to increase competitiveness are among the key variables in this kind of decision.

2. Sustainable development

No accurate date can be given to the origin of this concept. However, it was in 1987, when the World Commission on Environment and Development, directed by the Norwegian Prime Minister Gro Harlem Brundtland, published its report.

That report suggests that sustainable development is the way of development that satisfies present needs without compromising future needs.

Moreover, the report stresses that the sustainable development concept is not a fixed status of harmony but, on the contrary, a dynamic process of change in which the exploitation of resources, the destination of investments, the orientation of technological development and institutional changes are oriented to satisfy present and future needs (World Commission on Environment and Development, 1987).

The combination of environment, economy and society guaranteed a wide debate on sustainable development.

However, and in spite of the mentioned problems, Giddings e al. (2002) still use the term "sustainable development" because they believe that this way of observing society-economy-environment related concepts is commonly accepted. [6].

Thus, as Figure1 shows, the usual representation of the sustainable development is made through three circles that represent society, economy and environment in a balanced way. This balance between those three elements does not necessarily have to be like this in all cases.

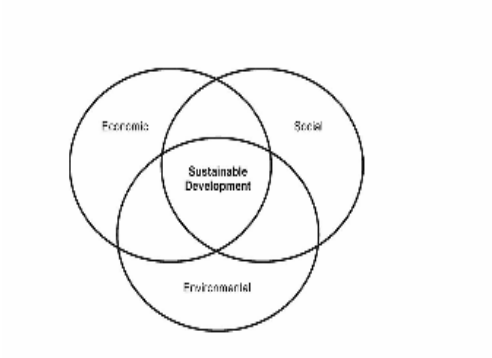


Figure 1. The Three Domains of Sustainable Development

After their review of the different definitions of the term "sustainable development", Gladwin et al. (1995) states that, although the debate about this concept will go on for years, the concept itself is subject to the following five restrictions [7]:

- To have a space-temporal vision.
- To have an understanding of the world's economic, ecological and social problems in an interdependent and interconnected way.
- To have a fair distribution of the resources among the generations, members of the same generation and species.
- To be prudent from the technological, scientific and political points of view. It is necessary to be cautious and modest when pursuing sustainable development since the great complexity and dynamism of the ecological and social systems make reliable predictions difficult.
- To avoid dangerous imbalances, in other words, trying to obtain an objective must not entail harming or impeding others.

However, as the Brundtland report highlights, the limit is not fixed, but related to issues such as the current status of technology or the existing social organisation (WCED, 1987).

3. Intellectual capital of a territory

The theory of intellectual capital, its framework and its measures were initially developed to be used from the company perspective (Bontis, 2002; 2004).[1],[2].

Edvinsson (2002) proposes the following questions: Where (in which part of a country,

region or city) is value being created? Which knowledge is being created in the nation? What do the intellectual and knowledge capital maps of the country look like? What have the main social innovations been in the last few years? and Who will be in charge of the creation of intellectual capital within the territory? In short, we are at a point where the study of intellectual capital is not just important for companies, but also must be undertaken for national and international economies, especially when they are immersed in a rapid transition to knowledge-based societies [5].

Edvinsson (2002) states that, if intangible assets are important for private companies, they are also important for the productivity and competitiveness of public companies.[5]

Thus, Malhotra (2000) states that the leaders of the world's national economies must try to find reliable tools to measure knowledge resources in order to understand how those assets are related to the future actions of their countries.[8]

On that line, Bradley (1997) defines a country's intellectual capital as its capability to transform knowledge and intangible assets into wealth. [3].

In the same way, Malhotra (2000) defines it as those hidden assets that sustain the growth of the country and the added value of the stakeholders that live in it. It is also important to stress that the value of this kind of capital is represented by the potential financial returns that are attributable to the nation's intangible resources. [8]

Therefore, it seems logical to think that, if countries are to grow, they must confront the economy of the intangibles. In this new era, the wealth of nations is increasingly obtained from elements of intangible capital, such as knowledge or global reputation.

Similarly, Edvinsson (2002) maintains that the regions that will be wealthier in the future will be those with knowledge-based activities. [5]

Intellectual capital represents the most important value when facing the competitive challenges that characterise the knowledge society. In fact, only knowledge offer nations the opportunity of creating sustainable wealth.

Education, which is one of the components of a country's intellectual capital, not only offers benefits to its recipients but also has a positive economic impact on society as a whole.

However, although intellectual capital has become a key factor for national economies, traditional accountancy is still dominated by the traditional production factors.

Edvinsson (2002) states that the current obsession with planning, budgeting and accounting based on tangible indicators will only end up impoverishing society and devaluing the wealth of nations mainly because it ignores the contribution of intangible assets. [5]

The above begs the question: Do traditional economic indicators give a complete and accurate measure of a country resources and a correct evaluation of the potential for future growth? Pasher (1999) says not, because to achieve those objectives it is necessary to have tools that allow are liable evaluation of the nation's intangible assets.[9]

Product and in terms of the traditional production factors: work, land and capital.

In spite of the increasingly important role of knowledge-based resources and the performance of countries, many nations base their evaluation of performance on traditional production factors.

Edvinsson (2002) argues that the decreasing importance of the tangible assets in comparison with intangible assets in the development of countries makes it necessary to have an accounting system that includes all the non-financial assets linked to knowledge management, culture and the territory's foreign relations. In other words it is necessary to establish systems that enable accurate measurement of a region's intangible assets of (Malhotra,2000) since that will provide leaders with a tool to facilitate better management of these assets, which, as has been said throughout this chapter, increasingly determine the success of national economies (Bontis, 2002).[5], [8], [1].

As has been already mentioned, the location of a multinational in a territory affects both the territory and the company.

Only if the relationship between the two is properly managed will both parties benefit.

The aim is to manage, in a balanced and integrated way, the development of the territory and the multinational's involvement in that development.

In this paper we will study some of categories that are linked with multinational company's sustainable development considering intellectual capital.

4. Different categories linked with multinational company's development

Economic Category - the economy is one of the fundamental elements for the achievement of sustainable development.

Sustainable development at a company level has been called "eco-efficiency"; a term that can be defined as the process through which the exploitation of resources, destination of investments, technological orientation and corporate changes aim to maximize the added value while minimizing the consumption of resources, waste production and pollution.

Thus, this category includes all the intangible assets that are essential for the development of the economic activity of the territory.

Obviously, those that are linked to the relationship between the multinational company and the region are excluded but, due to their importance to the region,

Environmental Category - the relevance of this category is unquestionable given the importance of the environment to the achievement of sustainable development.

In fact, this category has, on many occasions, attained greater importance when an attempt to achieve sustainable development has been.

Environmental capital includes those intangible resources whose development is determinant for the environment.

This category will include the intangible assets that are related to issues such as water, waste, energy and the environment.

Society category - the dimension called social capital covers all those intangible assets whose development improves the territory's social strength. This category will include the intangibles linked to areas such as health, housing, employment, immigration, culture, sports, women, youth, security, justice, etc.

Therefore, it is a category that must be captured by means of certain intangible assets, the level of equity and social integration in the society of the territory as a whole.

.**Training and Development Category** - The intangible assets that are vital to training and research and development in the territory are included in the training and development category.

As examples of this kind of capital, we can mention education quality, technological independence or the applicability of what is researched.

Thus, improvements within this block of capital will have future direct or indirect positive consequences on the other categories.

The economy of the territories is increasingly dependent on intangible assets, and therefore it is essential to join the knowledge-based economy. However, in order to achieve that, regions must have the raw material, which, in this case, is knowledge. In order to acquire this kind of asset, the region must commit to the training of people and research and development.

Obviously, another way to acquire this kind of asset is to hire qualified people from other regions or to buy patents or production methods.

Public Administration Category - this block of intellectual capital comprises all those intangible assets that are critical to correct management by the territory's public administration, including the relationship with the multinational and its impacts on the region. We must also take into account that sometimes the region even offers public resources (i.e., financial grants, tax incentives, etc.) for the multinational to locate or remain in the region. We must not forget that the public administration must ensure the welfare and development of the territory. Moreover, what this category seeks is to capture, by means of intangible assets, the administration's capacity to adapt to the citizens' needs and their social, environmental and economic expectations of development.

Multinational organisation category - this dimension comprises those intangible assets that mark the relationship between the multinational company and the sustainable development of the territory.

Thus, this category includes the multinational's short and long term commitment to the territory. Thus, the multinational's short, medium and long-term commitment to the territory manifests itself

in this category. Clearly, compliance does not guarantee the achievement of the sustainable development in the territory since the stakeholders are also a conditioning element in this factor. However, if the objectives proposed in this dimension are achieved, it is evident that the multinational has fulfilled its commitments to the territory.

5. Relationships between the different categories

There are relationships between certain assets of the different categories.

We will give some examples of these possible relationships.

Intangible assets from the research and development dimension, such as the impacts caused by production of energy, or the degradation of the aquifers are clearly influenced by the quality of the relevant research and development, which is an asset in the university, science and technology subcategory.

Moreover, if we consider that governments, through their actions, aim to selectively mitigate environmental and social issues and to establish economic policies that are sustainable from an ecological point of view, it is reasonable to think that there is a link between public administration capital and environmental capital.

There is also a two-way relationship between social capital and environmental capital. Factors such as culture or demographic pressure affect the environment or the deterioration of the territory, while in the opposite direction, assets such as water quality or pollution directly affect assets included in social capital, e.g., the health of the population.

Other possible relationships are those between the training and development capital and environmental and social capital. There is no doubt that an academically well-prepared society has a positive impact on the environment and social tolerance.

Finally, there is a relationship between assets of the multinational dimension and the rest of the assets. As an example, we can mention that the environmental impact caused by the multinational can affect the health of the population (social category), or that technological transfer contributes to the strengthening of the company network of the region, making it more competitive (economic category).

6. Conclusions

The importance of intangible assets in organisations has increased in recent years; however, that fact is not exclusive to the companies' environment since it also affects territories, which makes intangible assets essential for the future development of the regions. Thus, regions are interested in achieving sustainable development and understand that concept as the way of development that satisfies present needs without compromising future needs (WCED, 1987).

Moreover, the location of a multinational company in a territory generates a series of positive and negative impacts on the territory.

By means of a selected set of intangible assets, the sustainable development of the territory can be planned and controlled, and the roles to be played by the multinational and the administration can be defined.

Multinational companies will be encouraged not only to contribute to the sustainable development of the territory but also to do so in such a way that the cited activities are agreed by the territory and coordinated with the actions that the territory itself has planned.

The practical implications of this work are mainly for the managers of the public administrations of the territories and for the managers of the multinational companies, who have a clear, user-friendly methodology for managing sustainable development of the territory and the way in which the multinational company contributes to that development.

7. References

[1] Bontis, N. (2002). National intellectual capital index: Intellectual capital development in the Arab Region. Ontario, Canada: Institute for Intellectual Capital Research.

[2] Bontis, N. (2004). National Intellectual Capital Index: A United Nations initiative for the Arab region.Journal of Intellectual Capital, 5(1),

[3] Bradley, K. (1997a). Intellectual capital and the new wealth of nations. Business Strategy Review,

[4] Bueno Campos, E. (1999). El capital intangible como clave estratégica en la competencia actual. Paper presented at the Jornadas Prácticas Sobre la Gestión del Conocimiento en las Organizaciones, Madrid, Spain.
[5] Edvinsson, L., & Stenfelt, C. (2002). Intellectual capital of nations – for future wealth creation. Journal of Human Resource Costing and Accounting, 4(1),
[6] Giddings, B., Hopwood, B., & O'Brien, G. (2002).Environment, economy and society: Fitting the together into sustainable development. *Sustainable Development*
[7] Gladwin, T. N., Kennelly, J. J&Krause, T. S. (1995). Shifting paradigms for sustainable development: Implications for management theory and research. Academy of Management Review, 20(4), 874–907. doi:10.2307/258959
[8] Malhotra, Y. (2000). Knowledge assets in the global economy: Assessment of national intellectual capital. Journal of Global Information Management, 8(3), 5–15.
[9] Pasher, E. (1999). The Intellectual Capital of the State of Israel: A look to the Future – The Hid- den Values of the Desert. Herzlia Pituach, Israel: Kal Press.
[10] Stiglitz, J. (2002). Globalization and its discontents. London, UK: Allen Lane

How to Improve the Performance of the Public Administration in Romania

Panea Ionuț Valentin
The Academy of Economic Studies, Bucharest
ionut_panea@yahoo.com

Abstract

The present article focuses on the role and the importance of the Human Resource Management as a whole in a public organization and also some pieces of advice for the improvement of its performance in the Romanian Public Administration.

Key words: human resources, management, public administration, civil servants, public sector
J.E.L. classification: H0, H50, M53

1. Introduction

Within organizations, people are the key and vital resource, today and tomorrow, ensuring the survival, growth and competitive success. All the organizations have established links between them and all of them constitute the modern society.

Human resources are considered to be the first strategic resources in an organization [1], are unique in terms of their potential for growth and development and their ability to meet and overcome their limits to meet new challenges and demands of present and, why not, for the future.

Because of their peculiarities, human resources are the only inexhaustible resource of creative solutions and new ideas, original and valuable ones, which can lead to the development of organizations and society as a whole, but may equally well destroy it and cause disaster or big problems. Therefore, means for forming organizations concern human resource quality, considering that people are most valuable asset.

2. The importance of human resources

Human resources are one of the most important investments of an organization. There is evidence that investing in people is the surest way to guarantee the survival of an organization or to ensure the development, competitiveness and its future.

Naisbitt and Aburdene states that: "The new information society, human capital has replaced financial capital as a strategic resource." [2] Management of human resources decisions are among the most difficult, because they link the individual factors, organizational and situational influences which are reflected in these decisions. They need to always be taken according to the person referred to in its personality.

Personnel decisions vary from one organization to another, from one subdivision to another, from one country to another, because such decisions must be tailored to their needs and their importance is not the same in all cases. Personnel decisions must evaluate dual-looking statements, which are morally or ethically and legally extremely complex. They must be very responsible in terms of social responsibility, developed and evaluated in terms of social impact.

Man by nature, mentality and culture forms a biological entity that, even for the genetic revolution, remains a great unknown variable. Human potential differs from an individual event in other genetically influenced, by biological, social, cultural, educational and other factors specific to each individual and each activity or each organization. Therefore, human resources is a great human potential, to be understood, motivated and trained in order to involve full employees to achieve organizational objectives.

Taking into account all aspects that define human personality: skills, knowledge, aspirations, character and temperament traits, resource management can harness the most demanding, valuable, rare, difficult to imitate, relatively irreplaceable, unique resource equipped with the ability to create to produce and use all other resources available to an organization [3].

3. The importance of the civil servants

The increased interest in human resources does not mean an undervaluation of the material, financial or informational resources. Systemic design approach involves the organization of human resources in close interdependence with other resources, from the fundamental objectives, whose achievement compete together. Human resources at the expense of other pressures affect the dynamic balance that makes the organization function and its development [4].

The establishment of the rule of law in Romania has imposed the need for employment relations of civil servants to be established by specific legislation, unlike the other categories of employee status. As stated in government programs, public administration reform in Romania is based, with priority on those legislative initiatives that can provide real government autonomy and a high degree of professionalism.

The Romanian Constitution stipulates in art. 72, par. (3), letter i) that the status of civil servants is regulated by organic law, which highlights the importance given by the fundamental law of this country's social categories that resume the proper functioning of the rule of law.

In the draft of the statute, there were considered European Community standards in this area, aiming at forming a career civil servant, politically neutral, able to fulfill the duties of the public authorities and institutions as part of a body of public officials consistent with similar structures in countries with extensive experience in the field of democracy.

In my doctoral thesis, I tried to analyze two important institutions, one in Bucharest, The General Directorate of Public Finances and one in the nearby Ilfov county, The Ilfov County Council. At the end I tried to formulate some general advice regarding the improvement of the Human Resource Management processes involved in the functioning of the two institutions.

In the Directorate of Public Finance of Bucharest I appreciate that we cannot speak about the existence of human resource management policies, representing those carried out by specialized divisions to ensure the recruitment, selection, development and personnel necessary to achieve conservation objectives. Being a public administration, it is subject to hierarchical forums like the Ministry of Finance and Tax Administration Agency, in the scheme of organization and staffing. Thus there are certain restrictions on the number of personnel in public institutions in terms of reducing the overall number of civil servants.

4. Conclusions

After analyzing the way people work in the evaluation of the performance of human resources in the Directorate General of Public Finance of Bucharest, there are to be drawn the following conclusions:

- The performance evaluation system represents the base reward/punishment system for employees based on individual contribution to organizational goals;
- The results of the performance evaluation of individual professional human resources is to identify those with potential promotion, but also those with professional or integration issues;
- The results of the performance evaluation process will identify the individual needs of individual professional training and professional development of staff;
- The current system has a somewhat formal character, the lack of a specific evaluation system of public servants engaged in finance and taxation, and more detailed assessment of professional performance. Methodology for assessing the professional performance is a general applicable to all civil servants regardless of the operating field. Public Finance General Directorate of Bucharest has a specific task on which would be to set their own criteria and to determine their weight in the completion of each activity.

- Has an annual character and becomes a routine activity to be carried out at regular intervals, without taking into account the objectives underlying this activity and its achievement;
- There are certain restrictions practiced by the evaluation system, which cannot allow the sharing of personnel tasks, functions or positions, which are somewhat rigid in application. For example, if for the evaluation of individual job performance was assessed a civil servant with a grade of "exceptional" under the law and could promote a higher level, it will not if the institution had no job vacancies;
- Lack of an evaluation grid established on the bases and rules of modern science to ensure greater relevance assessment;
- Use the same performance criteria for civil servants implementation without making a distinction of importance criterion in the functions of each position in the party. If for the assessment of a civil servant in charge of execution that will collect taxes from the taxpayers, "creativity and initiative spirit" is not a relevant criterion, for working to support other taxpayers, it is essential.
- The evaluation system is quite complex, cumbersome and difficult to maintain because of the way of scoring and making calculations for the final verdict and abstention of the multitude of performance criteria and individual goals;
- The current HR performance evaluation only put emphasis on trial managers, the evaluator's perception that any person has a value system or is subject to their own limits.
- The absence of a scientific assessment process and specialists, to apply these methodologies on the basis of modern science. We believe that individual job performance evaluation results would be significantly different if it were made Teams of specialized assessors to sit next to psychologists, sociologists and other specialists in fields studying human behavior.

5. References

[1] A. MANOLESCU – *Managementul resurselor umane* (Human Resource Management), Editura Economică, p. 19, 2007, ISBN: 9789737092908.

[2] A. MANOLESCU – *Managementul resurselor umane* (Human Resource Management), Editura Economică, p. 17, 2007, ISBN: 9789737092908.

[3] O. NICOLESCU, I. VERBONCU – *Fundamentele managementului organizației* (The Fundaments of the Management of the Organizations), Editura Universitară, p. 225, 2008, ISBN: 9789737494481.

[4] V. LEFTER – *Managementul resurselor umane. Teorie şi practică. Ediția a II-a* (Human Resource Management. Theory and Praxis. 2nd Edition), Editura Economică, p. 128 2008, ISBN: 9789737094223

Protecting Consumers in Conditions of Economic Crisis

Pascu Emilia
The Academy of Economic Studies, Bucharest
pascuemilia@gmail.com

Abstract

The number of low quality products and counterfeited products is growing continuously.

Counterfeiting becomes a global problem in the context that it covers almost all the categories of products: from soap, to clothing and even drugs, affecting equally the producers of the original products, consumers, and the society in its whole. The methods to detect forgery differ from a group of products to another, in some cases being extremely expensive and laborious, because of the imitations extremely similar with the original products[1].

In the fight for the elimination from the market of products that can affect life, health and security of consumers, and which harm at the same time their economical interest, it is needed the conjugate effort of authorities, producers and consumers.

The need to ensure an efficient surveillence on European and national markets, grows with the diversification and the increase of the number of products and services came from all over the world. The consumers need exact information, a transparent market and trust based on an efficient protection and solid rights.

Key words: counterfeiting, consumer, protection, legislation, European Union.
J.E.L. classification: A10, A13, D18

1. Consumer protection

An important role in the rational selection of products and based on needs, is played by consumers' information.

Each of us must know the main elements that differentiate the product of quality by that low quality, the fake product by the original one.

On the other hand, producers, must also know, the directions of action, in order to protect and promote their interests and their products. The orientation towards quality must be one of the fundamental principles of each organization, which wants to face the powerful competition and to cultivate the respect to its clients [2] .

Seen as a person who buys, gets, uses or consumes products or services, outside his professional activity, the consumer is nowadays, the central element of many of the European politics, which have as general objective, the insurance of the highest degree of protection possible.

Promoting and defending the fundamental rights of consumers are essential activities of the processes of consumer's protection, realized under different forms:

- *Through State institution (direct protection);*
- *Through individual and associative self protection;*
- *Through information and education of consumers (indirect protection)*

The direct protection is realized through[5]:

- *Taking specific regulations to the domain of consumer's protection;*
- *Actions of market control, at producers, importer, distributer, sellers, providers of services and custom units;*
- *Checking the means of measurement, used on the market, in the process of commercialization of products;*
- *Verification of the information presented in advertisements, in prospects, catalogues and other promotional materials;*
- *The registration and the solving of notifications and complaints;*

- *Making test labs and experiments, for the products from the markets for commercialization;*
- *Finding contraventions and application of sanctions;*
- *Disposal of measures of limitations of the consequences of producing, importation or commercialization of products and services that don't respect the minimum request of safety;*
- *Making rapid change of information with the institutions and national and international competent organizations, regarding products that presents risks for the life, health and security of consumers;*
- *Suspending or withdrawing of the functioning authorization/license of production, in all the situations when the quality of products/services endanger the health and security of consumers;*
- *Creating new regulations/standards or improving the existing ones, concerning the certification of product's quality or that of the services and the sanctioning and elimination of the non compliance noticed.*

The indirect protection of consumers is realized with the help of:

- *Activities of information, advice and education of the consumers;*
- *The support of the association of consumers.*

The final purpose of all the activities that target consumer's protection aims promoting and defending their fundamental rights, which refer, mainly, to:

- *Protection of life, health and security;*
- *Insuring the satisfaction of vital needs;*
- *Protection of economic interests;*
- *Access to a market with a varied scale of products and services of proper quality;*
- *The right to information;*
- *The right to education;*
- *Healthy environment;*
- *The right to association and representation.*

Consumer's protection was and continues to be one of the essential European values, fully reflected, along time, in the community's legislation. Ten fundamental principles stay at the base of all the activities which concern the protection of the consumers[4]:

- *buy what you want, where you want;*
- *sometimes consumers may change their mind;*
- *making it easier to compare prices;*
- *consumers shouldnot be misled;*
- *protection while being on holiday;*
- *if it doesn't work, send it back;*
- *hight safety standards for food and goods for the consumer;*
- *you know what you eat;*
- *contracts should be fair to consumers;*
- *effective redress for cross-border disputes.*

2. Interests of consumer protection in Romania

In Romania, the fundamental rights of the consumers are established through *Ordinance nr.21 (r2) from 21/08/1992 regarding the protection of consumers* and it refers to:

- *the right to be protected against the risk of buying a product or being provided a service, that could harm their life, health or security, or affect their rights and rightful interests;*
- *the right to be totally informed, correct and precise about the essential characteristics of products and services, so that the decision they take to correspond to their needs and to be educated in their status as consumers;*
- *the right to get compensations for the prejudices generated by the inadequate quality of products and services, using in this purpose the means provided by the law;*
- *the right to organize in associations for consumer's protection for defending their interests;*
- *the right to have access to markets that insures a varied scale of quality products and services;*
- *the right to refuse signing contracts that contain abusive riders, according to effective legislation;*
- *the right that no economic agent to prohibit him to obtain a benefit mentioned in the effective legislation;*

The dynamics registered in the last years in the domains of products and services, the increasing number of counterfeited products from the market, the diversification of selling and distribution channels, but also the increase preoccupation for consumer's health, made the protection measures to be oriented towards segments well defined by the consumers and developed depending on their specific and their needs. Thus, one can speak about:

- *rights meant to facilitate shopping on the internet and at selling points;*
- *the rights of the consumers of natural gases;*
- *the rights of the consumers of electric energy;*
- *the rights of the consumers of products and financial-banking services(leasing, credits, cards, distance sales);*
- *the rights of the passengers of air transportations;*
- *the rights of the patients;*
- *the rights of the consumers of pharmaceutical products;*

The measures of protection for the consumers are established, implemented and legislated for:

- Alimentary products*: meat, fish, eggs, milk, wine, vegetable oil, mayonnaise, vegetables, fruits etc. The legislation stipulates demands of minimum quality for this type of products, demands regarding their labeling and commercialization, but also demands regarding the services of public alimentation.*
- Non alimentary products*: batteries and accumulators for motor vehicles, jewelries from precious metals, alloys and precious stones, cosmetic products, clothing, textile products, construction materials, electric lamps of household, frigorific machines, toys, washing machines, etc. In this case, legislation includes also a wide range of demands that could endanger the health and safety of the consumers (examples of demands: preventing the production of wastes of electric and electronic equipments, minimum conditions the product must reach in order to be introduced on the market-the so called essential conditions, demands regarding electromagnetic compatibility, noise level, demands regarding the general security of the products etc.).*
- Providing services*: services of touristic accommodation, real estate services, civil air transportation services, financial services, insurance and reinsurance services, personal hygiene services, postal public services, electronic commerce, pools, sanitation services etc.*

3. Interests of consumer protection in the European Union

The creation of the Internal Market at the beginning of the 90's impelled the restructuration of European industry, determining the intensification of intra community economic trades and implicit, of the competition within the Union. Thought as an instrument and not as an objective in itself, the Internal Market has the purpose the stimulation of competition at the level of national markets, accelerating in this way the European economic growth, the improvement of the degree of global competitiveness and life level.

Although played and continues to play an important role in trying to face Europe's economic challenges, the Internal Market must be consolidated so that the economical policy of UE to be oriented efficiently toward the insurance of welfare and protection of those approximately 500 millions consumers.

After the signing of Unique European Act (came into force in 1987), the consumer's protection became an objective in itself of European policies, fact that generated a new development of consumers' rights, oriented towards their needs of trusting a set of minimum rules of protection at European level, in order to encourage them to buy merchandises from outside the national borders.

Through the Maastricht Treaty (came into force in 1993), the community competences were extended, including new domains, among which that of consumers' protection. The treaty mentions the contribution of the Community at the protection of health, economic interests of the consumers, to promoting their right to proper information, to education and protection of own interests.

The treaty from Amsterdam (came into force in 1999) extends the aria of protection policy of consumers, strengthens the protection of fundamental rights and recognizes the rights to information and protection.

The evolution of demands and expectations made the objectives of consumers' protection policy to be extended gradually, their trust becoming prior, fact reflected in the new regulations which established standards which guaranteed physical and moral safety of the consumer in the process of usage and information at the level of the market, regarding safety and health.

The problem the Internal Market deals with nowadays in the domain of the protection of consumers is that it still remains strongly fragmented along the national frontiers. The development of trans-frontier commerce, as credible alternative to the national markets of the member states of UE offers to the consumers multiple choices of possibilities, fact which determines the increase of competition on the markets of UE countries and increases the need to consolidate the position of the consumers.

So, as it is showed in the Interim Report from 2007 – *A Unique Market for the Citizens*, the UE policy of consumers' protection will represent the central pillar for the next phase of the Internal Market, significant obstacles still remain, in its correct functioning, especially in the domain of contracts and appeal means of the consumers.

With all its potential improvements, the European policy for consumers' protection guarantees the security of products and services, the correctness and transparency of markets and offers the necessary means for making rational choices and to take responsibility for the promoting self interests.

Through the vision established in the domain, the European Council aims until 1013 to prove to citizens that they can buy with trust from anywhere in EU, having equivalent protection, and to providers, that they can sell anywhere on the basis of a set of rules unique and simple.

In order to reach these objectives and to implement the European policy of consumers' protection, the following prior domains will be taken into account, according to *The UE Strategy for the Policy of Consumers' Protection 2007-2013* [3]:

- *A careful monitoring of the markets of the consumers and of the national policies of consumers' protection;*
- *A better regulation regarding consumers' protection;*
- *Better informed and more educated consumers;*
- *The positioning of consumers in the centre of other politics and regulations of UE;*
- *The increase of the level of consumers' protection from UE to the international markets.*

The European policy of the consumer's protection is based on:

- *the legislation regarding the general safety of the products;*
- *specific stipulations that refer to a more sensitive character of certain products;*
- *measures of prevention, penalty and responsibility, for putting on the market and commercialization of defect products;*

The policy regarding consumers' protection supports the objectives of promoting the interest, the health and safety of European consumers, which were stipulated in the Treaty of Establishing the European Community. This policy aims to ensure the existence of an internal market opened, equitable and transparent, where consumers to have the freedom of choice, and unfair sellers to be excluded and where the commercial agents to fully benefit.

4. EU Consumer Law

The European legislation regarding consumer's protection contains numerous references among which the following are the most useful:

The Council's Directive 85/374/CEE regarding harmonizing legislative dispositions, regulation and administrative of member states, referring to the responsibility for products with flaws (the 25 of July, 1985), which follows the ensuring of a high degree of protection of the consumer against damages, endangering health or property, caused by a product with flaws and the reduction of differences between national

laws of member states, which deform competition and affects the free circulation of products;

The directive was amended by the **Directive 1999/34/CE,** according to which the producer is responsible for the damage provoked by a flaw its product presents.

The Directive 2001/95/CEE regarding the general security of the products, according to which the producers have the obligations to put on the market only safe products;

The Directive of the European Parliament and of the Council 98/6/CE regarding the protection of the consumer, by indicating the price of the products offered to the consumers (the 16 of February 1988);

Board's Directive 85/577/CEE regarding the protection of consumers in the case of the contracts negotiated outside the commercial spaces (the 20 of December 1985);

The Regulation of the European Parliament and of the Council (CE) number 1980/2000 from the 17 of July 2000 regarding the revised system of granting the community ecological label;

5. Conclusions

The consumer is interested in buying quality products and services, which not to affect his life, health and security and to fully meet his implicit and explicit expectations. He is entitled to expect from the product/service he is buying to present safety in usage. And the need of safety determines the need of trust.

But, the safety let at the hand of a person is subjective; that's why it appeared the need of standards, directives and recognized regulations, to which the producer to report at for providing proofs that his product is one of quality that it meets the demands imposed or expected and presents safety in use. Moreover, the certification of conformity with the standards of product or other imposed referential pr chosen by the one who asks for the certification is a safe way to bring the proofs asked by the legislation regarding quality and protection of consumer.

In the actual context, the consumer and his needs represent a national and European priority and his protection requires the compliance of quality standards applicable to products and services introduced on the market for being commercialized. The most efficient consumers' protection is made on the basis of the freedom of choice between more offers, in informed choice.

The place of the consumer on the Internal Market and on the national markets must continue being consolidated. In order to face the existing challenges, consumers must achieve those competences and necessary instruments for fulfilling their role in modern economy. Their information was and will remain part an important part of governmental strategies and of consumers' organizations.

UE will know that its mission was fulfilled in the domain of consumers' protection, assumed through the established strategy for the period 2007-2013, when in 2013 can prove it in a credible manner to all its citizens that they can shop anywhere in UE, having the certitude that they are protected in an efficient way, against all the dangerous products/of poor quality, or against dishonest merchants.

6. Bibliography

[1] Cârceag M., Ghițuleasa C., Pascu E., *The Quality of Textile Products in Relation to Consumer Protection*, Certex Publishing House, Bucharest, 2008

[2] Stanciu I., *The Total Quality of Management*, ProUniversitaria Publishing House, Bucharest, 2009

[3] *** EU Strategy for Consumer Policy 2007 - 2013 COM (2007)

[4]***http://ec.europa.eu/consumers/cons_info/10principles

[5] *** http://www.protectia-consumatorilor.ro

Effects of Financial and Economical Crisis in Romanian Media and Advertising Industries

Pavel Camelia
"Dimitrie Cantemir" Christian University of Bucharest
camipavel2003@yahoo.com

Abstract

The media landscape has been greatly impacted by the general economical trends over the past few years. Despite the fact that the recent economic landscape is affected by crisis and recession, the media market is undergoing adaptation and evolution. The article analyses the impact of the global financial and economic crisis on Romanian media and advertising market and assesses the potential for 2010 and 2011 recovery. In addition, the paper benchmarks crucial development indicators for Romanian advertising markets, assessing their maturity with regards to multi-channel development.

Key words: crisis, media, advertising;
J.E.L. classification: L82, M37;

1. Introduction

After years of steadily economic growth between 2000 and 2008, Romania's economy in the second half of 2008 was strongly influenced by the international financial and economic crisis and by the internal unfavourable political dynamics, showing uncertainty, even turmoil at certain stages.

In 2008, after the third quarter, according to statistics, the amount of the overall Romanian media expenditures for all types of media (TV, Radio, Print, Internet, Cinema, Outdoor) and advertising slowdown because of the economic landscape. Some experts believe that the financial crisis has caused a serious impact on advertising growth prospects.

Because the market was pessimistic about the macroeconomic situation in 2009-2010, focused on the outbreak, in particular small and medium enterprises and macroeconomic fluctuations in relatively close industries such as finance, real estate, automotive and other industries affected by economic crisis, the impact was relatively large in 2009-2010, Romanian advertising market as a whole appear slam the brakes is almost a foregone conclusion.

The most of the enterprises cut their advertising budgets in an effort to reduce costs in the wake of an unforeseeable future. Other companies migrated from expensive traditional advertising to online marketing and direct marketing because advertisers are able to measure instant returns from small investments, which they can then scale up if they work well. On the other hand, there are structural frictions within and between media companies and advertising buyers. At the same time, media consumption habits are changing with every generation.

2. Media landscape

Romanian media market it is a mature, competitive and dynamic market. Media consolidation has increased significantly as the old media become more sophisticated and the new media proliferate. Technology has improved the effectiveness and development of cable and satellite television, newspapers and periodicals, radio and outdoor, while spawning new media in direct, Interactive and the internet. Many of these new media are more measurable and more targeted. Media categories covered in Romania include television, radio, newspapers, magazines, out-of-home, cinema, online advertising as well as emerging formats such as digital out-of-home, mobile and in-game advertising.

The Romanian print media is characterised firstly by the vast number of titles on the market. In total, there are more than 2,400 publications, more than 80 of which are daily newspapers [4], but the exact numbers is not available. The quality of top newspapers has been increasing, apart from improving their design and print quality, they have started to

increase the number of pages and develop special sections and weekly supplements in the past two years. Business, sports and lifestyle are starting to get more coverage. Supplements and Sunday editions are published. Also, newspapers, which tended to be highly politicised are shifting their focus toward other subjects. As for many newspapers circulation is not audited by the Romanian Audit Bureau of Circulation (BRAT), it is difficult to estimate the general circulation for dailies.

In 2009, because of the crisis, more and more Romanians had spent their time in front of TV, rather than they went out to spend money. Because of this, the most of advertising agencies were oriented on television which became the favourite media. Almost 70 percent of the advertising pie goes to TV, thus national channels have been mostly after the urban population aged 18 to 49, the most attractive segment for advertisers. Members of this age group watch TV on average 36.4 hours a week, one of the highest levels in Europe.

The radio scene is dominated by private FM stations in cities with more than 300 licences for FM radio stations having been issued by the National Broadcasting Council. The public news station Radio Romania Actualitati, which is not bound by geographically limited FM frequencies, is most popular in rural areas, together with regional stations belonging to the public network.

Over six million people are online, and broadband is growing at a rapid pace. According to the National Authorities for Communications quoted by underclick.ro, high speed internet has grown by 96 percent in the past two years, amounting to over 750,000 broadband connections.

Online advertising is bringing more money to the industry, hence competition is growing more fierce. Most traditional media outlets have online versions. A number of newspapers and television stations have recently created special journalistic departments to take care of their online presence, and newspaper sites are moving from shovel ware content to content developed or adapted for the web by teams of online journalists.

More than half of the media deals in Romania – regarding the print sector and news agencies as well as TV and radio stations – are done by media groups that are owned by three Romanian businessmen: Adrian Sârbu, majority shareholder in the Media PRO group; Dan Voiculescu, founder of the Intact media group and Sorin Ovidiu Vântu, owner of the Realitatea-Ca avencu media group. Another name to mention here is that of businessman Dinu Patriciu, currently estimated to be the richest man in Romania, who is also pursuing ambitious media plans. The Swiss publishing group Ringier has established itself as the biggest owner in the print sector.

- Sârbu/CME. Adrian Sârbu is a Romanian media maverick who has founded the Media Pro Group in 1990. The company has two divisions: MediaPro Management and MediaPro Entertainment. Since December 2009, the Central European Media Enterprise, acquired the Media Pro Entertainment. Together with his American partners at Central European Media Enterprises, in 2009 Sârbu owned six TV stations (PRO TV, Acasa TV, PRO Cinema, PRO TV International, MTV Romania, Sport.ro), one national newspaper, Gândul, a business daily, Ziarul Financiar, several magazines (Acasă magazin, Business magazin, CSID, Descoperă, Go4it, Promotor.ro, Protv Magazin, PubliMedia, Target, Time Out, Bucuresti, The One) and radio stations and the leading press agency in Romania, Mediafax. Sârbu also launched various content sites, among them Stirileprotv.ro, a spi-off of PRO TV, which ranks highly in the hierarchy of news sites. In 2010 Sârbu is still sole owner of Publimedia, the print company Coprint , Mediafax - the leading supplier of general and business information in Romania, Media Pro Interactiv – Internet, Indoor Media – indoor advertising and MediaSat - telecoms;
- Voiculescu. Dan Voiculescu, a controversial figure in Romanian business founded The Intact Press Trust. In 2005, he formally gave away his media empire to his two daughters. In 2010, The Intact Press Trust including six TV stations (Antena 1, the second most successful commercial station, Antena 2, Antena 3,

Euforia Lifestyle TV, Antena Internațional, and GSP TV), as well as publications as Jurnalul National (daily newspaper), Gazeta Sporturilor (daily sports paper), Financiarul (business daily), Saptamâna Financiara (weekly business paper) and magazines such as Felicia, Top Gear and three other publications. Since 2005 Voiculescu has expanded his empire by launching two radio stations, Radio ZU and Romantic FM and GSP.ro, the Gazeta Sporturilor site, has become a very successful internet operation, especially because of spin-offs for soccer supporters. Known as Intact Media Group, his empire is the most important purely Romanian conglomeration to date [1].

- Vîntu. Sorin Ovidiu Vîntu started building his media empire, Realitatea-Catavencu, with the acquisition of Realitatea TV in the spring of 2004, after a previous presence at the end of the nineties through Curentul, the Monitorul local network and Academia Catavencu. He had been forced to give up his previous media assets because of his implication in one of the biggest scandals in the post-1989 era. In 2006, he confirmed rumours that he was involved in Realitatea TV and annnounced the acquisition of the Academia Catavencu group, including the eponymous satirical weekly (which he had previously owned), Cotidianul and some other titles. His media empire including now in the print segment daily newspaper 'Cotidianul', business daily 'Business Standard', weekly magazine 'Academia Ca□avencu', newspapers 'Tango', 'j'adore', free weekly magazine '24-FUN' and nine other publications. Between 2006 and 2008 Vîntu launched a number of ventures, including fout TV stations, Realitatea TV, The Money Channel, Romantica, and Telesport, three radio stations, Radio Guerrilla, Realitatea FM, Gold FM, a press agency, an indoor TV operation, Online publications such as IQuads and MoneyLine.ro and several important sites. Realitatea.net, the on-line spin-off of Realitatea TV, is the leading news site in Romania.
- Ringier. This Swiss-owned company has only a modest presence in the Romanian TV market through a 25 per cent share in Kanal D, where the Turkish media group Dogan Yayin Holding is the majority shareholder, but it has a massive print business. Its portfolio includes the former market-leader of the newspaper market and now second most important, Libertatea, Unica and Bolero (two glossies aimed at women), the leading TV guide, TV Mania, and Evenimentul Zilei. Ringier, which has some 15 titles on the market, and Sârbu/CME are the largest commercial media groups.
- Patriciu. Credited as the richest Romanian, and another controversial figure, Dinu Patriciu owns Adevarul Holding, a print company whose titles include daily newspaper 'Adevărul', free daily paper Adevărul de seară, tabloid Click, weekly magazine Click pentru femei, yearbook Adevărul 500 Miliardari, magazine Foreign Policy Romania, press group Satiricon (Dilema veche, Dilematica), and Forbes Romania. The company practice an aggressive marketing policy, with books and DVDs given away with Adevarul and competitions in Click!. Adevarul Holding lost 42 million ROL (roughly 13 million euros) in 2008, though it improved its share of circulation. Patriciu has also invested in an office building for his media assets and an up-to-date printing plant.

In a media-buying venture, two or more media agencies put their budgets together in a move aimed at getting lower tariffs from ad spaces providers (TV, press, Internet, outdoor), negotiated on larger ad volume. Because in crisis, teaming up in a buying pool confers stability, in 2009, three firms have pooled their media buying and planning functions under one roof: two of them involving subsidiaries of international communication groups in Romania, Aegis and Publicis Groupe respectively, and a media venture that brings four local companies together under one name, Romanian Media Agency. The third pool that involves an international communication group is Aegis Media Central Services (AMCS) that joins the buying budgets of Tempo Media and Carat, both of them part of Aegis Media Group Romania.

Media negotiating companies emerged as a natural response to providers' selling policy and can be seen as a market trend as well, fuelled by international companies who

brought their media businesses together under certain patents. The four official advertising media negotiating companies in Romania grab an aggregated 65% share of a market estimated at nearly 450 million euros [3]. The market continues its consolidation and in the following months new media pools could emerge.

3. Effects of crisis in Romanian media and advertising

The Romanian media market started its downward trend in October 2008 and faced the full crisis in 2009. Overall the expenditures went down for all types of media (TV, radio, print, internet, cinema, outdoor), as the major advertisers increased their focus on adjusting their media investment each quarter.

In 2009, the total volume of advertising market in Romania decreased by 37% in net value, as compared to the same period in the previous year. Last year turned out to be not the best period of time for the Romanian segment of advertising services. The total volume reached 339 billion euro, a lower level than in 2006, and it was estimated that the advertising market in 2010 decreased to 308 billion euro [2]. Big promotional, **advertising** projects disappeared and have been replaced with medium to smaller ones and at modest prices. Volumes in advertising production in 2010 dropped by 10-15% in the first half of the year 2010 because clients of the advertising agencies have in view cutting costs by 20-30%. 2011 will remain a tough year.

The print market was characterized by an overall audience drop, as most magazines and newspapers decreased their circulation. Some titles focused on their online edition while others were closed down or sold. In spite of the inflation of titles, the largest loss was print media segment. Overall decrease in 2009 of the advertising volume in the print media amounted to 55%. The Romanian press has confronted 2009 with wage reductions, layoffs, closure of publications or keeping only online editions, law suits between publishers concerning the rights for publication of books (offered as added value together with the regular edition of newspapers), disagreement with the RODIPET distribution and the big publishing houses abandoning the local press. The worldwide crisis affected the print medium, increasing the speed of change, weakening sales and decreasing audiences for print titles. The smallest losses were incurred by periodicals dealing with family issues, child rearing, housekeeping and cooking, and the largest losses in terms of outflow of advertisers were taken by social and political publications, by business media and work placement periodicals.

Clients preferred to consolidate their expenditure in established titles owned by big publishers with a nationwide distribution, which resulted in market share increases for those publishers with a large and consolidated portfolio. The print advertising market accounts for a gross rate card value of over 322 million EUR, of which 41% is through media barters. Media barters share from print ad spends increased by 10% compared to 2008, while rate card expenditures decreased by 35% (due to the crisis). The ratio between magazines & newspapers was 47% for magazines to 53% for newspapers, a small increase for magazines compared to 2008. The largest share of rate card revenue in 2009 was split between by five publishers with very large and diverse portfolios [2].

Budget limitations meant advertisers decreased their media expenditures and reallocated spends to other media types. The traffic figures for the top 10 print publications with online versions shows an increase in the average number of page impressions and visits per month in the first quarter of 2010, compared to the average per month in 2009, meaning that the increased readership online may be viewed as complementary or even a replacement to the printed versions.

The year 2009 began with a series of management changes in the marketing and editorial boards of publications, but also with a series of crisis measures implemented by the media trusts: Realitatea-Catavencu closed and sold some of their titles and moved the "Cotidianul" newspaper online, Ringier closed the free newspaper "Compact" and also simplified its internal structure (merging the newspaper divisions), Burda Romania changed its management, Business Media Group took its business magazines

exclusively online for a short period , Igloo Media closed Re:publik magazine, etc.

The economical crisis that affected Romania in 2009 also affected the TV stations that posted, on their financial situation for last year, losses of millions of euro. In the same time, the crisis has strengthened television's position as the Romanian favourite entertainment source, and led to major advertisers cutting their advertising budgets, whilst for some small players TV became affordable & they began TV advertising. In 2009, televisions attracted 65% of all net media sales to a total of 222 million euros. The cost deflation in 2009 meant the cost per thousand (CPT) decreased from 2.1 euro to 1.6 euro. Audience – average rating across all day parts and for all TV channels has declined in 2009 by approximately 3% (all urban). As an exception the Top 4 stations increased the audience in off primetime, whilst the niche stations had an audience decline across all timeslots. The decrease in number of GRP's sold led to a reduction in loading from 68% to 64% in 2009 compared to 2008. The cost per rating point (CPP) deflation drove advertisers' focus again in the direction of the main channels – in 2008, MPI, Intact, SRTV, Prima TV and Kanal D – attracted about 72% of gross rating points (GRP), while in 2009 the same stations gather over 78% of GRP's sold. Decrease in the overall market volume in 2009 came from several factors: the price decrease of about 25% applied over an inventory reduction of approximately 10%, all together with a reorientation of the budgets towards the main media groups. In 2009 the advertisers moved to shorter TVC lengths, so compared to 2008, 20"-25" spot-lengths were used as much as 30"-35". Decrease in the overall market volume in 2009 came from several factors: the price decrease of about 25% applied over an inventory reduction of approximately 10%, all together with a reorientation of the budgets toward the main media group. As a consequence of cut prices by the televisions, was that the programs were filled with ads and those ones represented a stress factor for the audience [2].

Radio market also faced the same problems as print. Because of the economic situation, many local stations were closed, some private networks evolved into national networks and some decided to exit the Radio audience measurement, while others improved their coverage via the Internet, improving their online presence through dedicated websites and social network sites. In 2009, the total net ad spend for radio was only 25 million euros, that means for advertising industry, radio will remain a relatively inexpensive support, used as a secondary media.

Cinema increased in number of admissions and in number of new venues being opened. Despite its development Cinema seems to be a marginal choice for media communication, due to the low rate of visits during one year (according to BRAT SNA Focus, only 14% of the population went to the cinema in the last 12 months).

In 2009 out of home media (OOH) was in the second most affected media after Print, mostly due to the lack of measurement and evaluation tools. On top of this, the relative expensive production necessary for large formats and special locations drove another limitation to using this medium. Based on information in the media or press releases from major operators, The Initiative Media Romania estimated for 2009 a market decline between 35% and 40%. Thus, their estimation for 2009 was that OOH (exposure, without production) attracted approximately 42 million euros (including digital screens and Indoor). Accurate data is not officially available as the OOH industry lacks monitoring and audit information. In this context, assuming the market decline has affected all leading players was estimate that there were no significant changes in market shares since 2009.

In 2009, the Online advertising, more customizable and offering strong targeting capabilities, increased its share in total net media market, registering the lowest decrease in volume of all media. This was due to the increased number of users and to the fact that Internet becomes a more trusted source of information compared to TV and Print, and is widely spread and consumed amongst urban population. Online advertising revenue in Romania registered a decrease of 10% in 2009. Despite the decline, we at Initiative registered a significant increase of approximately 25% in terms of online billings. Initiative estimates a net value of

18.4 million euros for the total online market in 2009.

4. Conclusion

The global financial and economic crisis has caused an abrupt end to a period of exceptional growth in Romanian media and advertising markets. Overall, the media expenditures decreased for all types of media in 2009 and According to Initiative's, the total net ad spend in 2010 will continue its downward trend decreasing by approximately 9% vs. 2009. Television and online are expected to increase their share of total net media market. The restructuring of the publishing industry will continue, with some titles closing, some moving online and more consolidation of ownership. Since the start of the economic crises, up to 6,000 journalists and media workers have lost their jobs, that journalists are being forced to renounce their contracts in favour of royalty payments and that the union is fighting over fifty cases against illegal and indiscriminate dismissals. The newspapers such as Evenimentul Zilei, România Liberă, as well as the Cotidianul, Ziua, Business Standard, are no longer being published.

The economical crisis that affected Romania in 2009 also affected the TV stations that posted, on their financial situation for last year, losses of millions of euro. TV's reply was a cut of their prices. The consequence was that the programs were filled with ads and those ones represented a stress factor for the audience. Network television, however, remain the most important medium for advertising.

All of these show that despite the fact that the recent economic landscape is affected by crisis and recession the media market is undergoing adaptation and evolution.

5. References

[1] I. Comanescu, Footprint of Financial Crisis in the Media, Open Society Institute, Bucharest, 2009, pp. 2-4;
[2] Initiative media Romania, Media Fact Book Romania 2010, available on http://www.mediafactbook.ro/mfb-2010 accessed on 30.09.2010;
[3] S. Mistreanu, Map of Romanian advertising media negotiating companies, Wall – Street Journal, available on http://www.wall-street.ro accessed on 29.09.2010;
[4] National Institute of Statistics, Statistical Yearbook 2008, Bucharest, 2009;

Culture and Migration: Influence Factors in International Economy of Islam World

Pădureţu Elena
The Academy of Economic Studies, Bucharest
elenapaduretu@yahoo.com
Cristian Elena Raluca
Romanian-American University of Bucharest
cristianraluca@yahoo.com

Abstract

A taboo subject for Arabian economists is freedom deficit or non-democratic regimes. It is questionable if Arabian region has registered substantial increase in economic and social development for more than two decades and a half; since 1960's, we know that these growths have not been associated with political rights, nevertheless with democracy. Because the Islamic frame of reference offers politic leaders with limited possibilities of choosing, when they are being disputed, rarely measures of reform are being taken in country's institutions.

The question if religion can block the economic development and institutional changes or if it is just a native factor, requires giving a special importance today, because of Islamic movement and low economic performances in these Muslim countries. Some studies among immigrants settled in other countries have noticed that over time, because of changes and culture assimilation, exist transformation of perception and even emotional alterations.

This article takes an empirical approach ad asks two questions: how differ economic systems and the actual Muslim institutions toward the other countries at the same level of economic development? And what is the impact of Islam and migration upon economic and social performance of these countries?

Key words: migration, culture, islam, trade, globalization
J.E.L. classification: J61; N3; F18

1. Introduction

Ever since 1980's and especially from the beginning of 1990's when the Cold War had ended, economic activities in an unitary cultural environment have become more and more important in different cultural environments. For example, trade between ASEAN, Taiwan, Hong Kong, South Korea and most of China, countries mostly under Chinese cultural influence, grew from 10% to 30% from total trade to the same period of 1950's. No one doubts now about the purpose of cultural factor in international trade [1].

There had been a concern about the fact that cultural connections and migration express a trend which countries of similar culture make trade much easier. Although it is not the only instrument that can build trusting relationships, business men are used to close deals with people they can relate with. Trade and economic cooperation are based on common cultural points, because it is easier and more efficient for people with the same cultural identity (language, religion and other cultural elements) to trust and communicate than for those with different identities.

About someone who is heading to a new country in search of better opportunities economically speaking, finding a superior professional environment or some open access ways to family, culture or religion, means he is engaged in a migration process [2].

2. About culture

Economy, demography, war, persecution, repression and ecology are mostly accepted as the main sources of international migration; of course we can add here mentality, culture as a major subject in understanding the phenomenon that leads to migration. Before deciding to emigrate, any individual need to be willing to cross some boundaries: either real or imaginary.

Differences in culture, followed by religion and language distinctions can not be ignored when we question why investors' protection differs from a country to another. The main religion of a country forecast the regional variation of creditor's rights better than the country's natural openness to international trade, language, income or law system's origin [3]. Cultural similarities are also useful in understanding investor's rights and the way they are being applied in countries.

For the purpose of this paper, an adequate definition of culture belongs to North (1990) in which he quotes from Boyd and Richerson (1985): culture is defined as transmission from a generation to another, by teaching and copying knowledge, values and other factors that influence the behavior. Viewing culture as a determinant factor in economic growth has a long tradition, ever since Weber's work (1930). In his liable to influence work, Weber declared that cultural changes have played a critical role in developing capitalism and its institutions.

At the same time, the emigrant movement can become an element of a conflict situation when immigrants' integration is missing in the migration policies as to lack of education in accepting them and understanding this phenomenon.

The economic analysis of migration is confronting in general with two big problems: why do people migrate and what are the consequences toward the host country and origin country and the second one is referring to, first, the function of labor market. The migrant costs and benefits are also important; the decision to migrate is built on a multitude of reasons and causes and in general, in our society it is viewed as a result of cost-benefit analysis influenced by positive and negative factors [4].

In United States, for example, immigrants come from different parts of the world and especially from Mexico, Central America and Caribbean, while in Western Europe most of them come from North Africa, Turkey and Eastern Europe.

Sociologists affirm that until 2050 the number of Muslims is going to triple, reaching 20% from the population of European Union. In Spain, Great Britain and Holland the rising will be even faster and will approach this percent sooner [5].

At an European level, last year 5% of the population of the 27th members EU were Muslims but the growing of immigrants number in Muslim countries and the low birth rate among European indigene population will make that until 2050, the number of Muslims in Europe to reach 20% of the population.

Culture can affect finances trough at least three canals. First, predominant values in a country depend of its culture. For example, interest rate can be considered a sin in a religion and not a sin in another. Second, the law system is influenced by cultural values. Third, culture affects the way resources are being allocated in an economy. The religions that encourage expenses with churches or weapons take resources that can be invested in production.

3. Democratic deficit in Arabian world

This subject corroborates strongly the request maintained by democratic deficit and freedom in Arabian world and asks itself what are the reasons the Arabians are experiencing such a minus. The estimated results of a modern model of democracy suggest that after searching for a source of economic, social and historical variables, remains a negative effect upon freedom in this area [6]. This means that modernization theory is not totally responsible for democratic deficit in Arab countries.

Controlling modernity and other determinants, oil is badly associated with democracy while the clear effect of regional conflicts in the area had been negative, suggesting that these promote authoritarianism opposite to other regions where conflicts have been connected with democratic transitions.

It is true that there is an almost universal condemnation of authoritarianism and an embrace of democracy in today's Arabian world. It also exists a solid acknowledgement of people hurting because of politic rights deprivation and restrictions from civil freedom by many Arabian authoritative regimes that are being often accused for the fail in obtaining a sustainable and equitable economic development in creating a comfortable climate, these critics addressed often to Palestine.

A taboo subject for Arabian economists is freedom deficit or non-democratic regimes. It is questionable if Arabian region has registered substantial increase in economic and social development for more than two decades and a half; since 1960's, we know that these growths have not been associated with political rights, nevertheless with democracy.

The European Union labor force market is distinguished lately by new social relations, intercultural changes, different traditions and habits, opinions and moral and religious values that take place between the native population and immigrants workers. In most cases, the situation becomes detrimental for the immigrants, who are vulnerable to all these environment changes, their presence in these countries is giving itself birth to a series of discrimination situations, racism, verbal and physical violence. An example in this matter is the case of emigrants from Asia and Africa who become fast, a burden for the EU comunitary budget and a factor of social, economic, political and religious instability [7].

We can see that not only the africans and muslims end up being discriminated in countries of European Union, but many other minorities. Is this due to many existent differences between european and islamic civilisation? Are islams more tolerant toward intern migration as opposit to europeans?

4. Is islam a threat to European Union?

The question if religion can block the economic development and institutional changes or if it is just a native factor, requires giving it a special importance today, because of Islamic movement and low economic performances in these Muslim countries [8]. Political and military analysts emphasize the fact that citizen respect toward the human rights and liberties, in Islamic and Western societies had been and is speculated by those who threaten the democratic values system.

The proselytism attained in the line of refugees by the anarchist or terrorist groups can generate serious security problems to the host countries – mostly because of 9/11 US assaults. Free circulation makes the risk of using the chemical, biological and nuclear weapons by terrorists, to be as real as it can, menacing not only US integrity but also EU countries. For example, Spain and Great Britain assaults by terrorist groups. And because we mentioned terrorism, we cannot emphasize religious or psychological view of this. Tragic events that took place after (11th September New York, 11th march 2004 Madrid and 7th July 2005 London assaults, rebellions in Paris suburbs in the summer of 2005 or assassination of a well known director in Holland by an Islamic fundamentalist) accentuate the Islamic threat that is perceived in European Union. Islamic movements' multiplication and the popularity it's enjoying in Western Europe, are being based on Muslims resentments toward Westerns, whom they consider responsible for personal failure [9].

Because the Islamic frame of reference offers political leaders with limited possibilities of choosing, when they are being disputed, rarely measures of reform are being taken in country's institutions. As Timur Kuran said, by creating an institutional trap, the inheritance of classic Islamic system makes the institutional reforms to be hard to achieve. The coefficient associated with the interaction term is very eloquent and suggests that in Arabian world, in opposite to what is being seen in other parts of the world, interstate conflicts tend to promote authoritarianism than bringing change to democracy. Many economists that believe that cultural explanations are doubtful in the beginning, consider that low economic performances should not be put on the charge of such flat conclusions. As long as it is possible to choose some non-ethical aspects of any religion toward economic growth, testing the impact of religion upon economic growth remains unconvincing (North, 2005, p. 136).

On the other hand, estimating the cultural impact upon economy and other performances is very difficult, because of local character of the problem. Considering the complex interaction and effects obtain between culture and institutional change, we can see the contrast between recently virtuous development of Western European and decadent evolution of Islamic countries in the same period. The presence of a immigrant flow, that shares the religion view promoted by Islamic radicals, can become in a way, a potential threat at the address of host-country security and on the other hand, a challenge at the address of values, traditions and cultural customs and linguistic. Demographic estimations of Muslim population that lives in Western Europe promote a number of 20 millions. In 2020, 10% of European population will be Muslim. If Turkey will join European Union, it will be the most populate, overtaking Germany. From here it begin the western governments concern toward Islam ascension in a mostly Christian Europe and postponing Turkey decision of adhering to European Union.

In the light of historical proves, it is difficult to declare that politic and Islam had been always united or that politic had been submissive to Islamic religion. The research and studies in the past few years done on different countries in European Union, have emphasized that the immigrant population can be seen in extreme different ways by the population, the manner in which the immigrants are being absorbed represents a disputed issue, even taboo in some countries, rising social controversies (an example can be the Mailat case in Italy). In some situations, immigrants are making maintained efforts, after a period of time spent on foreign land, to integrate in the new society, adopting values and traditions of the host country.

Maxine Rodinson and Fareed Zakaria have discused about the fact that religion, easly manipulated by political actors, is not an autonom force susceptible of promoting and inhibiting economic growth.

5. Cultural and behavior modifications

Some studies among immigrants settled in other countries have noticed that over time, because of changes and culture assimilation, there is a transformation of perception and even emotional alterations.

Psychiatric studies among immigrants have confirmed depression and schizophrenia cases for those who come back home; this is due to the fact that immigrants need to assimilate a new culture, live and work in a stressful environment, need to often change their residence and job. All these social and cultural changes lead in time to stress and reflect upon immigrants, giving in time severe health problems [10].

Cultural changes bring in time radical transformation of behavior, attitude, beliefs, moral and social values and aspirations. It is difficult to realize a complementary evaluation of cultural elements borrowed by immigrants, depending normally of age, sex, religion, location, social class, vocation or profession.

Anterior studies in cultural values have classified Arabian countries as being an unitary field that presents values, convictions and similar attitudes. Hofstede (1980, 1991) suggests that societies differ along four dimensions: distance of power, avoiding insecurity, individualism and masculinity/feminism. Specific, authors have characterized Arabian countries with an average of 86% as a distance of power (deep divisions of wealth and power, limited interaction and movement among social classes), 68% avoiding insecurity (rules and procedures built to limit risk and insecurity, intolerance for abnormal ideas and behaviors), 50% masculinity versus feminism (competition and performance are somehow valued) and 36% individualism (social strict frames, loyalty toward family, friends and organization).

While Hofstede's classification (1980) of different countries in cultural segments is useful and interesting, the detailed research has indicated that the Arabian countries grouped in an unique geographical segment, cannot be right or sufficient. For example, a recently qualitative study of consumers in the Golf, released by NFO World Group in 2002, suggests that this region is witness to dramatic changes of culture and attitude among consumers. The study indicates a growth of individualism and of nuclear families in a region that tradition had been found in collectivity and extended families. Based on a series of study groups of

consumers in 5 countries in Golf (Saudi Arabia, Bahrain, Kuwait, Oman and United Arab Emirates), he segmented consumers in four categories: traditional consumer, moderate, liberal and individual (Fattah, 2002).

Using data from GLOBE project, Kabasakl and Bodur (2002) have identified an Arabian nucleus consisting in Arabian countries like Egypt and Kuwait. Individuals from Arabian nucleus were orientated in big hierarchic groups made of men without a prosper future, oriented to team and with charismatic attributes. While common characteristics have been existing among these five countries, in order to guarantee their organization, authors have warn upon all Arabian countries organizations in the same group without careful examination of differences. Hickson and Pugh (1995) have warn about unsuited grouping of Arabian countries in one single core. Authors sustained that despite common points these countries have, subtle differences between them exist and can represent questions marks. Such differences require a thorough analysis and incorporate a marketing strategy that plans a process capable to produce strategies proper to unique characteristics of each market.

A factor that differentiate Arabian countries is the intensity level with which every country sees its identity/national character (Clark, 1990; Keillor & Hult, 1999). For example, Keillor and Hult (1999) define national identity as an extension by which a culture is being recognized and identifies with its unique characteristics. Authors suggest that factors like intensity of convictions structure and cultural homogeneity differentiate national identities of countries.

A closer analysis of the purpose that these factors play in national identity formation in different Arabian countries, discovers that countries are being unique because of 3 things. First, intensity and magnitude of conviction structures and religion plays in every Arabian country an unique, strong role about national identity. Although Islam predominate in most of the area, Muslims differ through the level of convictions. The ethical sense of consumers has been defined through moral rules, principles and standards that guide the individual behavior in a certain selection, utilization or selling of goods or services (Muncy & Vitell, 1992).

The empirical research in the past had tried to understand how consumers take decisions ethically. Many recent studies have examined foreign consumers and their perception upon doubtful ethical situations and the impact of consumers' ideology upon actions perception ethically. Rawwas, Vitell and Al-Khatib (1994) have examined the civil war effect upon consumers convictions, preferred ideology and level of Machiavellism in Lebanon and Egypt. The results have indicated that Lebanon consumers that had been torn apart of the war and terrorism at that time, tended to be more evil, les idealist and more relativist to their counterparts in Egypt. According to ethical theories of modern business (e.g. Ferrell & Gresham, 1985; Hunt & Vitell, 1986; Hunt & Vitell, 1992), it suppose that in general, different individuals, when are being confronted with decision situations about ethical convictions, will apply principles and rules based on different moral philosophies.

Although a longer research shows that people in different countries are not similar one to another in number of variables including individual characteristics, historic connections, national feelings, emotions, time management orientation and preferences.

6. Conclusions

The migration phenomenon is a continuous process of changing that gains field on different grounds of familial relations, relatives or friends.

This article takes an empirical approach ad asks two questions: how differ economic systems and the actual Muslim institutions toward the other countries at the same level of economic development? And what is the impact of Islam upon economic and social performance of these countries? [11]

For the host society, emigrants integration requires tolerance, openness, understanding advantages and challenges of multicultural societies, access to information regarding a place of work, intercultural dialog, respect of traditions and immigrants cultural (Sursa: IOM, World Migration 2003).

For example, Baldwin (1990, p.34) sais that „in Islam, there are no concept of mosques or state as religious or political

specific places. Religion and state are beeing seen as close; state is conceived as religion embodiment and religion is the essence of the state". The Muslim political actors difficulties rise because many of these doctrinal sources and their interpretation by the majore Muslim schools of jurisprudence are not always the same in specific situations, mostly in cases not explicit presented in canonic writings or that leave room for interpretations.

Abdul-Rauf (1979, p.14) said that "Muslim doctrine of economy allows individual freedom levels and state intervention but leaves this grades at the level of understanding to those involved that should take in consideration current conditions". This flexibility had made the Muslim economy to be open to different alternatives in the same frame.

Many speakers – lawyers opponent to Islam, as neutral scholars – made different affirmations about the impact of Islam upon institutions performances and economy. Examining this impact, a single eloquent statistic relation could be found, being the number of Muslims in the population inverse related with the number of companies that offer training for their employees, the low number of educated women as opposite to men.

The conclusion is that Islam as a religion has a relative small impact upon economic institutions, economic system or economic nd social performance. Even if Protestantism and Catholicism have had a different impact in some countries during industrialization, non of these Christian branches appear to be connected to any economic system or to any special economic institution (Pryor, 2005).

Of course, political actors in Muslim countries affirm often that they introduce special institutions or trail some economic policies for doctrinarian reasons. But if it is so, that country situation is not a usual one and belongs to the universe of Muslim countries as a whole. Is not the Islam the one that slows the economy of these countries, but those unpleasant factors that the economists explain in the economic regression in many other countries of the world.

The migration phenomenon had followed an ascendant tendency and had involved all the society layers becoming one of the important factor world levels.

The major conclusion about the lack of an important impact of Islam upon economic system does not involve its impact in other aspects of society like political system, political results.

7. Bibliography

[1] R. Guo, „How culture influences foreign trade: evidence from the U.S. and China", *The Journal of Socio-Economics 33*, 2004, pp. 785–812.

[2], [5]. [9] C. Sinescu, L. Trofin, „Impactul migrației asupra contextului internațional actual", Revista: Sfera Politicii, *Revista de Stiinte Politice si de Teorie Politica*, nr. 137, Editata de *Fundatia Societatea Civila*, iulie 2009

[3] M. R. Stulza, R. Williamson, „Culture, openness, and finance", *Journal of Financial Economics 70*, 2003, pp. 313–349.

[4] G. S. Silași, „Romania, a Country in Need of Workers? The Bitter Taste of "Strawberry Jam"", *The Romanian Journal of European Studies, no. 5–6*, 2007, pp. 3.

[6] I. El Badawi, S. Makdisi, „Explaining the democracy deficit in the Arab world", *The Quarterly Review of Economics and Finance 46*, 2007, pp. 813–831.

[7], [10] E. R. Cristian, E. Paduretu, M. Sorlescu, „Social and Cultural Effects of Romanian Migration in European Union", *Analele Universită□ii din Constan□a*, Seria □tiin□e Economice, 2010, pp. 253-258.

[8] J-P. Platteau, „Religion, politics, and development: Lessons from the lands of Islam", *Journal of Economic Behavior & Organization 68*, 2008, pp. 329–351.

[11] L. F. Pryor, „The Economic Impact of Islam on Developing Countries", *Swarthmore College, USA World Development Vol. 35*, No. 11, 2007, pp. 1815–1835.

[12] A. J. Al-Khatiba, J. S. Vitellb, R. Rexeisenc, M Rawwasd., „Inter-country differences of consumer ethics in Arab countries", *International Business Review 14,* 2005, pp. 495–516

[13] A. J. Al-Khatiba, A. Malshea, M. AbdulKaderb, „Perception of unethical negotiation tactics: A comparative study of US and Saudi managers", *International Business Review 17*, 2008, pp. 78–102

Modeling Financial Audit in the Services and Financial Investments Companies

Pepi Mitică
"Ovidius" University of Constanta, Faculty of Economic Sciences
pepim@hotelolimpic.ro
olimpic2000@yahoo.com

Abstract

This paper is meant to deal with a generous theme, the auditing of S.S.I.F. and implicitly with the capital market, lent for such an accomplishment it is necessary to identity the audit in accordance with its standards, with its well defined subject matter named entity of audit.The optimum entity of audit on the capital market cannot be anything else but the intermediary of the capital market or the S.S.I.F.

The tranzactioning system of the Exchange Stock grants a reasonable assurance from the point of view of the audit enclosing it self in inherent limits that affect the ability of the audit to detect the errors. The audit that we suggest to be achieved has a high degree of specifity having in view the capital market that represents the system in which S.S.I.F.-s moves and which has a series of peculiarities, but also a specific normative frame. That is why, we have considered as being interesting to compatibilize the two microsystems, respectively that of the audit and that of the market of capital. We started the research of the market of capital with the instruments of the audit.

Key words: financial audit, service and financial investment companies, model
J.E.L. classification: G30, M42

1. Modeling the entity of audit

The Service and Financial Investment Companies (S.S.I.F.) are juridical persons, constituted in the form of firms on shares, issuing nominative shares, which have exclusively as an activity object the carrying out of services, of financial investments and which functions only on the base of C.N.V.M. authorisation.

This paper is meant to deal with a very generous theme, namely, the auditing of S.S.I.F. and implicitly with the capital market, lent for such an accomplishment it is necessary to identity the audit in accordance with its standards, with its well defined subject matter named entity of audit.

The optimum entity of audit on the capital market cannot be anything else but the intermediary of the capital market or the Service and Financial Investment Companies.

1.1. Identifity of relevant professional organism and the reasonable assurance

The Values Stock Exchange – Bucharest as a relevant professional organism of the capital market is an element on the base of which one may determine the audit proceedings.

In our opinion and according to the standards of audit, an audit is projected to offer a reasonable assurance so that the financial situations taken as a whole are not wrong significantly.

The reasonable assurance_is a concept related to connected to accumulation of the proofs of audit necessary so that the auditory to come to the conclusion that there are no significant errors in the financial situations considered as a whole.

The insurance degree refers to the whole process of audit.

The tranzactioning system of the Exchange Stock grants a reasonable assurance from the point of view of the audit enclosing it self in inherent limits that affect the ability of the audit to detect the errors.

These limits are caused by factors as:

- The use of the tests – the negociation and the tranzactioning in the continuous and intermittent market;
- The inherent limitations of any accounts system – the period relatively uncertain of the accounts situation concerning the transactions of accomplished movable values, but undiscounted and unrecorded in registers;

From this point of view, we started the research of the market of capital with the instruments of the audit, trying to identify in the S.S.I.F. compartment the elements of the audit:

- the covering area of the audit;
- standards of audit;
- proofs of audit;
- the threshold of materiality;
- risk in the audit;
- fraud and error in the audit.

We will consider the utility of the account – financial information as being a factor of quality of the analytical procedures of audit that influences their efficiency in the accomplishment of a degree of certainty.

1.2. Modeling financial audit with computerized system of information (C.I.S. MEDIUM)

At the same time, we have researched the possible identification in a medium with Computerized System of Information (the CIS medium) with the market of capital, having in view the fact that the market of capital, in general, can be considered as CIS medium. And in particular, the institutions of the market of capital, respectively the ones the represents the secondary market, are these CIS mediums:

- RASDAQ is a CIS medium, respectively an on-line operation system;
- BVB is a CIS medium, respectively a network operation system.

Other problems researched are the identification of the approaching of audit to S.S.I.F. having a choice between two ways of approaching the audit:

1. The approaching based on system (ABS);
2. The direct approach of matter (ADF).

Having view that S.S.I.F. as an entity of audit cannot be approached in an isolated way but only as a systematic approach within the market of capital, we have considered that the approach of the audit on ABS system is the most suitable one.

a) The identification and evaluation in profoundness of the relevant key controls and the evaluation of the size in which the audit can base on the controls presuming that they were organized and function properly.

In the case of S.S.I.F.-s, one will use the information extracted from the Great Book and the checking Balance on the base of which the reports are made up for C.N.V.M. and the financial declarations.

2. Modeling the audit of performance to S.S.I.F.

We have considered as being interesting to approach in our research the audit of performance or of the management to S.S.I.F. having in view the fact that S.S.I.F. is a society of financial services and is correlated with the market of capital by means of the quality (the performances) of the services (the transactions) achieved for the clients or for itself.

In the audit of performance of S.S.I.F. we have used analytical procedures of the audit which is based on two elements:

- The financial – accounts information;
- The decision of investments on the market of capital.

On the market of capital in general and within the S.S.I.F. in particular the performance is connected to the quality of the financial accounts information, to its accuracy, by the way it reflects the general economic phenomenon and its tendencies. The analytical procedures of audit of the accounts financial information being able to develop in two directions:

- The utility of the accounts financial information in the decision of investments on the market of capital;
- The effect of the accounts financial information in the decision of investment on the market of capital.

The performance on the market of capital is also connected directly to the quality of the investment decisions taken based on the accounts financial information.

For the investment decision we have considered as being the best approach of audit, respectively the best analytical procedure of audit is represented by the

financial analysis, an analysis that developed in two directions.

- The analysis of the capital market and,
- The financial analysis of the annual accounts this being developed in its turn in three directions:

• Univarious analysis;
• Multivarious analysis;
• The indicators of the Stock Exchange of Values.

In such a way we have created a quadrilateral of research by audit_to S.S.I.F. which, for a better understanding, we have represented it by means of a logical scheme (see *Annex 1*).

2.1. The Performance Audit on Companies of Financial Investment Services

The performance audit covers:

• The audit of economicity_concerning the administration of the administrative activities according to the healthy administrative principles and practices and the management policies;

• The efficiency audit of the use of human, financial and of different other resources, the quantification of the results in the analysis of the procedures used for removing the risks;

• The efficacy audit of the results related to the targeted objectives and to their effective impact in comparison with the wished impact.

a) The Economicity is defined as "the minimizing of the cost of the resources used for an activity, with the observance of the programmed quality conditions". It presumes the evaluation of a good administration of the public money based on accepted and legal slated criteria.

The measurement of the economicity can be analyzed by means of the following relation.

$$\text{Economicity} = \frac{\text{resources effectively consumed}}{\text{the result effectively obtained}} \frac{\text{programmed resources}}{\text{programmed result}}$$

The situation is considered to be favorable when the result of the relation is sub unitary.

b) Efficiency is understood as a relation among results "under the form of goods and services, and the resources used to produce them". It may be expressed as a ratio among the obtained results (outputs) and the effort made under the form of consumed resources (inputs) according to the following formulae.

$$\text{Efficiency} = \frac{\text{The obtained results (inputs)}}{\text{Consumed resources (outputs)}}$$

The situation is favorable if the result of the ratio is greater than the programmed one or increases its dynamics.

c) Efficacy is represented by "the extent in which the objectives have been attained as well as by the relation between the wished impact and the effective one of an activity". It can be expressed as a ratio among the recorded results and the programmed ones.

$$\text{Efficacy} = \frac{\text{Obtained results}}{\text{Programmed results}}$$

The situation is considered favorable when the result is greater or at least equal to 1.

The efficacy audit follows the way in which the measures that are taken by the audited entity have contributed to the attaining of the objectives and it can be understood in this way:

• In a restricted sense when only the management and the internal operation of the audited entities are examined;

• In a large sense when the examining exceeds the limits of the entity and when for the evaluation the auditor also takes into account the impact of other external factors.

A performance audit does not presume, by all means, the approaching of the "3E" at the same time; by means of the objectives of the audit one established which of the concepts will be examined.

The standards of audit INTOSAI stipulate that unlike the conformity audit (financial) is subject to some clear enough regulations and requirements, the performance audit is of a large scale, as nature, and more than that more open to judgments and interpretations; the coverage is more selective and it can be developed for a cycle of a few years rather than for a limited period and it is not by all means connected by a balance or by another document. As a consequence the reports of a

performance audit are more varied and contain more reasonable commentaries and arguments.

The principles of the performance audit include the fundamental qualities and characteristics that must determine and guide the activity of the audit, and they are the following ones:

a) The responsibility is a principle according to which the activity of the auditors is developed with objectivity by assuming the responsibilities for their own work;

b) Integrity. In conformity with this principle, the activity of the auditors is developed sincerely, correctly, honestly and with good will;

c) Objectivity and independence are two principles that presume each other reciprocically and according to them in their activities the auditors maintain their independence related to the executive power (the government), to political parties and diverse groups of presume;

d) Added value. According to this principle, the performance audit provides the parliament and the audited entities information and solutions that lead to the reducing of the costs and the achievement of the programmed results;

e) Competence is a principle that imposes the auditors a special professionalism, namely proper experience and aptitudes.

f) Rigor. This principle presumes that the performance audit should approach the examining profoundly, to evaluate the scientifically the information on which the findings and conclusions are based, so that the administrated proofs of audit should be complete, clear and confident;

g) Perseverance imposes that the auditors should not divert prom the obtaining and analyzing of the audit proofs for the substantiation of the conclusions, even if sometimes the audited entities are not co-operant;

h) The clarity of the communication. According to this principle the audit reports must be objective, equilibrated, clear and persuasive.

The performance audit is an arborous process, which, in conformity with the good practice in the field, it is developed in a cycle comprising distinct stages, as follows:

- Strategies planning;
- The planning of the audit mission;
- The proper auditing;
- The drafting of the audit report;
- The clarifying and agreeing with the report;
- The publishing of the report;
- The conveying to the legislative power;
- The answer of the government factors;
- Observing the impact of the audit report.

3. Audit by analyse of the annual accounts

Without trying to exacerbate the role of the personal interests in elaborating a realist analysis, we wished in the above presented information to show the importance of an assembly thinking which may permit a good "reading in between the lines" of the annual accounts.

However, the most important part of the financial analysis is based on inflexible and impersonal models of calculation of the financial indicators: "the indicator (financial o.n.) represents a procedure of reporting a figure to another figure being an accepted and easy to understand conventional manner (…). An isolated number does not represent useful information; the comparison is the key".

This procedure, as we can see, is a procedure of analysis to the risk of audit.

These conclusions can identify by univarious analysis the liquidity and the profitability, by means of multivarious analysis and the stock exchange indexes, the solvency of the society of movable values.

The application of the analytical procedures of audit by financial analysis is based on the hypothesis that the relations between the data exist_and are maintained in the absence of some conditions known as, being contrary.

The presentation of these relations assures proofs of audit as to the exhaustivity, the precision and validity of the proposed data by the accounts system.

However, the trust in the results of the analytical procedures will depend on the evaluation of the risk by the auditory, the analytical procedures to identify similar

relations to the expected ones when, there exist in fact, significant errors of declaration.

3.1. Audit by the analyse of the financial accounts information

In the contemporary economy being in a continuous transformation, the spectacular modifications are accomplished in a short time on the base of same financial decisions taken by utilizing the accounts information and based on the accuracy on its relevance.

But, if this information is proved to be incorrect, having in view the economic events based on which these were generated or are wrongly understood, the results of the decisions will be far from being at the anticipated level.

The solving of the paradigm represents a problem of audit and it is the essential preoccupation of the accounts profession.

The auditing can be accomplished on the base of a thoroughly research of the financial-accounts information.

In our opinion, the accuracy and the relevance of the financial-accounts information consists in the capacity to answer the following questions.

- Is the nature of the financial-accounts information understood by the institutional investors and by the intermediaries from the Romanian market of capital?
- Is the financial-accounts utilised by the financial analysts and by investors that act on the market of capital?
- Is it necessary to improve the informational quality of the accounts balance in the actual form.

We also propose to establish the measure in which the financial-accounts information comprised in the annual accounts and other sources of documentation is understood and utilized by the investors from the market of capital from Romania and if this market is an efficient market.

The safety degree which the auditory grant to the results of the analytical procedures depends of a series of factors which we will presents as a conclusion of the utilization of the instruments of the financial analysis as analytical procedures of audit.

A first factor of which the safety degree of the results of the analytical procedures of audit depends on is represented by the threshold of significance.

The threshold of significance of the implied elements, for example when the balance of the stocks are significant, the auditory not based only on the analytical procedures in order to formulate the conclusions.

For certain element of incomes and expenses, when these are not significant as individual elements, the auditory can base only on the analytical procedures.

A second factor of which the safety degree of the results of analytical procedures of audit depends on is represented by the directing of other procedures of audit to the same objectives of audit, for example, in our case procedures performed by the auditory for revising of the subsequent cashing of debts, such as, the revising of the subsequent cashing that cannot confirm or refute questions that appear as a consequence of the application of the analytical procedures of the accounts of debts.

A third factor of which the safety degree which the auditory grants to the results of the analytical procedures depends on is represented by the precision with which the foreseen results of the analytical procedures can be forecast.

In our case, the auditory normally expects a greater consistency, in the case of the comparison of the margin of the gross proceeds from a period to another than in the case of the comparison of operational expenses.

The forth factor of which, the safety degree which the auditory grants to the result of the analytical procedures, depends on is the evaluation of the inherent risk and of the risk of control. In the internal control case of the process of selling orders is weak and, as a consequence, the risk of control is raised, then for drawing the conclusions referring to the debts a greater trust in the dailed tests of the transactions of the balance is necessary than in the analytical periods.

The purpose of this Standard of Audit is to establish the standards and to assure instructions for an auditory whose client utilized a Society of Services and Financial Investments further on named S.S.I.F. This standard also describes the reports of audit of the companies of services that can be obtained by the auditories of the clients.

The auditory has to take into consideration the way in which S.S.I.F. affects the accounts systems and the systems of internal control so that the audit can be planned and accomplished into an efficient model of audit.

4. Model of indentifity the fraud and error in the audit of S.S.I.F.s

A document of the European Council from 1995 specifies the notion of fraud, this:

a) from the point of view of the expenses any intended act or intended omission that refers to:

- the use of declarations or false documents incorrect or incomplete that generate the restrain of founds from the communitary general budget in a wrong way or un properly;
- the use of the funds with other purposes than the ones they were initially meant for;

b) from the point of view of the incomes, any intended act or omission referring to:

- the use of declarations or false documents, incorrect or incomplete having as a consequence the diminishing of the resources of the general, communitary budget, or of the funds administrated by him or on his behalf;
- the unrevealing of information disobeying specific obligations with the same effect;
- the use with other purposes of a benefit legally obtained having the same effect.

The error can be defined as any unintended mistake concerning:

- mathematical or accounts mistakes in the recording of the accounts data;
- the wrong application of the accounts policies (principles, rules, methods, etc).

During his mission, the auditory also takes into consideration the risk to discover in the activity of the entity he audits some significant infractions caused by frauds and errors.

Within the market of capital, having in view the specificity of the activity, the fraud and error can be found in the same way but in a different form, with specific names.

- accepted by C.N.V.M. according to the communitary procedures.

For the persons responsible with the execution of the orders concerning the tranzactioning of the financial instruments "the privileged information" means, at the same time, the information of a precise nature, conveyed by a client, in relation with its orders that have not been executed yet, referring directly or indirectly to one or more financial instruments, information which, if made public, could have significant effects on the price of the respective financial instruments op on the price of the derived financial instruments with which they are connected.

Audit procedures applicable to financial investments:

1. Initial procedures**:** The applying of the initial procedures to the balances and records in the financial investment accounts that will be afterwards tested:

- The reconciliation of the initial balance with the audited sums in the previous year;

- The Revising of all the activities referring to financial investments with an impact on the balancing elements and on the account of profit and loss and the investigation of the records that seem unusual from the point of view of the sun or of the source;
- The obtaining of the financial investment programmes of the company and the checking of the degree in which this presents with fidelity the accounts recording that are at the base of their making up.

2. Analytical procedures**:** The applying of the analytical procedures by analysing the output of the respective investments (interests, dividends) comparatively with the previsions of the company.

3. Detailed tests concerning the transactions: The checking of the accounts recordings in the accounts of financial investments, incomes and expenses, respectively their own capitals.

4. Detailed tests concerning the balances: The inspection and the determination of the number of titles held in the portfolio that are kept with the company.

- The confirmation of the existence and the number of titles deposited in other places.
- The recalculation of the incomes accomplished from investments.
- The revising of the documents that permits the determination of the market value.

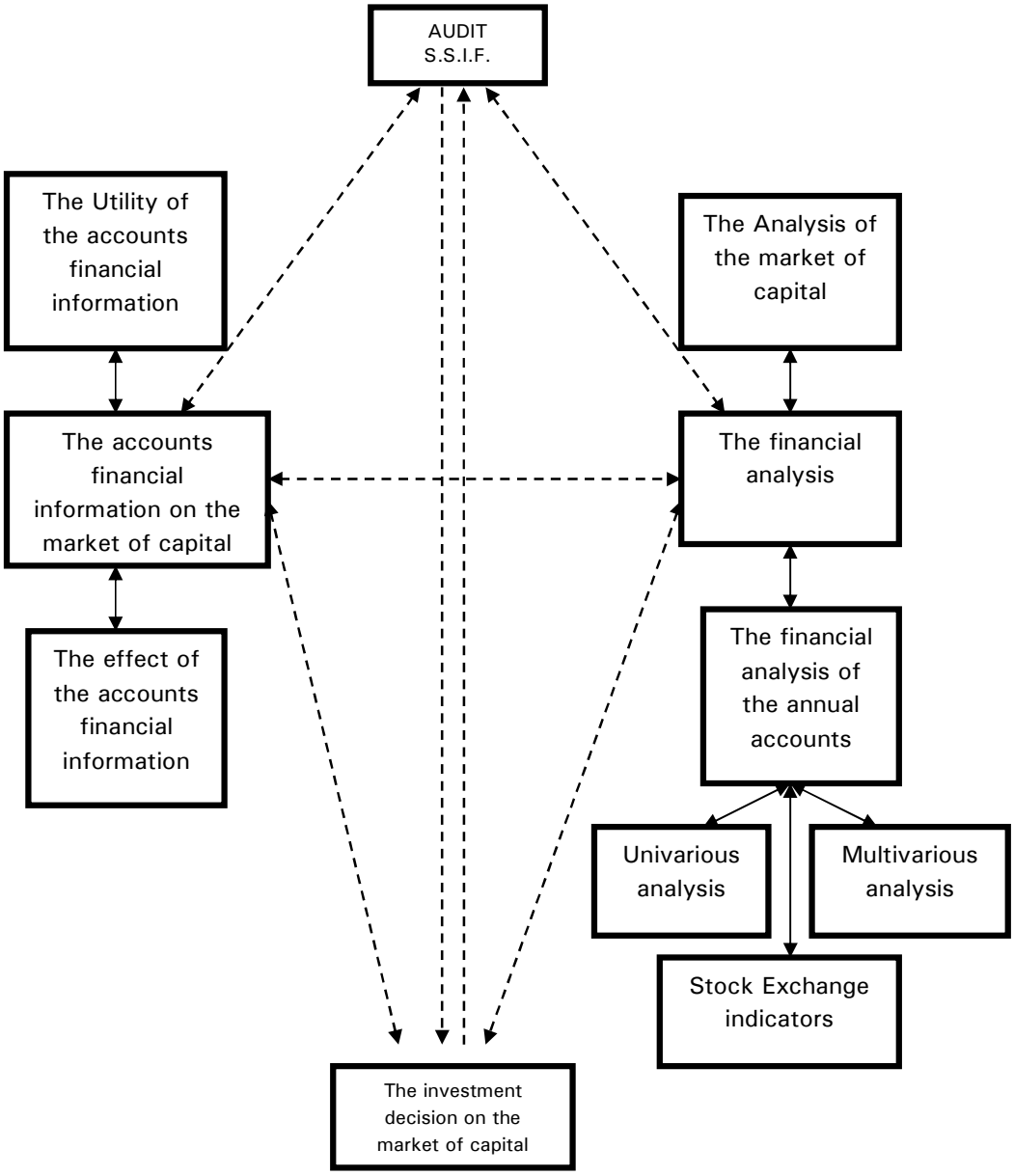
5. Presentation and publication: The comparing of the financial situations with the presentation requirements provided by the

accounts standards and in the account frame in force.

5. References

[1] Allen L. (1997)*''Capital Markets and Institutions : A Global View ''*, John Wiley&Sons INC.;
[2] Anghelache G. (2000) *Bursa si piaţa extrabursiera*, Editura Economica, Bucureşti,;
[3] Copeland T. R., Weston I. (1998) *Financial Theory and Corporate Policy*, Addison- Westley, New York;
[4] Dutescu A. (2000) *Informatia contabila si pietele de capital*- Editura Economica ;
[5] Fisher D., Jordan R. (1990) *Security Analisis And Portofolio Management*, McGraw-Hill, New York;
[6] Herbert L. (1996) *Auditing the Performance of Management*.Pretince Hall, New York;
[7] Hopkins L. (1998) *The Audit Report*. Pretince Hall, New York;
[8] Stancu I. (1996) *Finante, teoria pietelor financiare, finantele intreprinderilor, analiza si gestiunea intreprinderii*, Editura Economica, Bucuresti

Annex 1 The scheme of the audit of performance to S.S.I.F



Performing Internal Control by Taking into Consideration the International Economic Crisis

Petre Mihaela Cosmina
„Constantin Brâncoveanu" University of Piteşti,
Faculty of Management Marketing in Economic Business, Brăila
nita_mihaela_c@yahoo.com

Abstract

Taking into consideration the international economic crisis, the control is focused on main areas of social requirements, on economical and financial issues, passing from the general concern stage, the one of economic programs, to the assurance stage for the resource. Internal control is a factor that contributes to maintaining the work at a normal level, to competently solving issues on economic entities development and profit accumulation. Control work is part of managing process through which the entity aims to achieve its goals.

Given the international economic crisis, the objectives of the economic entities are reducing expenses and ceasing losses. Thus, internal control in the international economic crisis has transformed and the role of internal control has became more important than it was in the economic growth periods.

Key words: expert accountants, internal control, accounting control, international economic crisis
J.E.L. classification: M4, M40, M42, M49

1. Introduction

Control represents at micro and macroeconomic level an efficient function required to the management. Control is a permanent or periodical analysis of an activity, of a situation to take improvement steps. Control is a continuous, moral or material monitoring, control of an activity, of a situation. At the same time, control is a management function, a way of reality knowledge and error adjustment. The notion of „control" is used by specialists in economics since early XX th century. Therefore, the well known specialist Fayol explains the five management functions: „Management is a knowledge, an action and improvement process, a social ratio between the management factors and the controlled ones Management means provision, organization, order, coordination and control".

The control system is a key management instrument in order to monitor and improve activity.

Under the circumstances of international economic crisis, slowing of the global economy's growth, of foreign exchanges, leading to a decline of the foreign trade, with unfavourable consequences on European countries. As a result, implementation of internal control to all companies, regardless their size, is highly required.

2. Exercising internal control under circumstances of international economic crisis

The international economic crisis has revealed difficulties of trading companies both on the domestic markets, as well as on the foreign markets. Therefore, a reduction of consumptions at the same time with increasing the beneficiaries' inability to pay is noticed nationally. Under these circumstances, the internal control has an increased role related to the prevention of blockages in economy and facilitation of cash flows. Exercising internal control within a trading company relates to tracking of customers and encashing the earned amounts according to the contracts under way. At the same time, internal control is very effective concerning the way the company's financial resources are managed. Under the circumstances of economic crisis, the

coverage of company's current costs is taken into consideration more, compared to launching of new products on the market or the development of existing technologies. A highly responsible issue of financial control is represented by assurance of property integrity, restriction of consumptions that are not required and prevention of frauds. Fraud is increasingly common, especially under the circumstances of international economic crisis. Business internationalization and globalization have opened new possibilities to generate frauds. Therefore, in order to limit frauds it is recommended to carry out transactions according to the contracts concluded, a strict compliance with legislation in force and requiring of warranties from beneficiaries in case when some long terms of payment are provided.

A reduction of transactions and cash flows is noticed internationally. Major corporations register a reduction of businesses and implicitly of the number of employed people. Therefore, major companies can take decisions concerning the reduction of the number of subsidiaries or branches, reduction of the number of marketed products, at the same time with stopping investments. Internal control within major corporations aims to cut costs, get back debts and keep the units with minimum costs.

3. Internal control at economic entities according to accounting regulations in compliance with European directives

At the end of 2009 new accounting regulations have been adopted that required implementation of internal control measures to economic entities. The goal of internal control is to provide coherence to objectives, identify the successful key factors and communicate the company's managers in real time, information related to performances and prospects. The internal control provides conformity of accounting information with the rules applicable to them and provides a warranty to the company's management related to the way of implementing the accounting and information systems.

Under the circumstances of international economic crisis, the internal control emphasizes the prevention of deviations, defficiencies and shortages. Therefore, the strict compliance with legislation in force and prevention of non-economic and illegal costs are aimed to. The professional accountant communicates both with investors, directors or companies' employees, as well as with other people outside the enterprise. For example, in case of control actions, the professional accountant may provide assistance to the controlled companies. As a result, communication becomes an instrument with a vital importance, both when annual financial stataments are presented to financial control bodies, and in case of presenting fiscal declarations to fiscal control bodies.

The internal control provides the prevention of damages and frauds. In the last years electronic fraud or information criminality has entailed. Using information systems without security measures can lead to access in the financial-accounting system of non-authorized people, with negative consequences for activity of the entity concerned. All this can be efficienctly stopped by means of internal control exercised by the professional accountant. Therefore, the professional accountant can exert the control not only on the company's funds, but also on the patrimony, as well as on the documents used in the financial accounting activity or information systems used in accounting.

Under the circumstances of using the information systems, the internal control has new features, specific to information systems:

- Existence of a formality information strategy, carried out with involvement of operational management;
- Involvement of management and its sensibilization compared to higher or information generated risks;
- Allotment of resources that prove the capability of the information system to reach objectives,
- Recruitment of personnel with a competence level adapted to technologies used and existence of a continous training plan that should enable a knowledge update.

Thus, within an information environment, the internal control leaves from aspects such as :

- The dependence extent of entity to its information system, with influence on operation continuity when dependence is too high;
- Confidentiality extent of information handled by the system;
- Obligation of complying with provisions in force related to the fiscal system, people protection, intellectual property, or to regulations specific to certain business segments.

According to OMFP (Order of Public Finances Minister) no. 3055/2009 to approve the Accounting Regulations according to European directives, the company's internal control is focused on assuring:

- Conformity with legislation in force;
- Application of decisions taken by the company's management;
- A good operation of the company's internal activity:
- Reliability of financial information;
- Efficiency of entity's operations;
- Resource efficient use;
- Risk prevention and control not to reach the set objectives etc.

The new accounting regulations mention the two main objectives of internal control: on the one hand, tracking of registering the entity's activity and personnel behaviour in the frame defined by applicable legislation, values, company's internal standards and rules, and on the other hand, verification if communicated accounting, financial and management information reflects correctly the activity and current situation of the company concerned. Under the circumstances of international economic crisis the selection of specialized personnel and quality of accounting works carried out is emphasized. Thus, the professional accountant becomes a specialist appreciated by companies for competence and professional probity.

According to the Order of Public Finances Minister no. 3055/2009 to approve the Accounting Regulations in compliance with the European directives, the accounting and financial control is a major element of internal control. This is focused on the assembly of accounting and financial information communication and acquirement processes, and at the same time it contributes to making a reliable information and in accordance with legal exigencies. As an internal control, the accounting control is supported on a system comprising especially the elaboration and application of policies and procedures in the field, including a monitoring and control system.

The internal accounting and financial control is focused on assuring:

- Conformity of accounting and financial information published with the rules applicable to them;
- Application of instructions carried out by entity's management in connection with this information;
- Asset protection;
- Prevention and detection of frauds and accounting and financial irregularities;
- Reliability of information provided and used internally in order to control, as long as these contributes to the elaboration of accounting and financial information published;
- Reliability of annual financial statements published and other information communicated to the market.

The new accounting regulations also require identification of responsible people that process the accounting information and carry out the annual financial statements. Thus, they are required.

- The clear identification of people responsible with the elaboration of accounting and financial information published, or participate in the elaboration of financial statements;
- Access of each co-worker involved in the accounting and financial information elaboration process to information required for the internal control;
- Establishment of a mechanism in order to provide exertion of an internal control;
- procedures to check if controls have been carried out, to identify deviations from the rule and these can be remedied if necessary;
- existence of a process that aims to identify the resources required to a good development of accounting function;
- adaptation of personnel requirement and its competence to the size and complexity of operations, as in the case related to the development of needs and constraints.

4. Conclusions

The international economic crisis favoured an unprecented rise of frauds, an advanced and wide use phenomenon of information systems, as well as a high personnel fluctuation within economic entities. The internal control execised at economic entities may lead to fraud prevention and control, it may notice damages and identify guilty people. At present an improvement process of internal control related legislation occurs. It has to be said that internal control activity has been permanently compulsory at public entities, and imposition of introducing the internal control to economic entities is a harmonization measure of financial-accounting legislation provisions between economic entities and the public ones. At the level of the Body of Accountant Experts and Authorized Accountants in Romania there is a permanent concern to improve professional standards and training of professional accountants in order to meet the companies' requirements.

The internal control provides a clearer accounting information and a more reliable economic activity in general. Under the circumstances of international economic crisis, the internal control becomes an efficient instrument of modern management, mainly aiming to prevent frauds and stop losses.

5. References

[1] M. Boulescu, *Financial-fiscal control,* Fundaţiei România de Mâine Publishing House, Bucharest, 2007.
[2] L. Ionescu, *Financial-fiscal control* and *accounting expertise, theoretical and practical foundations,* Cartea Universitară Publishing House, Bucharest, 2008.
[3] L. Ionescu, *Thorough accounting of trading companies*, Fundaţiei România de Mâine Publishing House, Bucharest, 2009.
[2] Order of Public Finance Minister no. 3055/2009 to approve the Accounting Regulations in accordance with the European directives, published in the Official Monitor no. 766/10.11.2009 and the Official Monitor no. 766 bis/10.11.2009.

The Role of Accountancy and of the Expert Accountant within the Framework of Present International Economic Crisis

Petroianu Grazia – Oana
„Constantin Brancoveanu" University of Pitesti,
Faculty of Management Marketing in Economic Affairs, Braila
oana_petroianu@yahoo.com

Abstract

The financial crisis has started on the US subprime mortgage market in the summer of 2007, reaching unexpected levels by 2008, rapidly spreading all over the world and disrupting the global financial system. In less than a year, the balance-sheets of the biggest financial companies reported impaired assets and major declines in value due to the lack of liquidity of certain markets or assets. The investors' confidence in the financial markets and institutions has reached a new historical low and the financial crisis has triggered the economic crisis.

The international economic crisis and the emergence of financial barriers in economy increased the need for the expert accountant to get involved in activities that clarify disputes between businesses, businesses and public entities or businesses, public entities and natural or legal persons. During 2008-2009 a decline in business field and a significant increase of commercial disputes was registered, which require the input of knowledge and experience of the expert accountant.

Key words: International economic crisis, Global financial system, Expert accountant.
J.E.L. classification: M4, M40, M41, M49

1. Introduction

The actual international economic crisis is not a singular event in the history of economic crisis. The main difference between the episodes of financial past turbulences and the present day crisis is given by its spreading rate and by its global dimension. The financial markets have registered serious disturbances, threatening the robustness of financial institutions and their capacity to face the current needs to properly administrate the assumed risks.

The financial crisis had an impact on the economies all over the world, which have gone into recession: the GDP of some countries with a highly developed economy has registered significant decreases, the export has reduced considerably, estate market has known a decrease, the automobile market has declined, the deflation risk has increased, unemployment has risen significantly, and the countries of the third world have received less aids, a fact which made poverty and famine become more prominent. The resounding bankruptcy continues to happen, many experts considering that we cannot speak yet about a way out of the crisis.

2. Accountancy and its role in the context of the international economic crisis

In the context of ever more significant economic effects of the financial crisis and on the way of applying ever more expensive saving projects for common people, voices were heard who tried to identify the causes of these events and those who made themselves guilty of the present crisis. The opinions were different, but many specialists have agreed that one of the factors that generated the actual events was the improper use of some complex financial instruments which have hardly become understandable even for their creators. The consequences of their use have increased the opacity of the financial system and of financial reports, accused of hiding the existing risks and consequently of distorting the information sent to the interested public.

The perception of some close connections between crisis and some types of financial

instruments has placed on the first level of discussions the *accounting standards* referring to these instruments. The subject has received excellent media coverage, the accounting standards being incriminated, primarily because of rules connected to real value. These have been accused by bankers and the insured of having been guilty of the enormous losses registered by the financial institutions whose markets have lacked liquidity, losses got not as a result of some effective transactions and which have worsen a situation already difficult.

Other voices are of the opinion that guilty for the actual crisis are not the accounting rules but financial reports concerning financial instruments, real value and risks which lack transparency and comparability because of inadequate use of information describing norms. The critics main arguments were that the financial reports should have offered a more clear and convenient image of implied risks by using some sophisticated financial instruments to enable investors and other parts interested to correctly evaluate the companies assets, debts and own capitals.

The role played by accountancy for real value and by financial-accounting reports within the actual crisis can be evaluated by the analysis and commentaries of information published by the financial situations drawn-up by European and American financial institutions, the financial sector being known as one of the most affected by the current events.

The specialists in the field have drawn some conclusions referring to the accountancy role in the context of the actual financial crisis.

✓ The accounting rules, especially those referring to the just value cannot be considered guilty of triggering and spreading the crisis, for which more profound causes have been identified.

✓ The role of accountancy does not stand in assuring financial stability, but in offering some useful information to interested users in making decisions even if these place the managers in an unfavorable light. Therefore, accountancy must not be used as a means of achieving stability, as this fact would affect its transparency, and even cannot be a working instrument against procycling, as it must remain neuter.

✓ Accountancy at its just value must not be eliminated or suspended, not even during crisis, being appreciated by investors as the best way of evaluating the financial instruments, which can be improved by guides and additional recommendations, for which the normalizing bodies already work.

As regards the financial reports it can be said that:

✓ The information presented is extremely complex, a fact that does not help in any way to make the investors trust the financial markets, a trust which has been strongly affected by the crisis.

✓ In order to attain the desired level of transparency and comparability it is not enough a simple use of accounting standards, the presented information having to be detailed and explained in a proper way.

✓ It is necessary the improvement of reporting requirements by the accounting normalizing bodies.

In the actual economic context, the companies have started to pay a better attention to the efficient use of resources and use in this way the income and expenditure budgets as an instrument of financial management, at organizational level and at the level of the company main types of activities. A fundamental component of control audit, and being directly connected with the planning structures, of control-follow-up and accounting of the whole activity, the budget is an important planning instrument on a short term. This is considered as an accounting and financial expression of action plans kept to the applied, and so the advised objectives and the available means on short term are directed in order to achieve the operational plans.

If until now most of the markets in Romania were "seller markets", in which the producers and traders did not have to use sophisticated strategies to stimulate sales, nowadays in order to successfully „navigate" through financial economic crisis, the companies have to review their strategies.

3. The importance of accounting expert in reestablishing the truth, the observance of law and the settlement of causes

The accounting expert's reports are means of control used in the settlement of some causes which require knowledge of specialty of some persons who have capacity of expert accountant. The accounting expert's reports prescribed ex officio or commonly agreed by the parties in the investigating and judging stages of the civil and/or commercial causes, attached or not to a penal trial are called judicial accounting reports. All the other accounting expert reports are extrajudicial.

The judicial accounting report is a means of evidence in justice, a form of research and clarification of some facts or financial-economic events indicated by the judicial bodies with the view to settle the dispute between legal persons, between these and natural persons as well as of criminal suit regarding offences which caused damages to patrimony.

Being a means of evidence to which the court resorts, at the parties request or ex officio, in order to clarify some de facto circumstances or to settle the truth, the judicial accounting report is entrusted to some specialists to find and evaluate some facts which the judges could not find or appreciate themselves.

The main task of a judicial accounting report is to contribute to the settlement of truth and of the just solution made by the judicial body of the causes which are in the research or judging stage.

The judicial accounting report may be regarded as a means of evidence by which the judicial bodies are acknowledged about the specialist's opinions regarding those de facto circumstances whose settlement requires special knowledge.

This opinion is made by some concrete research activities of the case and by applying some specialty data by the competent body named by judicial body. Therefore, the expert's report is more than a control act because it also includes the accounting expert opinion about the operations in dispute.

The judicial accounting reports are at the interfering point between the field of accountancy and that of law, having the function of scientific control and evidence.

The research object of accounting expert's report is that of economic phenomena and processes reflected by the documents having conclusive evidence indicated by each party in dispute.

The scientific character, the expert's professional and deontological probity, confers the accounting report the character of strong evidence for establishing the responsibilities of persons guilty for breaking the law, for ignoring the financial discipline and bringing damage to patrimony.

In conclusion, the expert's report is a critical and personal work, which besides the result of examining facts as regards the exactness of forms and content, also contains the expert's opinion on the causes and effects of the object under research. The conclusions of the report are a source of facts as well as a guide for the decisions to be taken by right persons: magistrates, managers, third parties.

4. The role of accounting expert in the context of international economic crisis

Under the conditions of economic crisis, which have become manifested in Romania too, the expert accounting report has got new valences. The expert accounting report regarding the activity of economic agents under insolvency or bankruptcy may have as object the aspects of some offences such as simple or fraudulent bankruptcy.

The insolvency law was adopted at the beginning of 2006 as an imperative necessity, under the conditions in which in Romania, the number of businessmen in difficulty is increasing. The actual legislation regarding insolvency is characterized, primarily by protection against private prosecution, in the detriment of a sound economic policy and protection of the working places but also by fighting against fraud, of illicit transfer and against underground economy.

At the end of 2009, the number of economic agents in difficulty has increased dramatically, and the financial blockings have generalized.

This context of economic crisis is favorable for the development of accounting reports activities in Romania.

The role of accounting expert report in preventing damages of public and private patrimony, it's keeping intact and the observance of legislation is even more important under the conditions of international economic crisis.

Therefore, the accounting expert report is not only a means of evidence in justice, but also a sustantiation means of arbitrary, juridical or penal actions, which rely on data got from documents and reports.

The practice in the field proved that many of the actions addressed to criminal search bodies are a consequence of the faulty accounting management, of non-observance of legal provisions, of the staff fluctuation in the financial-accounting department, of the poor implication of the auditing commission or of board of directors in the management and control of financial resources.

The international economic crisis has generated difficulties both to economic agents and public institutions. So, for the economic agents it is registered a decrease of the rate of turnover in the same time with that of profit and dividends. In the last 12 months it has been noticed an increase of debts with the economic agents and public institutions. Therefore the accounting expert role is to bring clarity in the accounting financing activities of companies in difficulty. The frequent legislative changes which have taken place in Romania lately, have determinate a faulty use of the legal provisions in force. So, the extrajudicial accounting report can bring some clarity as regards the way in which the norms in force have been observed, and the accounting expert can evaluate the consequences of this situation.

Concretely, the accounting expert can notify the management of economic agents about the way in which disposable funds were used, and the way in which the income and expenditure budget was observed. In most cases, the managers direct disposable funds to other purposes than the legal ones, with negative consequences on the respective organization cash-flow. In the same time, as regards the engagement of expenditures, quite often the contracting provisions are not observed and as well as the payment charts. The accounting expert analyses all the justifying documents and identifies nonconformity between contracting provisions and the payments made. The differed payments made by economic agents generate delay penalties with negative consequences on the treasury of the organization in dispute. Also, the inclusion in expenditure of some illegal payments may lead to the decrease of profit and implicitly of shareholders dividends. The accounting expert can reduce the calculation of the real profit by excluding the illegal expenses and making a right determination of dividends owed to shareholders or organizations. The accounting expert can indicate in the expert's report the real situation and the causes which led to disorders in financial accounting activity.

5. Conclusions

The whole world lives more or less under the impact of crisis. The bankruptcy of the great companies, the decline and disappearance of small enterprises, the significant reduction of income, and the increase of unemployment and of running into debt make together the spectrum of a life marked by uncertainty and stress. On short term, there are not solutions to miraculously solve such complex problems.

In the last years we have witnessed an unprecedented increase of frauds and disorders, a fact which has been amplified by the international economic crisis. The accounting expert report can find and remove disorders, bringing clarity in the financial accounting activity. At present there is a process of redefining the expert's report. At the level of Auditors Body and Licensed Accountants in Romania there is a permanent preoccupation for the development of accounting expert. Therefore, Professional Standard no. 35: „The accounting expert's report" has been developed and updated with modern elements regarding the independence and competence of auditor. The auditor must follow the rules of the Auditor's Body and that of Licensed Accountants in Romania regarding the long-life learning, the constant testing of their knowledge, and this permanent training contributing to the raise of quality of expert's reports.

6. Bibliography

[1] Boulescu Mircea, Ghiță Marcel *„Expert's Report"*, Didactic and Pedagogical Publishing House, Bucharest, 2001.

[2] Horomnea Emil, *„The Scientific Fundamentals of Accountancy. Doctrines. Concepts. Lexicon"*, TipoMoldova Publishing House, Iaşi, 2008.

[3] Horomnea Emil, Rusu Georgiana-Alexandra, *„The global Financial Crisis and the Perspectives of the Accounting Profession in a New Approach"*, Accountancy, Expert's Report and Business Audit, CECCAR Publishing House, Bucharest, 2009, pp. 8-16.

[4] Huian Maria Carmen, *"Accounting Standards and Financing Reports Guilty of the Actual Crisis?"*, Accountancy, Expert's Report and Business Audit, CECCAR Publishing House, Bucharest, 2009, pp. 7-11.

[5] Ionescu Luminița, *„Fiscal Financial Control and the Accounting Expert's Report, Theoretical and Practical Fundamentals"*, Universal Book Publishing House, Bucharest, 2008.

[6] http://www.capital.ro/

[7] http://www.wall-street.ro/

[8] http://www.businessweek.com

Unemployment in the Economic Impact of Financial Crisis

Pivodă Roxana Mihaela
«Spiru Haret» University of Constanta
roxana_pivoda@yahoo.com

Abstract

Through its mass and its content is complex, involves a huge potential market for human labor, with important implications for economy development and society as a whole, while the labor market in turn is strongly influenced by the state and evolution of the economy, any momentum or economic decline nationally and worldwide, affecting one way or another level of employment and unemployment.

Key words*:* economic crisis, human factor, occupancy
J.E.L. classification: R23

1. Evolution of unemployment in Romania

It is known that the impact of economic and financial crisis that was unleashed in the United States of America, in the second half of 2007, deepened and entered a tempestuous phase in 2008, spreading rapidly worldwide, damaging economic performance throughout the world.

In this sense, the global economic crisis have been felt ever more intensely in the Romanian economy since 2008. The economic downturn has caused a slowdown in economic growth, which affected important sectors of national economy, its effects are more wide-repercutându both on economic indicators and the human factor.

Lack of financial resources, low foreign investment and domestic demand shrinking for some goods and services has led to production cuts, restrictions on access to credit, which has an immediate impact on firms that tend to develop on this basis, gradually led the closure of some units, the losses and job reductions in other companies, to issue from year to year a large number of labor force, unemployment is becoming a size larger in Romania, and strong knowledge of labor market imbalances.

As a result of the labor market is the main source of income for an important segment of the population and labor demand derived from production and demand for goods and services, any impact on this market has experienced both direct and indirect effects labor market. Reducing the demand for labor, also constitutes an important factor of pressure on employment levels in that many employers intend to respond to this crisis by reducing labor costs, which inevitably affects the wage or by reducing it, either by reducing working hours, thus contributing to the deterioration of living standards of employment.

The severity of these impacts depend upon the initial level of unemployment, the existence of a social protection system, the adoption of strategies and creative measures labor market.

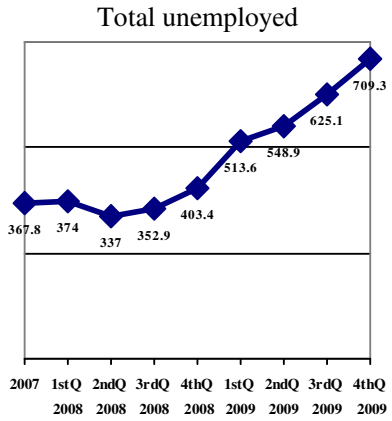
After a period of eight years had an unemployment trends downward as a result of positive growth rates that have been made by our country, while providing a certain stability of employment, in 2008 effects global economic crisis began to be felt in the labor market in Romania, but especially damaging level of employment was observed in 2009.

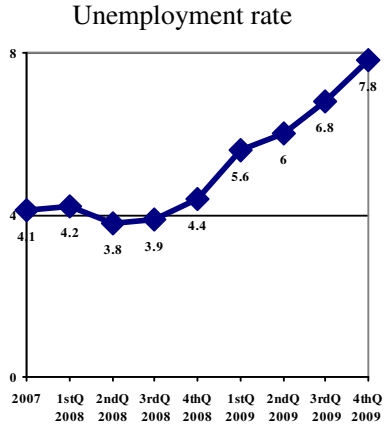
As can be seen from chart no. 1, compared with 2007, the total number of unemployed expressed in the national chart in the thousands, grew by 9.6% in 2008, the most significant increase recorded in 2009 but when the number of unemployed was 92.85% higher compared to the same year.

Regarding the quarterly evolution of unemployment is observed that the most significant increase occurred in the first quarter of 2009, when the number of unemployed persons increased by 110,180 from the previous quarter, recorded during this period and a decrease 36,966 people in

the second quarter of 2008 compared with the previous quarter.

Chart no. 1 - Evolution of unemployment in Romania, over 2007-2009



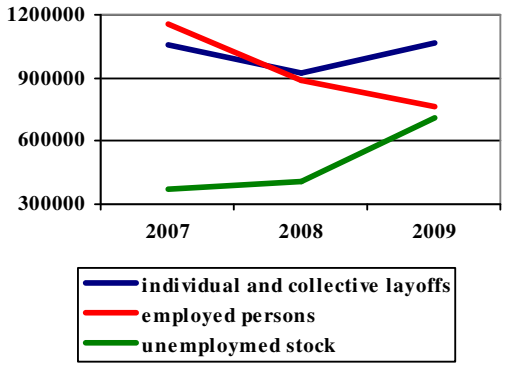


Source: http://www.mmuncii.ro, Quarterly Statistical Bulletin on Labour and Social Protection, no. 61-69

The notes of the same charts that the overall unemployment rate reporting period is characterized by an increase of 3.7 percentage points, the most significant increase occurring during the first quarter of 2009, when the unemployment rate was 5.6% more than 1.2 percentage points from fourth quarter 2008.

Increasing the number of unemployed since 2008, and the amplification of this phenomenon in 2009, mostly due to collective and individual dismissals that took place in Romania, but also due to the increasing number of employment declined as a result of the reduction demand for certain goods and products, due to diminishing financial resources generated by the current global crisis, which affected our country.

Chart no. 2 - Influence of layoffs and the stock of unemployed Placement



Source: http://www.mmuncii.ro, Quarterly Statistical Bulletin on Labour and Social Protection, no. 61, 65 and 69

Influences both the collective redundancies and those individual current and other entries into the causes of unemployment, accompanied by employment on fixed term or indefinite, and other causes that led out of unemployment on the dynamics unemployed, are expressed in chart suggestive no. 2.

In 2008, when the economic crisis have not yet experienced severe labor market in Romania, the evolution of both layoffs and downward marker, with 140,552, respectively 268,812 people, has contributed to a growing stock of 35 603 unemployed persons compared with 2007.

Before you see that have been movements in the number of unemployed in 2009 compared to 2008, taking account of changes due to input and output flow of the unemployed, it should be noted that in considering the existing stock of unemployed the level of a year caledaristic, equality between the stock of unemployed plus the previous and current stock inflows minus outflows not be verified due to the fact that within one year a person can move from one state to another several times as a result of several causes, most often due to mapping period, for a short time, usually characteristic of seasonal activities.

Compared to 2008, in 2009 the labor market in Romania recorded a more pronounced imbalance in the relationship between labor supply and demand, employment levels declined, the number of unemployed increased by 305,942 persons as a result of flow caused by into a number of 976,256 unemployed people mainly results from individual and collective redundancies, but also a more pronounced reduction in the number of appointments with 122,083 people compared with 390,895 the previous year compared to 2007. Consequently, it appears that reducing the number of appointments combined with the increasing number of layoffs has increased in 2009 the stock of unemployed at the national level.

2. Evolution of unemployment in the regions of Romania

Event of unemployment in Romania has not been uniform nationally, its effects are felt more or less in the regions and districts, the development of unemployment in the developing regions, based on statistical data presented in table no. 1, shows that in 2007 the highest share of the unemployment register in North-Eastern region, the highest number of unemployed, ie 17 695 persons were registered in the county of Iasi, followed Vaslui little difference with a number of 15 619 unemployed. Dimensions relatively low unemployment in this region are recorded in the counties of Botosani and Neamt in 6391 people with 7800 people.

In 2009, North-Eastern region, no longer ranks first in terms of absolute size and relative number of unemployed, the most difficult situation in this respect, the region recorded in South-Muntenia, the number of registered unemployed 54,786 persons were higher than in 2007.

In the South-Muntenia Region, the largest number of unemployed is in Prahova county Arges with 25,229 unemployed and 28,321 unemployed, increases in these counties than in 2007 being 233.57% and 194.29%, the unemployment rate in these counties registering 9% and 9.4%.

Table no. 1 - Evolution of unemployment in the regions of Romania during 2007-2009

Regions	**2007**	**%**	**2008**	**%**
Total	**367838**	**100**	**403441**	**100**
Northeast	67317	18.3	70479	17.47
Southeast	48485	13.18	51712	12.82
South-Muntenia	65517	17.81	65518	16.24
Southwest Oltenia	47307	12.87	64540	15.98
West	29470	8.01	33641	8.34
Northwest	35901	9.76	40230	9.97
Center	53425	14.52	56949	14.13
Bucureşti-Ilfov	20416	5.55	20372	5.05

Regions	**2009**	**%**	**Difference 2009-2007**
Total	**709383**	**100**	**341545**
Northeast	114086	16.08	46769
Southeast	93018	13.11	44533
South-Muntenia	120303	16.96	54786
Southwest Oltenia	97523	13.75	50216
West	64850	9.14	35380
Northwest	84109	11.86	48208
Center	105439	14.86	52014
Bucureşti-Ilfov	30055	4.24	9639

Source: http://www.mmuncii.ro, Quarterly Statistical Bulletin on Labour and Social Protection, no. 61,63,65,67, 69 and own contribution

Negative situations of unemployment in this region are also seen in Teleorman and Ialomita county, where even if the total number of unemployed people is 19,976, ie 12,256 persons due to the small size of the active population, unemployment rate in 2009 was 11.9 % and 11.6%.

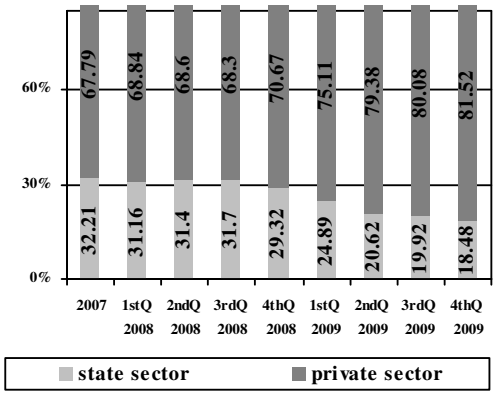
The opposite as both absolute and relative, being Giurgiu county where the number of unemployed persons was 6681 and the unemployment rate of 7.2% compared to 2007, this county, the total number of unemployed persons increased by 2591 and the unemployment rate by 2.7 percentage points.

3. Industry source of unemployed

Analysis of the situation of unemployment, taking into account the origin of the workplace, presented by chart suggestive no. 3 shows that nationally, the majority come from the private sector, both in 2007 and in 2009, in 2007 the share of the unemployed came from companies with majority private capital was 67.79 and in 2009, their share increased by 13.73 percentage points.

Even amid the economic crisis in our country manifested more intensely in 2009, the situation at the level of counties, indicating a predominant disponibilzare in some state-owned enterprises, or where the state holds less than one third of the capital.

Chart no. 3 - Evolution of unemployment, as the industry source



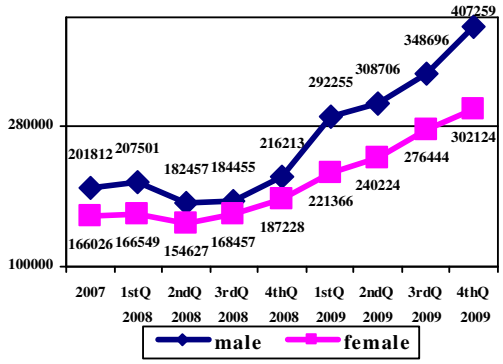
Source: http://www.mmuncii.ro, Quarterly Statistical Bulletin on Labour and Social Protection, no. 61-69

Thus, for example in Bacau County, the number of people laid off in the state sector was 12,754 persons, representing a 60.47% share in the total number of unemployed in the county, and in Braila, the number of unemployed coming from state sector was 5855 persons, representing a 52.75% share. Similar situations, where the number of unemployed coming from the state sector exceeded the national average is recorded in Teleorman County, where the 19,976 people laid off, 12,532 are in the public sector, which represent respectively 62, 73%, or in Neamt County, where the 16,140 registered unemployed, 8537 from the state sector, which represents a 52.89% share.

4. Sex structure of the total number of unemployed

Sex structure of the total number of unemployed registered at the national level, shown in chart no. 4, indicating high levels of unemployment among males throughout the period analyzed, the differences between them being higher or lower depending on the period analyzed. So if in 2007, the spread between men and women was 35,786 and in the third quarter of 2008 of 15,998 people, end of period, ie in the fourth quarter of 2009, the number of unemployed men was higher 105,135 persons compared to women.

Chart no. 4 - The evolution of sex in the total number of unemployed in Romania during 2007-2009



Source: http://www.mmuncii.ro, Quarterly Statistical Bulletin on Labour and Social Protection, no. 61-69

Also between 2007-2009, there were larger increases in unemployment among males, and their number is higher by 205,447 persons, the difference recorded among 136 098 female unemployed, representing an increase 201.8% and 181.97%.

Therefore we can say that unemployment in Romania, affecting mostly males, they having a weight ranging from 54.86% of the total number of unemployed registered at the national level in 2007 and 57.41% in 2009.

Age people looking for a job shown in the chart no representation 5, is another important feature of the total number of unemployed at the national level, to be analyzed.

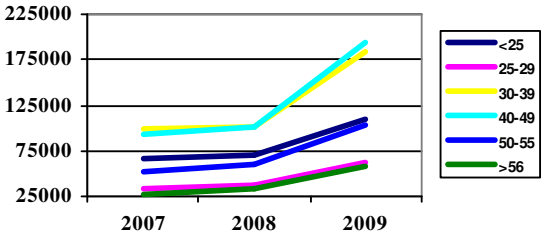
As was natural, unemployment has affected all age groups in a more or less. The most significant increase recorded in the period analyzed is manifest in the age group

40-49 years. Compared to 2007 this group recorded an additional 101,349 people, percentage of unemployed in this age range in the total number of unemployed at the national level, ranging from 25.15% in 2007 to 27.33% in 2009.

5. The age structure of the total number of unemployed in Romania

Significant increases in the number of registered unemployed and the unemployed, aged between 30 and 39 years, but a lower value such numbers as in 2009, up 85,115 people, compared to 82,178 in 2007 and in 2008, representing an increase of 186.47% compared to 2007 and 181.06% compared to 2008. The least affected by unemployment are those aged between 25 and 29 years, an increase of only 28,721 people during this period, demonstrating this. Decrease redundancies in younger persons aged at the expense of the older, show a change in attitude among employers, meaning that those with higher seniority at work, is both the best workforce.

Chart no. 5 - The age structure of the total number of unemployed in Romania during 2007-2009



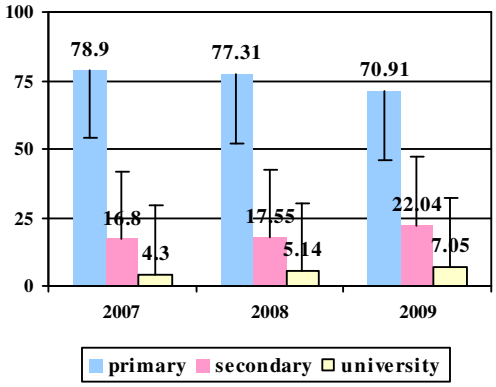
Source: http://www.mmuncii.ro, Quarterly Statistical Bulletin on Labour and Social Protection, no. 61, 65 and 69

6. Evolution of the total number of unemployed, we refer to the level of training

Training of unemployed in Romania, presented in chart no. 6, indicating a predominance of persons with primary, secondary and vocational. This can be interpreted as meaning that anyone can perform unskilled labor, but not valid reciprocal, meaning that any person may make a qualified labor.

The level of training of human resources in general, but especially those working, contributing to increased employment opportunities in the labor market, something supported by statistical data provided in the chart. Thus, throughout the period analyzed, the number of unemployed with higher education varies from 15,785 in 2007 and 50,036 in 2009, representing a 4.3% share, respectively, 7.05%, the total number of unemployed at the national level to the level of 290.340, 502.995 respectively, registered unemployed with a secondary or primary level of professional training, who are at risk of unemployment to an extent greater than the workforce with a higher education.

Chart no. 6 - Evolution of the total number of unemployed, we refer to the level of training in 2007-2009



Source: http://www.mmuncii.ro, Quarterly Statistical Bulletin on Labour and Social Protection, no. 61, 65 and 69

7. Conclusions

The effects of global economic crisis have been felt ever more intensely in the Romanian economy since 2008. The unemployment rate in the period between the first quarter of 2008 and fourth quarter of 2009 increased by 3.7 percentage points, the most significant increase occurring during the first quarter of 2009, when the unemployment rate was 5.6 %, more than 1.2 percentage points from fourth quarter 2008.

Compared to 2008, in 2009 the labor market in Romania recorded a more pronounced imbalance in the relationship

between labor supply and demand, employment levels declined, the number of unemployed increased by 305,942 persons as a result of flow caused by into a number of 976,256 unemployed people mainly results from individual and collective redundancies, but also a more pronounced reduction in the number of appointments with 122,083 people compared with 390,895 the previous year compared to 2007.

Analysis of the situation of unemployment, taking into account the origin of the workplace, shows that nationally, the majority come from the private sector in both 2007 and 2009, even if in 2007 the share of the unemployed came from companies with majority private capital was 67.79% and in 2009, their share increased by 13.73 percentage points.

8. References

[1] http://www.mmuncii.ro, *Quarterly Statistical Bulletin on Labour and Social Protection, no. 61*
[2] http://www.mmuncii.ro, *Quarterly Statistical Bulletin on Labour and Social Protection, no. 62*
[3] http://www.mmuncii.ro, *Quarterly Statistical Bulletin on Labour and Social Protection, no. 63*
[4] http://www.mmuncii.ro, *Quarterly Statistical Bulletin on Labour and Social Protection, no. 64*
[5] http://www.mmuncii.ro, *Quarterly Statistical Bulletin on Labour and Social Protection, no. 65*
[6] http://www.mmuncii.ro, *Quarterly Statistical Bulletin on Labour and Social Protection, no. 66*
[7] http://www.mmuncii.ro, *Quarterly Statistical Bulletin on Labour and Social Protection, no. 67*
[8] http://www.mmuncii.ro, *Quarterly Statistical Bulletin on Labour and Social Protection, no. 68*
[9] http://www.mmuncii.ro, *Quarterly Statistical Bulletin on Labour and Social Protection, no. 69*

Economic Figures and Perspectives at the Eastern Borders of the European Union in the Context of the Economic Crisis

Ploae Cătălin
„Ovidius" University of Constanta, Faculty of Economic Sciences
catalinploae@gmail.com

Abstract

Today's world crisis is different from previous crises in that it is directly systemic. Its effects are being exacerbated by expectations, and nobody today can say how the expectations of consumers and investors will change. How the material and human system of interdependence between the EU and its neighbours will respond is also unforeseeable. What about exports in relation to the shock of external demand? And ultimately, how will these events, leading to a drop in forecast growth every two months, affect reserves, monetary and budgetary balances and employment?

Key words: Economic recession, European Neighbourhood Policy, Eastern Countries, Economic Perspectives.
J.E.L. classification: F15

In the wake of the global recession, average GDP growth in the EU's eastern neighbours fell sharply from 8.4 % in 2007 to 5.6 % in 2008, although this figure was still significantly above the global average (3.2 %). The deceleration was general, with all western CIS countries (bar Belarus and Moldova) experiencing lower growth than in 2007. Additionally, all countries (bar Azerbaijan and Georgia) are expected to experience recessions in 2009. Russia, by far the largest regional economy, accounting in 2008 for over 84 % of the combined output of the area at market exchange rates, saw real GDP growth fall from 8.1 % to 5.6 %. However, the sharpest fall in the region was in the second largest CIS economy, Ukraine (responsible for almost 10 % of regional output). There, growth fell from 7.3 % in 2007 to 2.5 % in 2008, as the country was the hardest hit in the region by the collapse in commodity prices and the abrupt loss of access to international capital. These external shocks were also compounded by a less adequate policy response in some countries, most notably in Ukraine. Aggregate real regional GDP is set to fall by around 4 % in 2009 (largely due to an expected 4 % fall in Russia and 10 % fall in Ukraine, as those two economies are responsible for almost 95 % of regional GDP). As a result of the simultaneous downturn, all eastern neighbours (bar Azerbaijan and Russia) have agreed IMF programmes.

Average GDP growth in the EU's Eastern neighbours collapsed from 8.3 % in 2008 to an almost mirror image of -8.0 % in 2009, a remarkable 16.3% change in a single year. The downturn in 2009 makes the region the worst performer on the planet, with a contraction a whole order of magnitude greater than the global one (global GDP in 2009 fell by an estimated -0.8 %). Only two countries escaped open recession (oilrich Azerbaijan and the always surprising Belarus –respectively, the fourth and third largest Eastern neighbouring economies). Among the others, several had double digit or quasi double digit contractions (Armenia and Ukraine, both with around -15%, and Moldova, with -9%). Russia, one of the ten largest economies in the planet, and bigger than the whole rest of the ENP economies put together, saw a GDP contraction of -7.9 %. A limited recovery is expected for 2010, with the regional GDP set to increase by around 3.5 % (which, in any case, implies a difference of 11.3% between the 2009 and 2010 performances).

Almost a decade of robust growth in per capita GDP was interrupted in 2009, when it fell by 16 % y-o-y in euro terms, due to the combined effect of negative GDP growth and large depreciations in exchange rates. The long term trend is expected to reassert itself in 2010, due to the return to growth and the

stabilisation of nominal exchange rates, with a growth rate above 5%.

The decline in **unemployment** observed throughout the 2000s in the region has stopped, and unemployment has rebounded. The population-weighted average unemployment rate in the seven countries of the area increased from 6 % to 7 % of the total labour force in 2008 (albeit there are exceptions: Belarus officially still has full employment, but this masks a large increase in unpaid leaves). This development largely reflects the significant increase in people out of work in Russia, a country with around two thirds of the total population of the western CIS countries. There, unemployment jumped from around 6 % to close to 8 %. The situation in Russia also has direct regional side-effects, as the country receives very large numbers of temporary migrants from other CIS countries.

The increase in unemployment initiated in 2008 continued in 2009, partially reversing the gains observed throughout the 2000s. The average unemployment rate in the seven countries of the area increased from above 6 % to above 7 % (with the usual exceptions, Azerbaijan and Belarus, with effectively formal full employment). Growth resumption in 2010 shall bring unemployment again below the 7 % mark.

The fall in domestic demand (especially its investment component) in most countries in 2008 means that for most countries of the region (including Russia), 2009 growth will be largely determined by external demand, especially in the wake of the significant, region-wide devaluations (this development will be especially marked in Ukraine, the country that saw the largest depreciation in the region).

This process, coupled with the double-digit fall in the construction sector, which was markedly affected by the global and regional reduction in credit growth, means that growth drivers will switch from the non-tradable to the tradable sectors.

The GDP-weighted regional government surplus in 2008 fell to 3.3 %, from 4.4 % a year earlier. In 2009, the region will see a fiscal deficit of over 5 % of GDP. At national level, only one eastern neighbour — the Russian Federation — has had any significant fiscal surpluses (and consistently so, since 2000), with the worst non-oil imbalances to be found in Azerbaijan (where the fiscal deficit is financed with transfers from the off-budget local oil fund).

For the second year in a row, average **inflation** in the region increased, from 11 % in 2007 to around 15 % in 2008 (Azerbaijan and Ukraine remain the regional 'champions', with rates above 20 %). This was caused by the worldwide increases in commodity prices in the first half of 2008, and by the region-wide devaluations (which have significant pass-through effects on domestic prices) in the second half of that year.

The trend is expected to reverse in 2009, with average inflation falling again to the high singledigit levels, as the sharp fall in economic activity will limit the remaining pass-through. The only exceptions (using the latest available data) are Georgia and Moldova, while real ex-post policy rates are especially negative in Ukraine.

As foreseen last year, the economic contraction brought average inflation strongly down, from 14.0 % in 2008 to 6.7 % in 2009, with the effects of the region-wide devaluations fully counteracted by the downturn. This is set to continue in 2010.

Conclusions

The global downturn brought to a screeching halt a decade of strong growth for the EU's eastern neighbours, which was the second fastest growing area on the planet. The 2008-2009 global recession was showing signs of easing in most EU's Eastern neighbours by the fall of 2009. In any case, for the majority of them, 2009 will count as one of the worst years since the "transition recession" in the early 1990s.

The crisis has shown that globalisation and financial deregulation can have short term costs, but the policy response to this is to design frameworks that would soften the impact of shocks, without compromising the long-term benefits from integration. From this point of view, it is positive that no major liberalisation reversals have been observed in the region, including on the trade field, and that at least some of the countries (notably, the long time regional laggard, Belarus) seem to have used the opportunity provided by the crisis to introduce deeper structural reforms.

Bibliography

[1] European Commison, "The EU's neighbouring economies: emerging from the global crisis", European Economy - Occasional Papers. No.59, Bruxelles, April 2010.

[2] European Commison, "European Neighbourhood. A statistical overview", EUROSTAT,2009, http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-78-09-708/EN/KS-78-09-708-EN.PDF.

[3] European Commison, "Impact of the global crisis on neighbouring countries of the EU", European Economy - Occasional Papers. No.48, Bruxelles, June 2009.

[4] European Commison, "Communication from the Commission to the European Parliament and the Council: Implementation of the European Neighbourhood Policy in 2008", COM, 188/3, Bruxelles, 23/04/2009.

[5] European Commison, "European Neighbourhood Policy: Economic Review of ENP Countries", European Economy - Occasional Papers. No.40, Bruxelles, August 2008.

[6] European Commison, "Eastern Partnership", Communication from the Commission, Bruxelles, December 2008.

[7] European Commison, "Communication from the Commission to the Council and the European Parliament. Report on the first year of implementation of the Black Sea Synergy", COM(2008) 391final, Brussels, 19/06/2008.

[8] World Bank, "Global Economic Prospects 2009: Commodities at the Crossroads", WashingtonD.C.,2009,http://siteresources.worldbank.org/INTGEP2009/Resources/10363_WebPDF-w47.pdf

Economic Crisis in Mediterranean Partner Countries and Its Implications for the European Union

Ploae Victor
„Ovidius" University of Constanta, Faculty of Economic Sciences
vploae@univ-ovidius.ro

Abstract

Today's world crisis is different from previous crises in that it is directly systemic. Its effects are being exacerbated by expectations, and nobody today can say how the expectations of Mediterranean Partner Countries (MPC) consumers and investors will change. How the material and human system of interdependence between the EU and the MPCs will respond is also unforeseeable. What about exports in relation to the shock of external demand? And ultimately, how will these events, leading to a drop in forecast growth every two months, affect reserves, monetary and budgetary balances and employment?

Key words: Economic recession, European Union, Mediterranean Partner Countries, Trade.
J.E.L. classification: F15

1. An inescapable crisis

During the last quarter of 2008, these risks became very real for the MPCs, without these countries having anything to do with their causes. There was a turnaround on all markets, not only on the raw materials or financial markets. The crisis indeed made its presence felt, affecting the real sphere in a way that is both unparalleled and surprising for western country authorities. Concern about this crisis stems from its novations, which are rendering any forecasts about its duration and scope very difficult, but also from its systemic nature and its international reach.

The aim of this part is to provide information about how the crisis is affecting MPCs. It will underline that their ability to stand up to its effects differs from country to country, depending mainly on the type of international opening they have chosen. On the whole, they appear to be fairly resilient, at least more so than what can be seen with industrialised and emerging countries.

The effects of the crisis will be different however. The crisis will mainly spread via revenue effects linked to the drop in external demand, to employment difficulties for migrant workers and their effects on fund transfers, to tourist flows and to the decrease in direct investment. However, taking into account the relatively limited opening of MPCs in terms of services, the non-convertibility of their capital accounts and the existence of semi-fixed exchange rates, it seems unlikely that foreign banks will operate massive disinvestments (as can be seen in Eastern European countries), or that there will be massive drains of capital.

This does not mean that banks will not see a substantial increase in non-performing loans, or that the imbalance of public accounts will not significantly rise and that reserve crises will not probably occur. The biggest immediate risk is that expectations slide leading to a decline in the components of internal demand (consumption and investment).

The medium term risk is that slow and extensive efforts to stabilise the macro economy and introduce reforms are called into question resulting in a less progressive growth regime. The way in which the material interdependence system has been set up, especially with Europe, and the ability of the social systems to exert a dampening effect, will also be decisive if these countries are to adapt to the crisis.

2. The crisis in (Mediterranean Partner Countries) MPCs: the financial impact is today marginal but the real impact poses more of a threat

The Mediterranean has experienced significant improvement in its economic situation since the start of the Barcelona Process. The main components are sustained growth, beginnings of structural differentiation in trade and more FDI. Moreover, MPCs have introduced many reforms, in particular with respect to social policies. This has paved the way for real progress in terms of education, health, life expectancy and quality of life. However, having spread across the world, the crisis represents an unprecedented challenge.

The crisis is following a reverse process to the one in the developed countries where it started. It can first of all be seen in the revenue effects that are significantly undermining GDP growth owing to the drop in exports linked to external demand, a decrease in migrant transfers, tourism and net input from foreign direct investment. These phenomena are directly linked to the gap between the internal demand of the main industrialized partners of the MPCs, who are today lifeless, and to the MPCs' own continuing internal demand. The crisis has therefore created a growing exportable surplus in industrialised partner countries.

This specific, non-financial aspect of the crisis in MPCs is fully reflected in an analysis currently being performed by the EIB economic services. Based on a "probit" statistical analysis, Markus Berndt and Daniel Ottolenghi have compared the risk profile linked to the MPC crisis with industrialized countries and other developing countries.

The results underline that, overall, Mediterranean countries' direct exposure is low, notably owing to the fact that, so far, they have sufficient levels of currency reserves. Moreover, the slow rise in credit is moderating the risk of a domestic financial crisis. Thus, direct exposure and risks arising from domestic financial sector crises stemming from internal vulnerability are by and large limited. On the other hand, these profiles highlight the dependence of MPCs on external financial flows (migrant transfers, tourism revenues and foreign investment) and on commercial relations via export income (see "Vulnerability of the Mediterranean region to the Financial Crisis", Markus Berndt and Daniel Ottolenghi, European Investment Bank, Presentation given during the DEFI seminar, Université de la Méditerranée, 15 May 2009).

Although the effects on the financial sphere are still limited, owing to the low capital account convertibility of MPCs and to the fact that they are relatively closed off to services, thus preventing the phenomenon of massive disinvestment (in particular by the banks) seen in Eastern countries, these revenue effects will eventually have consequences if they are not thwarted.

They will take on two main forms, which are just beginning to emerge.

Firstly, owing to pressure on balances of payment, the inevitable problem of reserves will arise, as is already apparent in some countries. This will create difficulties for central banks striving to refinance the economy and manage exchange rates.

Secondly, bank portfolios will be substantially reduced in sectors that are most open to the outside while the same will apply to public accounts.

This therefore means that the several years of effort to consolidate the macroeconomic balances may well have been for nothing.

The ultimate impact of these effects on employment will depend on private agents' expectations. Their tendency to escalate the crisis can already be seen in the countries currently most affected, especially when it comes to private consumption and investment. Nevertheless, MPCs seem less concerned owing to the asymmetrical information between private agents and financial institutions. Such asymmetry will actually probably protect MPCs against movements of panic.

3. Lowered growth forecasts

The World Bank's growth forecasts in developing countries have been lowered: growth in 2009, initially estimated at 4.4 % of GDP (in November 2008), dropped to 2.1% (March 2009) then to 1.2% (June 2009, World Bank). Having said this, the regional forecasts would suggest that the Mediterranean will be less affected, with

growth in the MENA region estimated at 3.1% of GDP in 2009 (World Bank) and roughly 2% for MPCs alone according to the EIU. A country-by-country analysis shows that in 2009 MPCs' growth continued to rise overall with the exception of Turkey. (a se vedea tabelul de la pagina 20 din raport)

On the whole, the growth of the MPCs remained positive in 2009. However, the growth rate will decline everywhere, down to 2% on average in 2009 as opposed to 4.8% in 2008. These forecasts must nevertheless be taken with precaution since at the time of the drafting of this report (July 2009), the forecasts had been substantially lowered at least once in all the countries since the beginning of the year 2009.

The countries most affected are Morocco, Lebanon, Tunisia, Turkey and Israel. Egypt, Jordan, Syria and Algeria are resisting better, with the benefit of the rise in oil prices.

An in-depth analysis of the GDP breakdown reveals the origin of the deceleration linked to the global crisis and the inflationary situation resulting from the raw materials price increase at the beginning of 2008. The MPCs are experiencing the effects of recession in Europe and the United States: (i) a strong reduction in production which will deeply affect the productive structure and (ii) major lay-offs which will increase an already high unemployment rate.

The current international context is scarcely positive regarding growth prospects driven by the export markets. Yet, investment remains the driver to support growth in the upcoming year.

In the Mediterranean countries, it accounted for nearly 30% of GDP in 2008 and should hold at a similar level in 2009. The only exceptions, Egypt and Turkey, will experience a decline in the share of investment in GDP, especially Turkey.

The Mediterranean benefits from medium-term investment projects which will be one of the pillars upholding growth. Morocco, for example, one of the leading countries as regards to the share of investment in GDP, has set up specific business zones which attract investment in sectors in need of development and offer qualified job opportunities.

The rise in raw materials prices at the beginning of 2008 now seems far away, it has nevertheless contributed to reducing consumers' purchasing power, thereby restraining domestic consumption in numerous MPCs (Jordan, in particular). Algeria, however, has benefited from a rise in public consumption supported by oil revenues (the government uses the latter to increase public services and civil servants' wages). It will be difficult though for this trend to be maintained in 2009.

Domestic consumption has been the main source of growth in recent years and will remain so in the shortterm. Within the region, in most of the MPCs, the private share of domestic consumption has increased, with the exception of Algeria, Jordan and Turkey. The pace of growth will be maintained in the countries in which consumption increases sufficiently to offset a portion of the decline in exports. In 2008, Algeria experienced strong growth in public consumption (6.8% versus 5.8% for private consumption) whereas in Egypt, private consumption rose by 5.7%. Syria and Morocco have similar rates (6.1% and 5.2% respectively).

The short-term prospects are positive: the growing role of private consumption in the stimulation of economic activity should continue, with inflation expected to drop after having reached a record high of 8% on average in the region in 2008.

Consequently, the average GDP per capita nevertheless increased by nearly 24% between 2005 and 2008 and an increase in income per capita is conceivable in 2009, although more modest, in the 6% range.

4. A crisis pulled down by trade

At world level, the drop in the goods trade is now close to a ratio of 4 to 1 in relation to the decrease in GDP. In the 1970s, a one point variation in GDP led to a 2 point variation in trade while globalization has today resulted in a world trade/GDP ratio difference of almost 4. This means that if the world GDP drops by 1%, trade in goods will go down by 4%.

The second phenomenon is that this decline in trade is considerable in large importing developed regions, dropping by 30% in EU-27 and 34% in the United States in terms of market value between January 2008 and March 2009.

The third phenomenon is that, as might be expected, exports have suffered less than imports, hence reducing the trade deficit of these large areas.

This is of considerable concern for the MPCs, especially given that they have always been net importers with respect to these large regions, especially the EU. In the past, it was possible to offset this trade deficit through revenue and capital transfers, and services, which enabled current balances to more or less even out. It was this macroeconomic balance regime that determined the level of exchange rates, the monetary policy and the level of interest rates and prices, and the budgetary balance.

The problems arising from the decrease in external demand will therefore influence the entire macroeconomic balance and perhaps the policy of reforms. Furthermore, considering that it is those countries having opened up the most that will suffer the greatest impact, it is clear that this question will have to be explicitly taken into account in the Euro-Mediterranean dialogue.

Yet, against this backdrop, the situation remains volatile and heterogeneous. Figure 3 opposite showing changes to exports and imports in Morocco is a good illustration of this volatility and the downturn in trade balance at the end of the period, linked to a decrease in exports and increase in imports.

The heterogeneous nature of the countries is reflected in the size of the shock. It can be seen to be especially big in Egypt, Turkey, Tunisia and Morocco, and smaller in Jordan, Israel, Syria and Lebanon. This is due to three factors: first, the degree of opening, then the trade composition (commonplace manufactured products and components have been impacted the most) and, finally, the geographic direction of flows.

5. The impact on the financial markets reflects their limited international opening

At the end of the first quarter of 2009, most Mediterranean stock exchanges had plummeted (with the exception of Tunisia) reaching similar levels (in Morocco, Lebanon and Jordan) to those at the end of 2006, if not lower levels (in Turkey, Egypt and Israel).

Thus, generally speaking, the financial crisis has had an impact, albeit limited. This limited impact can be explained by the low level of foreign investment whose effect on stock market prices has been visible but small. In this case, the national stock exchanges often constitute a sort of refuge for national groups that have liquid assets but are unable to find any productive use for them (Tunisia thus reinforced its market capitalisation thanks to two remarkable introductions: Poulina Holding and the company Artes). Furthermore, with capital increases playing a relatively small role in domestic investment financing, the effect of the crisis is once again very small in relation to industrialised countries.

The most significant declines, such as in Egypt, are linked to the sector-based distribution of market capitalisation. This targets sectors that are most especially concerned by the current financial crisis. Finally, the last factor to explain the contagion effect is the size of the market, which obviously fosters contagion in the case of Turkey, Jordan and Israel, as underlined in several studies (see Thomas Lagoarde-Segot and Brian M. Lucey: "Shift contagion vulnerability in the MENA stock market" forthcoming in the "World Economy" 2009).

6. Conclusions

Two important external shocks have greatly influenced the economic performance of MED economies in 2008 and their outlook for 2009: extremely variable commodity prices and the global financial and economic crisis. First, the extreme variability of food and oil prices created enormous tensions on budgets and spurred a wave of inflationary pressure across the region. Second, towards the last quarter of 2008 Mediterranean ENP economies (MED countries in short) started to feel the impact of the global financial and economic crisis and rushed to come up with economic support packages for the sectors affected.

In addition to the financial crisis, the beginning of 2009 was also marked by the continuation of armed conflict in the Gaza region of the Occupied Palestinian Territory, highlighting the direct cost of conflict in human and economic terms, and the longer-term side-effect on the development of the

surrounding region where military budgets still tie up a substantial proportion of government expenditure.

On a more positive note, the gradual deepening of the ENP was strengthened in 2008 by the development a new initiative: the Union for the Mediterranean was launched in July, sparking new hopes in the region and attracting a great deal of international attention to this area of the world.

7. Bibliography

[1] European Commison, "The EU's neighbouring economies: emerging from the global crisis", European Economy - Occasional Papers. No.59, Bruxelles, April 2010.

[2] European Commison, "European Neighbourhood. A statistical overview", EUROSTAT,2009, http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-78-09-708/EN/KS-78-09-708-EN.PDF.

[3] European Commison, "Impact of the global crisis on neighbouring countries of the EU", European Economy - Occasional Papers. No.48, Bruxelles, June 2009.

[4] European Commison, "Communication from the Commission to the European Parliament and the Council: Implementation of the European Neighbourhood Policy in 2008", COM, 188/3, Bruxelles, 23/04/2009.

[5] European Commison, "European Neighbourhood Policy: Economic Review of ENP Countries", European Economy - Occasional Papers. No.40, Bruxelles, August 2008.

[6] World Bank, "Global Economic Prospects 2009: Commodities at the Crossroads", WashingtonD.C.,2009,http://siteresources.worldbank.org/INTGEP2009/Resources/10363_WebPDF-w47.pdf

Quality Management in the Knowledge Based Economy – Kaizen Method

Popa Liliana Viorica
Olaru Adriana
Maritime University of Constanta
lili_vio@yahoo.co.uk

Abstract

In the knowledge based economy, organisations are influenced by the quality movement, Kaizen, which plays a strategic role for optimization of organizational capabilities of managers as well as of all the employees. Kaizen represents the philosophy of continuous improvement, until the economic activities inside the organisation reach zero deficiencies. In order to implement in a proper manner Kaizen into the organization, managers must decide what to improve, why to improve, who shall improve, where to improve, how far to improve and how much the changes that will occur will cost. This paper presents several ways of improvement of organizational capabilities by Kaizen strategy implemented in the knowledge based organisation.

Key words: Kaizen, Knowledge Based Organization, improvement, innovation, organizational capabilities
J.E.L. classification: M10

1. Introduction

Today, knowledge is a new form of intangible resource that is transforming the organization and that is seen as a key source of competitive advantage. Challenges rely on the identification of crucial knowledge that improves the business process [1] and therefore, it is known the fact that companies need to take care of their most important assets which is the organizational knowledge.

Characteristic to the knowledge based organisation is implementing Kaizen. Kaizen represents the philosophy of continuous improvement, until the economic activities inside the organization reach zero deficiencies. In knowledge based organisation, every process should be improved from the point of view of time, resources, results and other aspects relevant to the process. This term refers to a continuous improvement involving both top managers and personnel. Also, Kaizen means not only professional but also personal and social life improvement.

2. Distinction between Kaizen, Innovation and Kanban

Kaizen concentrates at improving the process rather than achieving certain results. Its aim is to increase quality, productivity and employees satisfaction. Under the improvement function of Kaizen, management works continuously towards revising and establishing higher standards than the current ones.

Kaizen is quality-oriented, as it advocates continuous improvement of quality at all levels [2]. The focus is only on product quality, but also on total quality of work, employees, training, processes, standards etc.

Compared to the philosophy of Kaizen small improvements as a result of coordinated continuous efforts by all employees, innovation refers to an improvement of high impact to the existing processes. In the knowledge-based organization, a higher importance is awarded to the R&D department and innovation might be the result of the activities from this department and it requires large investments. Also, innovation and technological change involves certain social problems inside the KBO, as employees are not being proactive to change. For the past twenty years, a growing amount of research in technology has shown that implementing management of

technological change in knowledge based organization promotes meaningful understanding of complex scientific concepts. The continuous need for research related to innovation process, inputs, outputs, outcomes and social returns of innovation has an essential contribution for the progress of society [3].

Both Kaizen and innovation implementation requires involvement and support from top-management and employees. Kaizen does not replace or preclude innovation. Rather, the two are complementary. Ideally, innovation should take off after Kaizen has been exhausted, and Kaizen should follow as soon as innovation is initiated [4].

Another Japanese term that can easily be taken as Kaizen is Kanban (or Kamban). This is a communication tool in the just in time production, firstly developed at Toyota. This concept points that production and movement of material should take place only as required by a downstream operation, in order to make zero stocks.

3. Improvement of Organizational Capabilities by Implementing Kaizen

In the knowledge based society, skills and organizational capabilities can be regarded as a distinct and hard-to-imitate asset [5].

According to Business Dictionary.com, organizational capability is the ability and capacity of an organization expressed in terms of its

(1) Human resources (number, quality, skills, and experience)

(2) Physical and material resources (machines, land, buildings)

(3) Financial resources (money and credit)

(4) Information resources (pool of knowl edge, databases)

(5) Intellectual resources (copyrights, designs, patents, etc.) [6].

Continuous improvement programs have been recognised as one way of contributing to the productivity and efficiency [7].

Related to human resources particular importance is given to Kaizen improvement programs that contribute to higher productivity and efficiency within the knowledge based organization. Implementing Kaizen represents an innovative way to enhance people capability and organizational capability in order to deliver excellence in personal and organizational objectives in a cost effective manner.

In practice, Kaizen can be implemented in corporations by improving every aspect of a business process in a step-by-step approach, while gradually developing organizational capabilities and employees skills through training education and increased involvement. The principles in Kaizen implementation are:

1. Human resources are the most important company asset;
2. Processes must evolve by gradual improvement rather than radical changes;
3. Improvement must be based on statistical/quantitative evaluation of process performance [8].

A key element for succesful Kaizen improvement of organizational capabilities is adequate communication. Employees and managers from all involved departments must be informed about change and explained what is being done, how and why. Communicating Kaizen improvements can be done by using all forms of communication techniques. Regular meetings, daily work group meetings, formal, briefing sessions, newsletters, communication boards and e-mail can be heavily used. Also, results of implementing Kaizen should be communicated inside project teams, by supervisers and project managers.

Difficulties of Kaizen Implementation in the Knowledge Based Organisation

A difficulty of implementing Kaizen in the knowledge based organisation is assuring its continuity. When a KBO introduces Kaizen, it experiences some initial success, but soon such success disappear if top-management do not show permanently support and commitment to the changes that Kaizen implies.

A second issue regarding Kaizen implementation refers to establishment of an organization with employees dedicated to promote Kaizen. Organizational skills like productivity, working satisfaction, team-working, effective communication between team members can be improved while implementing Kaizen in the knowledge based

organization.

The involvement and participation of the employees in Kaizen production strategies have been identified as key aspects to the success of the KBO, especially during crisis periods, like the on going financial crisis.

Another issue in implementing Kaizen is appointing the best available personnel to manage the Kaizen processes. Kaizen is a universal concept that involves everybody in an organization. It is a people-oriented management concept wherein the team members themselves voluntarily work toward constant improvement and carefully selected available personnel should manage properly and thoroughly Kaizen implementation.

Finally, implementation cannot be made without taking into consideration appropriate Kaizen training programs. Achievement of best practice requires that people, managers and employees, are properly trained. Continuous achievement of improvement at all levels requires that this position be maintained forever. A key aspect of improvement of organisational capabilities is ongoing training throughout the knowledge based organisation. As well as providing the practical benefits of people with the knowledge needed for bringing about change, the provision of training also shows people that they are valued [7].

Support throughout the entire structure is necessary to become successful at developing a strong Kaizen approach. Management as well as workers need to believe in the Kaizen principles and strive toward obtaining the small goals in order to reach overall success. Therefore, all members of an organization need to be trained in a manner to support this idea structure. Resources, measurements, reward, and incentives need to be aligned to and working with the Kaizen structure of ideas.

4. Conclusion

In today society facing the effects of the financial crisis, implementing Kaizen, the continuous improvement philosophy, is a sine qua non condition for the success of the knowledge based organization. Every process should be improved from the point of view of time, resources, results, organizational capabilities, professional and personal skills or social life.

Communication is a key element for succesful Kaizen improvement of organizational capabilities.

Difficulties in implementing Kaizen refer to assuring its continuity, establishment of an organization with employees dedicated to promote Kaizen, involvement and participation of the employees. Other issues are related to appointing the best available personnel to manage the Kaizen process and appropriate Kaizen training programs.

Managers and workers need to strongly believe in the Kaizen principles and philosophy and to be convinced of its key benefits in order to aquire excellence and overall success by obtaining small goals.

5. References

[1] Edvinsson, L., Malone, M. S., *Intellectual capital: Realizing your company's true value by finding its hidden brainpower* (1st ed.). New York, NY: HarperBusiness, 1997.

[2] Janani Gopalakrishnan, *Manage, the Kaizen Way!,* Intercom (Society for Technical Communication), p.3, June 2006.

[3] Nistor, C., Hanzu-Pazara, R., Adascalitei, O., *Organizational Culture and Technological Change in Maritime Companies*, Proceedings of the 6th International Conference on the Management of Technological Changes, p.175, Alexandroupolis, Greece, 3-5 September 2009.

[4] *Kaizen - The Key to Understanding Japanese Success*, p.16, Graphic Products, Inc., Beaverton, http://fac.swic.edu/turnerke/Kazien-Guide.pdf

[5] Sako, M., *From individual skills to organizational capability in Japan*, Oxford Review of Economic Policy, vol. 15, pp.114-126, Oxford University Press and Oxford Review of Economic Policy Ltd., 1999.

[6]http://www.businessdictionary.com/definition/organizational-capability.html

[7] Kerrin, M., *Continuous improvement capability: assessment within one case study organisation*, International Journal of Operations & Production Management, Vol. 19 No. 11, p. 1154, MCB University Press, 1999.

[8] http://www.supplychainmanager.net/user/Brief-Kaizen.pdf

An Aftermath of the Present Economic Crisis

Popescu Alina
Bâcă Eleonora
"Ovidius" University of Constanta
alinadpopescu@yahoo.com
eleonorabaca@yahoo.com

Abstract

Our paper aims at discussing the possible consequences of the crisis that the world economy is confronted with.

The introductory lines draw attention on the global impacts of the financial crisis, whereas the main body of the study analyzes the three waves that the present crisis might impact on developing countries

Key words: globalization, crisis, market, policy, capital
J.E.L. classification: A0

With unprecedented trends towards globalization (in part boosted by rapid advances in information technology), the global impacts of economic crises are more profound than ever before, particularly for developing countries. As the pace of globalization accelerates in the twenty-first century, focusing our understanding of the destabilizing effects of financial crises on economic growth, stability and development, and designing institutions to encourage effective policy coordination will be of remarkable significance.

As argued by Grieve Smith, the inherent instability of global financial markets represents a long-term threat. The problem can only be approached by re-examining the rules and principles affecting capital flows in order to consider what actions should be taken to encourage and stabilize (particularly long-term) capital flows to and from developing countries: "Greater exchange rate stability could be encouraged via a two-tiered system of managed exchange rates: one tier would address regional arrangements vis-à-vis core currencies (US dollar, yen and euro) and the second tier would pertain to global exchange rates between these core currencies. Prudential regulation should address issues such as improving information and tightening backing arrangements." [1] Moreover, basic changes to crisis management arrangements are crucial if superfluous deflationary policy prescriptions are to be avoided. G. Smith's conclusion is that if governments cooperate more effectively in strengthening international institutions, world trade and investment will be facilitated.

On the other hand, Ph. Arestis and M. Sawyer concentrate on a more regional issue, and ask the question 'Will the Euro Bring Economic Crisis to Europe?' As it is well known, the initial introduction of the euro has, against many expectations, been accompanied by a decline in its value (notably vis-à-vis the dollar and sterling). Besides, it has been introduced at a time of high levels of unemployment within most of the European Union (EU). In their chapter, the two argue that these are serious problems, which are compounded by a number of other difficulties. Most important of these are the policy and institutional arrangements within which the euro is embedded. It is suggested that the economies of the EMU are likely to suffer from the introduction of the euro.

The problems just referred to will take a number of forms, but their focal point is represented by two rather different aspects that could meet the criteria for the term *crisis*: "First, the euro starts with many of the EU countries and regions experiencing high levels of unemployment. The policy framework which accompanies the introduction of the euro (the Stability and Growth Pact and the ECB) is a generally deflationary one, and does not involve any significant attempts to reduce either the level of or the disparities in unemployment. The prospects for unemployment appear bleak, and in that sense the description of a

continuing unemployment crisis could be applied. Second, capitalist economies suffer from financial fragility and periodic financial crisis. The eurozone may become rather more prone to such crises than has been the case in the constituent countries. The split of responsibilities between the ECB and the national central banks and the weak provisions for the ECB to act as lender of last resort are likely to exacerbate financial fragility. This would be reinforced by the far-reaching changes that are expected to take place in the financial and capital markets which would enhance capital mobility in the eurozone. We also suggest that asymmetric shocks, different channels of influence of monetary policy, and differences in its impact, are forces working towards increasing further financial fragility."[2]

The role of internationalization in propelling growth is examined by P. Petit. In "Technology and Growth: Between Regionalization and Globalization", Petit studies the progress of internationalization since the Golden Age. He argues that intangible transactions have enlarged the scope of economic agents. There has been a re-shuffling of the forms of competition and in the process countries have devised new rules and institutions to preside over internationalization. P. Petit advocates systems for information and knowledge management in order to develop the positive externalities that promote growth. Petit notes that, where monitoring might be effective, regional policies may be appropriate but he concludes that structural regional policies can only have macroeconomic effects if there is some international agreement about the welfare objectives of these policies. [3]

While the previous authors only warn us about the possibility of an emerging global crisis, as their study is published in 2001, W. Van Der Geest is one of the analysts of the present crisis who, in his article published in 2009 examines the three impact waves for developing countries: "In the short run, the worst wave has been the shelving or outright cancellation of planned foreign direct investment (FDI) to developing countries. Second has been a severe import contraction of the major Organization for Economic Co-operation and Development (OECD) countries, with the mirror effect of declining exports of developing country suppliers and export prices dropping sharply. Third will be the laying off of people, translating to a sharp drop in incomes and remittances. Some developing countries will be impacted much more severely than others, but nobody will remain unaffected." [4]

Little is it known about how these impacts will correlate and hardly anything about their co-variances. Yet this will determine the depth and duration of the crisis for individual countries, producers and exporters. The trade and investment impact will accumulate, with reduced remittances and fewer workers migrating, adding further to the decline of national incomes. It is therefore possible that the crisis will continue to be felt in developing countries, even if signs of recovery become visible in OECD countries. While there have been "green shoots" in the first weeks of July 2009, with a few international banks, notably Deutsche Bank, reporting better-than-expected profits, the demand side remains bleak, with high unemployment and extremely weak consumer confidence.

Developing countries are the collateral damage of this crisis. They were largely absent in the "toxic" markets, except for a few Chinese and Singaporean sovereign wealth investments in the banking and insurance sectors. These have taken a severe hit, despite having focused on triple AAA-rated brand names such as Bear Sterns, Fortis and Lehmann Brothers. Under-regulated financial markets permitted over-exposure of financial institutions, most notably the United States investment banks. Their success in selling risky assets to other players, including pension funds around the world, was largely based on exploiting asymmetric information. Investors from all over the world were easily attracted, expecting steady and predictable returns.

As far as investment is concerned, the Washington-based institute of International Finance (IIF) has been monitoring the movements of private capital flows to developing countries, with disconcerting observations. According to the IIF, the level of private capital likely to be invested in developing countries in 2009 will be down by 82 %, relative to 2007. It is not a response to decreased profitability in the developing countries.

To determine the impact of the crisis on developing countries' trade, Van Der Geest examines high frequency indicators, such as monthly trade and investment data ITC reports monthly trade data for many countries, based on a country's own reporting, double-checked against the minor data from major importers.

The different types of trade shocks developing countries are experiencing may be differentiateed as follows: commodity price shocks (with prices falling sharply due to the steep decline in demand from the OECD and BRiC economies); manufacturing demand shock, with orders drying up; services-demand shocks (e.g. tourism).

Countries that are better diversified both geographically and in terms of the mix of product and services in their export basket are better able to withstand the shocks, because the impact across sectors is not uniform, nor of the same intensity.

About 53 per cent of all (recorded) migrants from developing countries hold domicile in developed countries. With OECD employment and incomes falling sharply the pressure on jobs will be enormous. Lower wages linked with marginalization will have an effect on the social status of the migrant workers and significantly weaken their ability to support their families, as well as to save and invest for their future in their countries of origin.

Governments are seeking to put in place policies to manage shocks - with "smart" Keynesian policies that focus on the most vulnerable sectors and households. These policies require fiscal resources at a time when tax earnings are down. The size of the programs is quite substantial in some developing countries; for example in March the Indonesian parliament approved a 73.3 trillion rupiah ($7.4 billion) package, some 1.3% of GDP. Ii focuses, quite appropriately, on tax breaks, spending on infrastructure and other measures to support domestic demand and jobs, Other G-20 emerging economies, including Argentina, Brazil, China, India, South Africa and Turkey have adopted stimulus packages focusing on infrastructure, tax cuts and, in some cases, export subsidies.

Despite G-20 measures and fiscal stimulus across a number of major economies, there is still a lack of measures that aim to specifically assist low- and middle-income countries to deal with the trade macro shocks. ITC stands ready to assist.

First, there needs to be a focus on trade stimulus. Trade finance as well as regular commercial credit lines are squeezed at the moment and this needs to be addressed urgently. The trade finance initiatives of the G-20 must have special windows for low income developing countries and provide suitable financial guarantees to their exporters.

Second, the developing countries need to have easy access to strategic advice on the feasible options for trade-related policy options, both offensive and defensive. Accession to the World Trade Organization of the 12 LDCs not yet members should be a main point for action at the meeting scheduled for the end of this year.

And finally, countries should prepare for a range of scenarios, including worst-case ones assuming this is the start of a deep and long recession that may last three to five years. Within this framework, they should assess the scope for market diversification. [4]

Once the smoke from this present crisis has cleared, the United States should state that either the trading system will work out some new rules involving a more balanced trade and compelling developing nations to focus more capital on domestic industrial development, not just exports, or the United States will act in its self-interest, invoking legal trade sanctions (including an emergency tariff) to correct its own financial imbalances.

No one expects utopian changes, but political leaders have to get serious about accepting the universality of basic human rights—free speech, for starters—and devising new rules that are enforceable elements in trade agreements. Otherwise, the political conflicts in the streets on these matters of human decency will swell until they become a market force of their own.

If authentic reforms are ignored by an inflexible convention, the global system may well change anyway in directions that destabilize the status quo. One can imagine a balkanized collection of blocs emerging from the present turmoil—regional groupings that work out their own understandings of production and capital.

References

[1] Ph. Arestis, M. Baddeley, J. Mccombie (eds.). What Global Economic Crisis?, Palgrave. New York. 2001, p. 4

[2] Ph. Arestis, M. Baddeley, J. Mccombie (eds.). What Global Economic Crisis?, Palgrave. New York. 2001, p. 99-100

[3] Ph. Arestis, M. Baddeley, J. Mccombie (eds.). What Global Economic Crisis?, Palgrave. New York. 2001, pp. 178-200

[4] W. Van Der Geest, "Analysing the Global Crisis", *International Trade Forum*. Issue: 2. 2009, pp. 32-46

Reflections on the Dimensions of Population Characterization of CSR in Perspective in the Context of Global Economic Crisis

Popescu Manoela
Crenicean Cecilia Luminita
Christian University "Dimitrie Cantemir"
Faculty of Tourism and Commercial Management, Bucharest
manoela.popescu@yahoo.com
lumi_cecilia@yahoo.com

Abstract

Fashionable topic in recent years, CSR (Corporate Social Responsibility) has become an objective necessity in the current global context, the global economic crisis. Moreover, the European Union, interested in CSR, we consider a means by which any economic system may become the most competitive and dynamic world. Of course, this goal is possible if the CSR is perceived as beneficial to the public. Also, states and international institutions have developed a series of standards aimed at human rights, environmental protection, consumer interests, corruption and competition for companies who are moving towards CSR.

Known is that to be effective, a CSR program designed to train not only management but also said company employees. Moreover, the effectiveness of CSR programs is determined by the attitude of people on CSR. An in-depth interview on a sample of 50 individuals revealed a set of dimensions for the characterization of CSR, the global crisis. Among the interesting aspects identified were: the importance of CSR for companies and employees, the inefficiency of CSR programs, companies need assistance in community life, the need for CSR courses in primary school, the community need to address CSR as a tool for involving companies in their life, the involvement of every employee in the initiation and conduct CSR programs, the need to educate people on CSR, CSR and the need to differentiate between institutional or brand advertising.

Key words: social responsibility, voluntary, CSR efficiency, economic crisis
J.E.L. classification: M14, M5

1. Introduction

In the context of the global economic crisis, companies must identify at least one competitive advantage, learned to cope in a rapidly changing environment. In this regard, experts agree that CSR is moving towards to a significant asset for any company, regardless of the activity, size or efficiency.

Although the concept of corporate responsibility remains an abstract concept that is not defined by providing solutions to two major questions: from whom are socially responsible companies that are their moral responsibilities? The subject matter concerns the population's attitude towards the concept and companies assume an orientation towards CSR. How people perceive CSR and companies that organize and run these programs? How individuals think about CSR and how this concept can improve their lives, if implemented in all companies?

Evolutionary perspective of the concept of CSR shows that it is maturing beyond the content identified according to the theory of stakeholder groups, as the social impact of businesses located in the middle of an existential crisis. So, companies are not only socially responsible to their shareholders or owners, employees, creditors, suppliers, distributors, consumers, local communities, government and government agencies, but also to the people or society in general.

This means that those companies to orient their CSR strategy development must relate to the interests of the population (society in general). Obviously, it is imperative to have a certain size characterization and disclosure of corporate ownership from the perspective of population assuming responsibility.

2. International CSR standards

Whatever type of CSR chosen by a company, it must define and align with the interests of the stakeholder. But this requires knowledge of standards of corporate responsibility key stakeholder, because not only stakeholders, community or society perceive the world in the same way. It is therefore natural that their interests get in conflict. Their priorities differ. CSR standards can help to align organizations interests with those of society overall (interested groups, partners, community, etc..).

As states and international institutions have realized that adopting the principles of CSR by companies serve the objectives of sustainable development, there was the need for international standards to define what constitutes a "desirable corporate behavior." United Nations, European Union and the Organization for Economic Cooperation and Development are the three most important institutions that were involved in developing a CSR framework to define and establish indicators to be assessed in a transparent manner. This framework has been accompanied by recommendations and principles to guide states and local authorities in the formulation of public policies to promote and ensure transparency and to support CSR initiatives.

Thus, the OECD has developed since 1976, a series of directives for human rights, environmental protection, consumer interests, corruption and competition to be considered by any company, regardless of the operating field, as "Guidelines for Multinational Enterprises "A revised it was published in 2000. According to the "OECD Guidelines" companies must:

- contribute to the economic, social and environmental, upholding the principle of sustainable development;
- respect human rights activities;
- encourage development of local communities;
- not approve exemptions that are not included in local legislation on environment, health, safety, labor and taxation;
- support it and to apply equitable principles and practices governing the company;
- develop and implement effective management systems to build a trusting relationship with the companies in which it operates;
- promote corporate values among employees through training programs;
- do not discriminate and does not penalize individuals or an institution on the management team warns unfair practices of the company;
- encourage their business partners to implement the "OECD Guidelines";
- not involve undue local political activities.

Also, the United Nations initiative to create a partnership with companies to achieve global sustainable development has resulted in a network of United Nations agencies, companies, trade unions, business organizations, academic organizations, civil society organizations, institutions governmental / administrative. The program, known as the Global Compact, became operational in July 2000. It acts as a guide for companies that are moving towards CSR, and includes courses of action that subsumes a set of 10 universal principles on four areas of concern: human rights, labor standards, environment and fighting against corruption.

United Nations calls on companies to integrate the Global Compact principles in their strategy and to promote action in all spheres of influence.

Therefore, at present, *to demonstrate that it is "socially responsible", a company must understand the principles of CSR are promoted internationally and to report regularly on the integration of these principles in its activities.*

3. The relevance of CSR concept for the population

CSR reporting to various international standards does not preclude the *reporting of identified concept in size in terms of population.* The dimensions of the characterization of CSR from the perspective of individuals are revealed by the dominant concept of CSR approach that overrides the principle of empathy and a certain

philosophy and strategic planning that enables manager to analyze and justify the company's role in society and the impact it has on the environment of action. Of course, in doing so, firms may take into account profits and expectations of the communities in which they operate, but people are concerned not only the role of each business in social development, but also the traditional role of business to improve standards of living for all citizens, to assist employees, customers, investors and to help meet the needs of local, national and international. This is because "all our business in a democratic country begins with public permission and approval because it continues to exist" [2]. So each company's profits will be regarded as their achievements, contributing to the progress of each citizen, in part. As such, businesses should be given legitimacy to operate in the specific environment of the society and social responsibility is a move in this direction.

The population subject research design, companies must make profit in compliance regulations, involvement in strategic philanthropy programs to improve working conditions and quality of life, achieving partnerships with NGOs and government agencies to solve problems environmental, social, economic, educational and societal interests align with those of the general public, thus contributing *to* both *economic performance and growth, as well as better conditions for profitable business future.*

4. Size characterization of CSR

It is said to be a better self-satisfaction. CSR can be divided according to the typology made by Philip Kotler and Nancy Lee in *"Corporate Social Responsibility: Doing the Most Good for Your Company and Your Cause",* in: promoting a cause, a cause-related marketing, social marketing actions philanthropy, volunteering in the community and socially responsible business practices.

Starting from this typology to a survey conducted among the population, a number of 100 subjects, employed and unemployed persons, aged between 21 and 50 years, but they were not a representative survey on the concept of CSR. Responses revealed the importance of CSR for any company, it is essential to ensure survival of the crisis, but also to identify real opportunities for development. Other important issues identified were: the importance of CSR for companies and employees, the inefficiency of CSR programs, companies need assistance in community life, the need for CSR courses in primary school, the community need to address CSR as a tool for involving companies in their life, the involvement of every employee in the initiation and conduct CSR programs, the need to educate people on CSR, CSR and the need to differentiate between institutional or brand advertising. Also, we have identified different approaches to the concept of social responsibility, the problems faced by firms in this field, the role of individuals in corporate social responsibility, the importance of social responsibility by all economic actantial.

The survey also contributed to the correct delineation of the framework of human existence that can take the concept of CSR, the participants manifested their willingness to participate in such campaigns, programs and actions.

Notable researches were to characterize the dimensions of CSR identified by respondents:

- degree to which company you are involved in improving the living conditions of employees within and outside;
- operating performance standards and appropriate economic context and focused on improving quality of life;
- the degree to which the company provides safe working conditions of employees;
- the degree to which the company protects the environment through both activities and specific actions;
- disparity of values between the company and stakeholder; you communicate with all those interested on CSR practices, the financial efforts of the company CSR programs, results of the relationship between corporate profitability and effectiveness of CSR programs;
- the degree of involvement of employees in the company's CSR programs;
- degree of transparency on CSR;
- extent that CSR standards are incorporated into the company's business strategies;

- the degree to which support the communities where it operates;
- the degree to which support partnerships with all stakeholders in socio-economic development of society;
- human rights stipulated in the Universal Declaration of Human Rights in 1948.

Dimensions to characterize the relationship between CSR focused companies and all companies, internal and external sphere of social responsibility. These dimensions are the result of addressing the concept of CSR from different perspectives: ethical, social, community, competitiveness and profitability, and the relationship between *social responsibility and financial performance* of firms.

In order to improve quality of life, the respondents proposed CSR actions were:

- achieving a campaign against begging;
- constituting an association for the protection of animals, which provide them a place to be cared for;
- campaign donation of clothing and toys for children;
- food donation campaign for the disadvantaged;
- campaign planning social homes, green spaces;
- campaign to help children with no opportunities for the purposes of providing tutoring in various subjects;
- campaign of tree planting and rehabilitation of green areas in cities;
- hiring persons with disabilities;
- program office to include the participation of elders in the education of children in orphanages asylum;
- campaign donation of a small percentage of the salary of each employee of the company for a weekly feeding of a number of needy people in the company cellar.

5. Conclusions

The economic crisis increased public interest in CSR, because they are socially responsible companies that provide security for employees. Ideally, companies should acquire the dimensions of the characterization of social responsibility in their reporting on CSR. Offered advertising, these reports should reach the population, which would manifest itself directly in favor of socially responsible companies with CSR programs support by purchasing their products and services and, ultimately, the legitimacy of such business.

Therefore, more companies attaches great importance to social accountability process. Obviously, the economic efficiency of the firm is not the only objective pursued by it, but also social efficiency comes to the attention of companies in the same way (social responsibility to employees, environment, stakeholders, community, etc..).

6. Bibliography

[1] C. E. Clark, "Differences between public relations and corporate social responsibility: an analysis" Public Relations Review, 26, 2000, pp. 363-380.

[2] M-D. P. Lee, "A Review of the Theories of Corporate Social Responsibility: ITS evolutionary path and road ahead." International Journal of Management Reviews, 10, 2008, pp. 53-73.

[3] R. Kotler, N. Lee, „Corporate social responsability", Hoboken, New JERSEY: Jinhn Wiley &Sons, 2005.

Reflections on Curriculum Vitae Content Changes in the Context of Global Economic Crisis

Popescu Manoela
Crenicean Cecilia Luminita
"Dimitrie Cantemir" Christian University
Faculty of Tourism and Commercial Management, Bucharest
manoela.popescu@yahoo.com
lumi_cecilia@yahoo.com

Abstract

In context of the global economic crisis, all entities within human society trying to survive. Both social entities, and individuals looking for ways, means, tools and opportunities to meet the present situation. Proactive companies take advantage of economic situation and employ individuals with experience, competent, professional and positive approach context of the global economic crisis. At the same time, individuals seeking to sell their labor to that economic entity willing to invest in people, even in the crisis.

In this context, the CV - method to generate an invitation for an interview for employment - supports changes in terms, at least, in content. These amendments concern matters relevant to the responsibilities, failures and achievements of that person. CV analysis revealed that success in different fields do not provide detailed information about how those individual approach to life, responsibilities, work, relationships, goals, etc. .. However, failures of a person who is no more than steps to success, provides the employer an opportunity to examine a prospective employee's personality. More than that, in the current context, companies need people who are not afraid of failure and who constantly set new challenges, and an individual who presents his failures in CV leaves beyond the fear of being asked about potential employer about that. Hiding failures become a condition to which individuals are subject to the competitive environment in daily living.

Key words: economic crisis, CV, employment, success, failure
J.E.L. classification: J24, J28, E24

1. Introduction

The current economic context generates changes, resetting in concepts, theories, methods, tools for effective governance of all entities within the economy. Companies and individuals, tributary of the bankruptcy process, are striving, sometimes desperate, to end the crisis. Personally defined by each actant global market, the economic crisis illustrates the desperation of companies that want efficient employees on the one hand and, on the other hand, individuals who want to maintain their two years ago standard of living. Thus, firms select their future employees taking into consideration the experience, expertise, skills and their achievements. Employers are not interested in the failures of their future employees, the efforts to achieve their goals, how they approach work, life and personal relations. But these issues are defining for any employee and employer. Furthermore, no individuals are willing to admit failures, considering that a potential employer is not willing to hire professional leftover. Fear of failure is contagious both for companies and individuals. However, many companies have hired individuals considered successful, based on their resumes, but do not have performance in those firms. This is because true success is linked to the goals of each individual and who is striving to achieve them and not conquer them. And the failures of this effort has just been measured each individual to achieve the proposed goals. As such, in the economic crisis, placing of failures in the resume is a way of representing the real image of a prospective employee to a potential employer.

2. Relevant aspects of success (personal and professional), in the context economic

Research has shown that success has little to do with intelligence, education, IQ, family environment, social relationships, appearance or personality dynamics. Obviously, these factors have their importance in achieving success, but they are not a sufficient condition for success. Moreover, it was the fact that no university degrees is not a prerequisite for success. The success seems to be rather a natural consequence of what someone is, only a result of what makes that person or how they act. It states that personal success is achieved by individuals who have natural resources, materials, information, etc.. But how do you explain the fact that many individuals have had succeeded without resources? In fact, success means achieving all the objectives planned constant, relevance to the individual and to the organization. Individual and organizational success is not measured by comparing with other individuals or other organizations, but true success is the exploitation of their potential, develop and enrich their personalities.

The literature reveals several personal development techniques to be successful: techniques of time management techniques, positive thinking, subconscious mind power techniques using techniques to develop self-confidence, etc..

Authentic success is tied to the goals of each individual. However, it is not to achieve these objectives, despite the general opinion that seeks to impose on us, but in striving to attain them. In the words of Oliver Wendell Holmes[2] is important, not where we are, but where we are headed. *Success is over, road, trip, and has its source in the attitudes and skills learned during this effort.* He is not so determined by unusual do not know why talents, but our ability to educate, to harness the talents and skills capital. It is not unusual to do so, how to do common things uncommonly well. Once achieved objectives, individuals and organizations should aim at more ambitious targets for achievement. Also, success is approaching new areas, territories, development patterns, actions, etc.

It is important that each employee and the enterprise to define its mission, vision, goal and objective system, the way forward and the efforts necessary throughout the "journey." Professional success is achieved by educating individuals to exploit the talents and skills of existing capital at the organizational level. It is about to do in unusually good conduct normal business activities.

Reporting of individuals and successful business concept requires both a clear definition of success and its sources. Understanding the context of self, is the first step to succeed. Such companies and individuals that understand the economic crisis and its effects, and that threats and opportunities generated, to set concrete goals based on existing conditions.

Individuals must do well what they do, leading out the actions and the activities taking place in the job description, instead not making anything for the implementation of a good idea. Success is the result of lessons learned from failures [3]. Of course, failures should not become obstacles to recovery potential available to each individual. Any success inevitably involves taking a risk, is to fail in its efforts taken, but that does not mean that people should no longer act for fear of being wrong.

Failures are nothing but real opportunities for personal and professional development. In this context, it is absolutely necessary to include them in the *statement of activity of each* individual. Once accepted, *the failures, these became experiences necessary for success.*

3. Creativity in business success in the crisis

3.1. CV's role and importance

Although the selection criterion is given by knowledge of certain information about the prospective employer (vision, mission, values, ownership, competitive positioning in the context) by the candidate, however, CV is the way to get at least a interview.

Experts recommend that when you prepare a resume, that person should be put in place of employer, providing the information necessary and sufficient to achieve this goal: to be called for an interview.

Although is a concept quite known, there is a rich literature that addresses various aspects of the concept. Thus, it is estimated that there are different types of resume, the resume is used functional and chronological. Also, the "perfect CV" should contain all you need to know, say and do to get that job "by Bill Faust and Michael Faust are outlined necessarily steps to achieve a perfect resume, and references" to end the traditional resume. Experts agree that CV- is an important marketing tool that combines education, experience, skills and competencies of an individual, providing an overview for the potential employer. So, in fact, *the CV is a statement of work* that is sent to a social or economic entity in order to inform future potential of that employee.

In general, the purpose of a resume is to determine an invitation to an interview, some employers recording the resume as proof of organization and communication of that applicant. Therefore, the realization of CV requires that certain rules of presentation and writing, but without the candidate's personality on the outcome of a print. But specialists know that your CV is not used only to employment, but it is intended to present a project or enroll in training courses, college, masters, etc. ..

3.2. CV content

Models presented in the literature concern, regardless of the type of CV, some elements, namely:

- *contact details* including email address, which must be professional (usually the full name of candidate),
- *objective career.* This may be represented by an item name or description of the type of item you want,
- *experience.* It is usually going professional activities relevant to the post which the applicant applies. Also pass *responsibilities and the results in previous jobs*. Specialists in human resources employee future believing that such powers held in areas declared testify. Instead of experience can be identified periods of practice, internship and voluntary
- *education.* At this point in the resume are details of educational level, type and specialization courses,
- other information. In this section we known languages, and the level of knowledge (reading, writing, conversation), driving license (category and year of obtaining it), abilities (skills, professional skills, characteristics / personal skills - great results at competitions) , PC (operating software) and hobbies.

However, the literature indicates that some key elements are addressed from the perspective of the employer, which must be taken into account to achieve a good CV. The first component concerns the formulation, usually at the beginning of the resume of a *professional well-defined* objective. Each job description and post previously held view of the objectives, responsibilities and job duties is another interesting elements in choosing an employer and relevant CVs. Also, professionals shows whether the candidate proactive and professional approach to his career. Work is attractive to potential and knowledge of several languages.

The first impression created by the CV of the employer is given the positive impact of certain words used, that words such as: strategy, objectives, responsibilities, motivation, creativity, communication, etc..

4. CV modern content tailored to economic crisis

Currently, the human crisis and social instability, the effects of global economic crisis continues to cause repercussions. The effects of economic crisis are manifested even in how resume are constructed and used in the process. Thus, the experts noted that very few CVs correspond to positions for which it applies. Of course, this phenomenon manifests itself in the past, but due to the crisis, more people are tempted to apply for positions that have no connection with their training, the result being that over 90% of CVs have no connection with ads their employer (according to recruitment company Lugera & Makler). The situation is global according to a study commissioned by the HR Club, the specialists, over 62% of firms are dissatisfied with the vast majority of applications received and 3.2% are not even a single CV accordingly. HR Club According to the study 45.4% of employers are forced to

give up over 70% of the applications received at middle management.

Macroeconomic instability, insufficient capitalization of SMEs, large industrial companies' dependence and lack of horizon with faced by other SMEs without viable business plans contribute greatly to reducing the number of SMEs in our country. Other effects of the economic crisis as unemployment, low purchasing power of the population, reduce domestic production, etc..

The loss of jobs has led to an increase in applications for each job offered by employers, which resulted in a selection process more rigorous CVs. Therefore it becomes very important process of drafting a CV, so that the final product to be well structured, coherent, effective and appropriate requirements of employers. Currently, clarity, coherence and relevance of information presented as essential criteria for selecting a resume. Obviously, human resources specialists recommended that participants use different methods of presentation and CV writing, from the basic structure of a resume. It is advisable from the perspective of human resource specialists, as CV is written differently for each item that applies from compliance with specific criteria to identify the ideal candidate and also the value that a firm would position. Also, the presentation of your resume can be changed. CVs are usually submitted in Word but employers were delighted to discover CVs presented in PowerPoint.

CV modern, appropriate to economic crisis, according to experts, it also highlighted achievements in quality and quantity. But as each job description is important for the employer, it is clear that is necessary *inclusion in* this part of your *resume attached achievements and failures*. Failures say about the aspirations of each potential member of staff, about the efforts to achieve the objectives, the will, perseverance and devotion they have shown to work. In times of crisis, companies have to hire people willing to work and taking risks, competent, courageous, persevering and long will. Therefore, playback resumes failures will provide sufficient information about the candidate's personality, not just about goals, experience and education. So employers will be able to select not only employees in the right place, but people whom they could rely in order to achieve company goals, absolutely necessary for survival in the context of change, and why not, development in crisis conditions.

5. Conclusions

Global economic crisis has resulted in changes not only in the action of economic actants, but also the mindsets of people, the concepts, theories, methods, instruments operating in the social, economic, cultural and political life of a country. So, after bankruptcy, the relationship between economic actantial - corporate and other (individuals) has changed, at least in conceptual, on the form and content of your resume as a way of expressing an employee's working life. Although some believe that a modern resume, focusing on delivering appropriate times, we feel that they must be accompanied by playback and failures as opportunities for personal and professional. Of course, failures will be mentioned in the CV as a real experience to ensure the success of that person.

Such an approach would resume content for both candidate and employer, because the process of socialization and integration[3] would be much easier. Moreover, recruitment firms become more efficient, and labor market will develop.

6. Bibliography

[1] B. Faust, M. Faust, „The perfect resumee. All you need to know, say and do to get that job", Polirom Publishing House, Ia□i, 2007.
[2] C. Turner, " Born for success", Teora Publishing House, Bucharest, 2002.
[3] M. Popescu, "Business Culture", Economic Publishing House, 2003.
[4] Online Britannica Encyclopedy Britannica Enciclopedy.2009

The Importance of Didactics Strategies Focused by Student

Popescu Maria-Lavinia
Faculty of Economics Science and Business Administration,
"Babeş-Bolyai" University, Cluj-Napoca
lavinia.popescu@econ.ubbcluj.ro

Abstract

A curricular designing in perspective of one education which carries out in efficient manner a social function involves a continuum re-accommodation of the contents, the objectives and action strategies, as a certain models or principles surpassing or renewing consider old. Only in this manner can promote an adequate formal profile of one world which is in a rapid change. Much more, the marketing penetrated very late in services sphere, creating from this point of view a remarkable distance between producer entities of material goods and those services traders. The research in tertiary domain and implicit the speciality literature which dwell on this subject is relative limited just of the beginning 1990 years.

Key words: Consumer behaviour, quality in education, marketing research, strategies, aspiration level
J.E.L. classification: M 31

1. Introduction

In our country, the tertiary is underdeveloped, not only compare with the developed countries, but compare with the countries by the East-European space what are: Czech, Poland and Hungary. In Romania, the percent of expenses for the services acquisition within the framework of total expenses for a family touches a reduced percentage, compare with over 50% in developed countries, and the quality supplies of services evolution lags much behind face to prices dynamic.

The consumer behaviour surely is the subject of ones influences what can be classified as: socials, psychological, of surroundings, physiological, economics and of others. As result of all influences at which is submitted, this in principal manifest him before of the business finish. The interdisciplinary nature of consumer behaviour is probably him biggest force, serving of integration of knowledge's existing in others domains in a comprehensive information body about the fellows in they consumption roles. Thus, in spite of fact that the study of consumer behaviour has relative recent origins, her consolidation has roots in the scientific evidence what projected about much years of research of ones specialists in the human behaviour study.

The consumer behaviour is important in business domain for the simple reason that, only justification for business is the consumer. Moreover, the efficiency of modern business is whole as dependent by the technology evolution, how is dependent by information's regarding the consumer behaviour and it is a certainty the fact that the increase of business efficiency suppose an improved analyze so much a technological changes, how many chosen of consumer.

The paper includes in section 2 the theoretical fundaments, in section 3 the dates analyze which shape the student's opinions register within framework of FSEGA at masters for one year of study, regarding the changes while they would agree with for improvement of economic university quality education and the section 4 the conclusions remarks.

2. Theoretical background and research metodology

The European Community has in the centre of preoccupations the quality guarantee, as an essential component of competitively in all the activity domains. Although the quality concept is inserted still by 1993, the European Commission values that not is a European quality image and no

one "European culture of quality". [MedC, 2004]

A quality curriculum enrols him in following dimensions:

Help at the development for a personal perspective. The curriculum is thus conceived so that the student contribute to him personal prepare and education. Too, moreover the institution specialized is drawn in the prepare process and education, both the family and the educational community. The curriculum offers of student a programs variety by which this has the possibility to opt, into certain measure, for those which he has a big attract. Through this document it is projected and the waiting which represents signs for the teachers and students.

Help at the development for an academic perspective. This curriculum standard supposes a cross-curricular understand based by knowledge's referring to citizen, democracy, race, equal access, social class, concepts.

Help at the development for a global perspective. This curriculum standard includes knowledge's which can be accessible of each age, the abilities obtained by the persons educated, as well as the values of each science. Those components predicted in curriculum contribute to the students prepare for to realize with success actions as follows: the identification, the recognizing, the explanation, the description, the examination, the valuation, the interpretation, the aptitude, the building, the participation, the practice. Moreover, this contributes by them contents at the competences obtained which allow of young's the integration in social life. Too, the didactics strategies must be centered by student for transform him in active part in information's transmission, the teacher having moderator teaching-learning process role.

The strategies must have scientific consistent. The educational strategies are thus conceived and used so those assure the conditions for the science understand and interpretation, for knowledge's connection and links emphasize between different sciences. In all those actions the strategies facilitate the students interaction with different knowledge's assuring the development in cognitive plan, but so that socio-affect interaction stimulating the attitudinal-behaviour development.

The strategies must be integrative. The strategies used realize the knowledge's correlation, aptitudes, values, convictions, attitudes with the concrete actions which lead a cross-curricular understand.

The strategies must be focused by student. All the actions within the framework of instructive-educative process follow the student, the form and the education of this. Him position is not that the inert material by which the sculptor realizes the work of art, the student constitutes an active resource becoming partner in the interaction with the teacher.

The strategies must be focused by values. The young performances will concretize in the facility decisions keep based by values and the correlation of those decisions with the social reality.

The strategies must be active-participative. Through the strategies used the teacher follows the cognitive systems development based with the reflexive thinking stimulation through the students involvement in situations by the real life, so that the using in varied contexts of the knowledge accumulated and of the aptitudes formed.

About the education quality and school development can says more things, but the affirmation that they would be simples, rapids or easily for realised denote a superficial treatment and a little knowledge of specificity educational reality. An ensemble view over this brings in the first plan the finalist-systemic-procedural character, as well as psycho-social imprint, subjective, interaction-symbolic, which dominates the educational reality. [Alecu S., 2006]

The marketing research is the systematic activity by designing, collecting, analysis and important dates reporting for a particular marketing situation which confront an organization. [Kotler Ph., Armstrong G., 2008]

The study it is based by primary quantitative research method by conclusive-descriptive nature based by the divided plans or transversal research how this is know in specialty literature. The dates collect method has been "face to face" investigation and the research instrument the questionnaire. The quantitative dates processed using SPSS. This paper achieved on the basis of punctual

investigation represents a photography for the time being of students at master opinions referring to the perceptions which they coached by the different aspects vis-à-vis by the education institutions where they are entered in.

The research plans are to two vast types: explorers and conclusive. [Plăiaş I., (coord.), 2008]. In this context, I resorted to using one conclusive descriptive research based by the divided plans or transversal research how this is know in specialty literature (suppose collecting the information's by the representative pattern level, all of a sudden) [Plăiaş I., (coord.), 2008] This form of research following discovery and define the relations between the aspects, the phenomenon's and the processes which have place all of a sudden, without proposes him some form of prediction. In this case, it is obtaining photography of marketing phenomenon and the influence of different variables of consumer over fellows asked behaviour.

The descriptive research is a marketing research having as aim a better description of marketing problems, of situations or markets, as the market potential for a specific product or demographics characteristics and consumer attitudes. [Kotler Ph., Armstrong G., 2008]

Too I used as research method: the research through investigation which supposes the collect the primaries dates putting the questions of men about they know, what attitudes they have, what preferences and what purchasing behaviour. The contact method used been the asking in person, having as background the questionnaire as research instrument.

With the view to realize the research I extracted a pattern with 100 persons by population. Total population (investigate universe) have 1400 subjects. I used the proportionally stratification investigation in function with the students percent in mother population and in same times in report with repartitions by section. One advantage of stratification investigation in report with others probabilistic method is the increase of accuracy of estimations made. Only the proportionally stratification investigation ("representative stratification") is which can be interpreted as a census [Chirouze Y., 1993]. The interest of this investigation type is that number of persons asked having common characteristics is proportionally with layer population. The proportionally stratification investigation assures a investigation rate "n/N" in each layer equal with on the whole population "n/N".

3. Students opinions of FSEGA

The specific aims which they select and the actions models which they undertake for touch them goals are results of thinking and individual learning. Thus, at the question referring to information quantity which must to accumulate the students within the framework of FSEGA shape two principals groups: the one which consider that this is how is necessary and an other subdivided in two under clusters: the ones say that the information is insufficient, the others say that the information is too abundant.

Fig. no. 1: Information quantity for accumulated within the framework of FSEGA

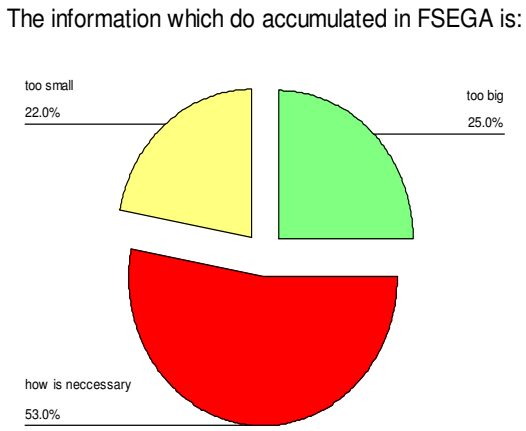


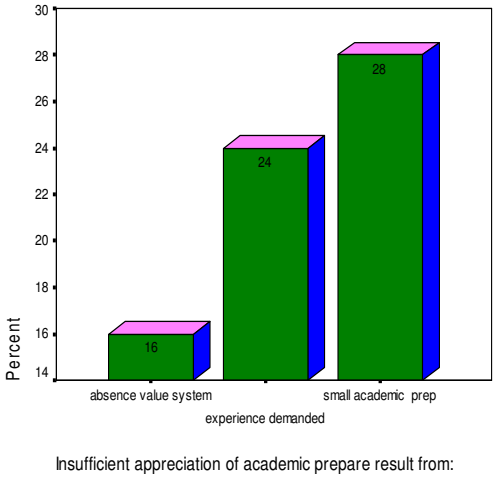
Table no. 1: The conditions which the students studying much more

MUCH STUDY IF:	PERCENT	CUMULATIVE PERCENT
financial reward	16	16
psychological motivation	9	25
later reward	46	71
time availability	29	100
Total	100	

The motivation represents a tension state inducted by a need, which she exercises a "pressure" over of the subject drawn in action in the direction for to engage into behaviour by which he expects to satisfied the need and thus to limit the tension state. 46% between the students asked say that they will be inclined to give an increased importance of the study and to give much more time if they would know that they will profit by a later reward. 29% between the persons which answered consider that the time absence with which they confront it is the principal enemy of study, while 16% say that financial reward absence persuades to adopt a specific behaviour.

The fellows can have different attitudes face to a specific behaviour in function by the situation at which take part. Between the persons which consider that Romanian academic diploma are not glad at the deserved appreciation the most say that this is thanks to the prepare offered by the universities by our country is inadequate face to what it is requested in this moment by the work (41.17%), an other important obstacle constituting the accent put by organizations on professional experience requested of the futures employees without to take into account in a big measure by the diplomas obtained from they (35.29%).

Fig. no. 2 The causes of insufficient appreciation of academic prepare



The students at master are aware of the fact that the most important aspect of one educational vocational training is represented by the competences, aptitudes and knowledge's got hold of the process finish, 88% between they saying that the accent must to be put by this side and not only by the diploma existence.

Table no. 2: The relation between the libraries book background and the time given of reading by FSEGA students

		ROMANIAN LIBRARIES HAVE AN ADEQUATE GAME OF BOOKS WHICH ADDRESS OF ECONOMIST STUDENTS? – %		TOTAL
		no	yes	
Consider you that the economist students by Cluj-Napoca read for they academic prepare:	very much	2		2
	much	5	6	11
	medium	22	15	37
	little	11	21	32
	very little	13	5	18
Total		53	47	100

An attitude is a behaviour propensity learnt which is consistent in a favourable or non favourable direction in connection with an object given. The students consider that the futures economists read moderate (37%), less (32%) or very less (18%). As concerns the books gamut addressed of economists students by which dispose the libraries the students opinions are divided, 53% consider that is not adequate, while as 47% consider that is are by students necessities.

Table no. 3 The correlation between the necessity master focus and the obtaining a diploma

		WHAT ASPECT IS IN YOUR OPINION MUCH IMPORTANT? - %		TOTAL
		diploma	competences aptitudes and knowledge's	
It is useful that the disciplines at master to be more focused by the domain chosen?	no	3	15	18
	yes	9	73	82
Total		12	88	100

73% between the students answered consider that within the framework of section by which they follow at master the disciplines would be a big focus by the domain of study and in the same times the most important aspect of them academic prepare is represented by the competences, attitudes and knowledge's accumulation.

4. Conclusions

The aspiration level of one fellow represents the performance of aim intended. It is a reflection over how much wish the person, this being him standard. It not is a desire, but a firm intention for to improve what implication has the image of self. [Plăiaş I., 2003]

Studying the population direct implicated in process of professionally formed within the framework of university centre of Cluj-Napoca with economic profile emerge the following conclusions:

The researches brought forward the fact that the subjects with highest aspirations fix and achieve highest aims, and they how have a limited aspirations level they have less achievements. It is interesting, both the persons who have success, and the fellows who have not, express an equal satisfaction face to result. Then, when the persons wish and they have lows waiting, they are satisfied with little, in contrast with the persons who have highs aspirations and who achieve highs goals. Thus, seen a direct correlation between the aspiration level and elements as: the goals fixing, the getting hold of risks, and the respect oneself, the perseverance and the success. Often, the fellows fix in involuntary and unconscious mode individuals aims. Thus, it sees that the major part of the masters students enter in master by one year within the framework of FSEGA of "Babeş-Bolyai" University, Cluj-Napoca who resort to at thus studies within the framework of this academic institution consider that the information which must be accumulated is exactly how is necessary. On the same side the students asked say that they would give a big importance of study and they give him much more time if they would know that they will have a later reward. In the adoption a thus behaviour the principals' hindrances are: time absence and financial reward absence.

The causes of insufficient academic prepare are: The inadequate prepare comparing with the requests by the work market, the person valuation by the society by the practical experience of graduate and the absence of values systems. Similar, the students at master consider that the most important aspect is that for to obtain certain competences, aptitudes, skills and attitudes in faculty rather that to obtain an academic diploma.

The students consider that the futures economists read moderate (37%), little (32%) or very little (18%). As concerns the books gamut addressed of students economists by which dispose the libraries the students opinions are divided ones consider that is adequate, others that is insufficient.

The dimensions of academic centre, as the fame, the experience and the students exigencies, as of who which assure the recruiting, the selection and the prepare of educational services personal are the elements which must taken into account then when draws up the educational strategy with the view of using for lead of obtain the consumer profile of educational services. Only acting into thus manner can assure the protection of rights and interests of educational services consumers even by the trader entity, respectively the university.

5. References

[1] Albulescu, I., „Pragmatica predării. Activitatea profesorului între rutină şi creativitate". Cluj-Napoca: Presa Universitară Clujeană, 2004

[2] Alecu S., "Dezvoltarea organizaţiei şcolare-repere teoretice şi metodologice", adaptare teză de doctorat, Universitatea Bucureşti, 2006

[3] Chirouze Y., "Le marketing: Les études préalables à la prise de décision, Enseignement Superieur Tertiaire". Paris: Ed. Elipses, 1993

[4] Delors J., (coord.), „Comoara lăuntrică. Raportul către UNESCO al Comisiei Internaţionale pentru educaţie în secolul XXI". Iaşi: Editura Polirom, 2000

[5] Fullan M.G., „Successful School Improvement". Buckingham: Open University Press and Toronto:OISE Press, 1992

[6] Jaba E., Grama A., "Analiza statistică cu SPSS sub Windows". Iaşi, 2003

[7] Kotler Ph. "Managementul marketingului". Ediţia a-V-a. Bucureşti: Teora, 2008

[8] Kotler Ph., Armstrong G.,"Principiile marketingului". Ediţia a-IV-a, Bucureşti: Editura Teora, 2008

[9] Molan V., „Management educaţional". Bucureşti: Editura Credis, 2002

[10] Muhcina S., "Interdependenţa economie-educaţie în procesul reformei economico-sociale în România". Bucureşti, 2000

[11] Murphy, J., "School effectiveness and school restructuring:contributions to educational improvement", School Effectiveness and School Improvement, 1992

[12] Olteanu V., Cetină I., "Marketingul serviciilor". Bucureşti: Expert, 1994

[13] Pah I, "Tehnici de analiză a datelor cu SPSS". Cluj-Napoca: Editura Presa Universitară Clujeană, 2004

[14] Plăiaş I., (coord.) "Cercetări de marketing". Cluj-Napoca: Editura Risoprint, 2008.

[15] Plăiaş I., "Comportamentul consumatorului". Ediţia a-II-a. Cluj-Napoca: Editura Risoprint, 2005

[16] Plăiaş I., " Negocierea afacerilor ".Cluj-Napoca: Editura Risoprint, 2003

[17] Pop, D.M, "Cercetări de marketing".Cluj-Napoca: Editura Alma Mater, Colecţia Marketing Expressus, 2006

[18] Popescu, M.L., „The Role of Change in Higher Education an Empirical Research", în volumul X, Issue 1 al Conferinţei Internaţionale "Present Issues of Global Economy", 6th Edition, 21-22 mai 2010, Universitatea „Ovidius", Constanţa, Facultatea de Stiinţe Economice, Constanţa, Ovidius University Annals Economic Sciences Series, Editura Ovidius University Press, 2010, pag.1259-1263

[19] Popescu, M.L., *„Considerations on Economic Higher Education Effects in Cluj-Napoca in Globalization Context",* în volumul I al Conferinţei Internaţionale Globalization and Higher Education in Economics and Business Administration (GEBA 2009), 3th Edition, 22-24 octombrie 2009, Universitatea „Alexandru-Ioan Cuza" din Iaşi, Facultatea de Stiinţe Economice, Iaşi, Editura Tehnopress, 2009, pag. 80-92

[20] MedC, „Strategia activităţii educative formale şi nonformale" , 2006

[21] MedC, "Asigurarea calităţii în educaţie". Galaţi: Editura Şcoala Gălăţeană, 2004

Assessment of Entrepreneurial Ability in High School Students

Popovici Norina
"Ovidius" University of Constanta, Faculty of Economic Sciences
norinapopovici@yahoo.com
Moraru Camelia
„Dimitrie Cantemir" Christian University,
Faculty of Touristic and Commercial Management, Constanta
cami.moraru@yahoo.com

Abstract

Intrapreneurial activity is in the center of economical innovation spirit, productivity growth, economic competitiveness and working places generation. In addition to these attributes of success - at the macro level - intrapreneurial activity is associated with personal success. However, this formidable engine of economic and social development is not much present and treated in economic theory for at least five reasons: First, it is the changing role of intrapreneurial activity, over the last century; and second, there isn't an accepted definition of intrapreneurship; the third, the neoclassical economic theory and equilibrium theory give some place to the concepts: initiative, independence, struggle with new ideas and uncertainty; the fourth, there is no unanimity regarding the origins of intrapreneurship; the fifth - the causality link between the intrapreneurship and economic growth is a controversial debate topic. Through this work I tried to analyze the perspective of high school students towards intrapreneurial activity, based on a questionnaire completed by them.

Key words: entrepreneur, motivation, risk, responsibility
J.E.L. classification: L26

1. Introduction

Once the crucial role played by intrapreneurship in economical growth was highlighted, economic literature has started to pay attention to this issue, recognizing its vital role, more dynamic and innovative. In the last 30 years, the positive impact of entrepreneurs activity was felt in all sectors. In fact, the rapid growth of intrapreneurial firms form the essence of a changing global economic system. We live in an era of intrapreneurship, supported by educational institutions, government entities and corporations[1].

The starting point regarding the intrapreneurial phenomenon is to define intrapreneurial activity. Intrapreneurial activity is a process that takes place in different business environments and locations, causing changes in the economic system through innovations made by individuals who generate or respond to economic opportunities, creating value both for individuals and for society. Intrapreneurial activity is synthetically the identification and enhancement of an economic opportunity[3].

In the center of intrapreneurial activity is the entrepreneur, considered the promoter of intrapreneurial activity. This is explained by the fact that he, the entrepreneur, through initiative, design, creativity and dynamism, risk taking, enhances the modernization and development of the entire economy. The entrepreneur is a person who initiates and performs an action,taking charge of the innovation risks in exchange for material or personal satisfaction. Entrepreneur's personality and characteristics have been analyzed by many researchers. Perhaps no other aspect related to entrepreneurs has not been studied with so much consistency. And, of course, views differ. However, if we have to make up the portrait of the successful entrepreneur, it might look as follows: male, 25-35 years old, the only child of his parents, graduated from college, parents have a business, started to make money since he was a kid, born in a favorable business area and Protestant. If all this features can be found in

one person, this may be in the favorable position of the ideal entrepreneur[2].

2. Technical College „Pontica" Constanta Presentation

Technical College „Pontica", former Palas Agricultural School Group, founded in 1952, is situated in Constanta municipality, Constanta County and answers to the educational and training needs in agriculture for the students from the city, surrounding areas of the municipality and localties from neighboring counties.

The mission of Technical College "Pontica" from Constanta is to give students qualitative educational services that lead to the development of their personality on all accounts and to an accurate integration in the national and European labor market. College seeks to provide students qualitative education that should develop them, until the end of each phase of education, intellectual competences and social skills, giving them the opportunity to discover the Romanian society and European values.

Considering the integration of Romania in the European Union, the initial training of young people through technical and vocational education should consider that the Romanian economy is moving towards a knowledge-based economy, which requires that the youth acquire key skills and abilities such as: information and communication technology, communication and numeracy, foreign languages, ability to exploit the changes that are taking place etc

Teaching staff was supported by the management team in their teaching degrees registration and participation, for courses and other forms of education such as Master and Doctorate.

Organizational culture is characterized by a high professional ethos. Dominant values are: egalitarianism, cooperation, teamwork, mutual respect, affection toward children, respect for the profession, freedom of expression, openness to new ideas, creativity, enthusiasm, willingness to assert themselves. There are not missing any cases of professional elitism, individualism, competition, intellectualism, routine, conservatism, but they are only exceptions to this rule. The organization's environment is open, characterized by high dynamism and commitment of members of the school, a stimulating environment, which offers complacencies and the oppotunity to establish open relationships, among teachers, respect and mutual support.

Generally, students come from organized families. There have not been registered serious cases of indiscipline which impose limits - expelled without the right to re-enrollment in schools. Students at all levels are open to communication and active involves in the organizational life, participating in actions/activities and extracurricular activities, voluntary actions. Regarding the number of registered students in this high school at the beginning of 2007 the total number of students was 700 students, and at the end of 2009 their number reached 867 students. In the 2007-2009 period, the number of students of Technical College " Pontica" continued to grow, but with reduced values.

3. Case study on assessment of entrepreneurial ability in high school students

In order to accomplish this study, I developed a questionnaire, one of the most common techniques used in social and human sciences. The questionnaire was completed by a number of 70 students, 30 men and 40 women. The questions included in this questionnaire refers to the way they react under stress, to assume responsibilities and their duties, the motivating factors of the human resources, this being items related to intrapreneurial activity.

We use to associate stress with the negative effects that it generates, but from time to time, we need a certain "amount" of stress to trigger the alert status. Asked if **are able to focus and act under stress conditions, most respondents**, 73%, believe they can act according to and under conditions of stress, while 27% believe that they can not cope with stressful situations, acting irrationally. Stress is an emotion useful in everyday life, on short term, it can help us to increase physical and intellectual performance, including creativity. We can say that most participants can concentrate under stressful conditions and respond in a rational manner, so the problems that may appear can be solved[5].

Relationship needs involve friendship relations with colleagues, bosses, subordinates and others. Only 10% of students consider that is not necessary the relationship needs satisfaction, while 90% of respondents pay attention to this. The characteristic of these needs is that their satisfaction depends heavily on the report with others: hostile or friendly type. The more people are understanding better at work, working in a pleasant environment, then their performace is evident. As we see, for 90% of respondents relationship needs plays a vital role and they are aware of the importance of these relationships satisfaction.

Commitment implies first of all action, to do what it takes. Asked if they assume their responsibilities on their own initiative, from the participants only 17% answered that does not assume responsibilities on their own initiative, while 83% said yes, assuming their responsibilities and their mistakes too. A good entrepreneur must assume his responsibilities, so that those whom he subordinates take the positive example and try to realise better their responsabilities. Thus, participants who responded to the questionnaire, assume their responsibilities and accomplish them at the highest standards[6].

It is clear that when a business is created, are **assumed certain risks**, which may be personal or financial. Students, asked if those who take risks are more likely to win, they answered yes (81%) agreeing that those who take risks have more chances to win, but 19% of them said that is not necesarry to take risks if you want to gain benefits . If the business runs, then the entrepreneur will have a certain reputation, prestige and financial benefits, however if the business fails could lose all these things plus the fact that the entrepreneur will not have confidence in themselve and in his power. Analyzing the responses by gender, the results are as follows: women are more reluctant when it comes to take risks. 62,5% of all women said they disagree with this, thinking to the safety and welfare of the entire family. Men take risks, with certainty, considering that they can deal with any challenges, so their share is 66,66% of the total.

Asked if the **knowledge in the entrepreneurial area gained in the educational process helps to start a business**, most respondents, 46% believe that the concepts acquired in the learning process underlie the business. 37% of them believe that the information thus acquired, are only to some extent used to start a business and 17% are against this affirmance. Most of the entrepreneurs have more tasks simultaneously. Of course, nobody can be expert in all these areas but the entrepreneur must have enough knowledge for each area to assess the impact of the actions upon company's profits and upon the consequences on the local economy. Thus, most are aware, that the information gained in the field of entrepreneurship in educational process are needed to initiate and run a business.

When students were asked if the **entrepreneurs are completely independent,** the majority, represented by a rate of 70%, agrees with this statement, but there is also a 30% against these affirmance, considering that entrepeneurs have a certain freedom, but not complete, and they need the others help. Entrepreneurs are not independent, they do depend on partners, investors, customers, suppliers, creditors, employees, family and everyone involved in social action and community obligations. However, entrepreneurs can independently decide when, where and what decisions to take. In addition, it is extremely difficult to run a profitable business just by yourself, where are two power increases. It should be noted that only 30% of respondents, realize that entrepreneurs are not completely independent, they need to collaborate with others[4].

One of the questions of the questionnaire refers to the existing **environment in Romania, if it is permissive and supports business foundation and development**. We note that the difference between those who responded positively and those who have not, is a significant one, respectively 40%. Thus, 70% of students who answered the survey, say that in Romania there is not a favourable environment for business foundation and growth, whereas 30% believe that the existing environment in our country is a good place for business. Currently, in Romania, there is not a favorable environment for the foundation and development of a business. Also, the difficulties faced by domestic firms are internal demand decrese, excessive

taxation, bureaucracy, high credits costs, inflation, currency relative instability, difficult access to credit, corruption, increasing labor costs and competition of the imported products. More than half of those who participated in the study acknowledges this negative aspects[2].

The last question in the questionnaire refers to the specific motivation forms of human resouces. For this question students gave a score from 1 to 5 (1 - most important, 5 - least important). After granting these notes I made a table where are presented each of these motivayion forms, with scores obtained in forms of means and variances. The table below shows the specific motivation forms of human resounces, in descending order, by importance:

Table 1. Results regarding motivation forms

Motivation Forms	Means	Variances
Salary	1,50	0,51
Working conditions	2,75	1,58
The posibility to promote	3,02	1,08
Incresing responsbailities	3,17	1,54
Praise	4,35	1,20

Source: own proccesing

It may be noted that for the interviewed people, salary is the main motivation factor, having the lowest average – 1,50. Salary level is seen as a measure of a member importance within the organization, especially for those who are on lower hierarchical levels, the main source of motivation for them is a higher salary.

They also attaches importance to working conditions and to the possibility to promote. The 70 people who participated in the study want to benefit by optimal conditions of hygiene, labor protection, labor discipline compliance. Criterion, least important, is the praise, it recorded an average of 4,35.

In terms of dispersion, this recorded values from 0,51 to 1,58. If this is has a small value, means that employees are focused on the same answer, however, if it has a high value, means that for every student, that factor has a different influence. Most of those interviewed gave the same importance to the salary, this criterion registering the lowest value of dispersion – 0,51. In contrast is the working conditions motivation factor, it recorded the highest value of dispersion – 1,58. This factor has a different significance for each student, for some it is very important, those giving 1, and for others working conditions are simpply indifferent and noted that criterion with 5. We can say that, while the factor "salary" had a constant evolution, "working conditions" had an oscillatory evolution.

4. Conclusions

After this study, which was attended by 70 people, came off a series of positive and negative aspects.

More than 80% of those who completed the questionnaire, are aware that to win is necessary to risk. Risk is an important element in the entrepreneurial process. Although it would seem that they assume huge, like gamblers, they actually assume the risks carefully, calculating them. To pursue its objectives, people prepare and plan their actions, therefore, they are not looking deliberately for the risk an are not taking unnecessary risks, but is not hesitant when it comes to risks that can not be avoided.

The research realised in the school, underlined that relationship needs are important for most respondents. 90% of those who participated in the study aimed to satisfy their relationship needs, as this plays an important role in our lives. Everyone wants to communicate, interact, to create connections work colleagues (high school), to work in a pleasent environment. Meeting these needs has an impact on the results that people can get, because if they work in a hostile environment, then the results will be low, while if the environment is friendly, good results can record a positive evolution.

We can notice that the main motivating factor for mostpeople is the salary. From ancient times money were considered a motivating factor, the starting point being the idea that people work best when they are paid better. Studies show that money is important for two reasons: their purchasing power for goods or services needed by people and that is a symbol of the value of a person in an organization. For women, it is also important

to know the conditions under they will work, if there are provided the best conditions of hygiene, labor protection and labor discipline, and if there are programs to combate the causes of work indiscipline. For men the opportunities to promote are closely linked with the main motivation factor, salary.

The fact that only 30% of all individuals know that entrepreneurs are not completely independent is a bad thing. People should realize that entrepreneurs depend on others, such as: suppliers, investors, partners, clients, family, they can not act without the cooperation, support from them.

Perhaps the most important thing is that our country there isn't a favourable environment for the foundation and development of a business, it realized more than half of the 70 people who took part in this study. They are aware of the fact that Romania faces with a decreasing domestic demand, excessive taxation, bureaucracy, inflation, difficult access to credit, increasing labor costs and competition from imported products.

Currently intrapreneurship occurs with a much higher incidence much higher than anytime in the last 100 years. Recent studies show that intrapreneurship has become a significant lifestyle and a career for many people and 1 from 25 adults tries to start a business.

5. References

[1] P. Drucker, *"Innovation System and Entrepreneurship",* Encyclopedic Publishing, Bucharest, 1993

[2] M. Gerber, *Entrepreneur's Myth*, Amaltea Publishing, Bucharest, 2003

[3] A. Iatocescu, *"Entrepreneurial and intrapreneurial in Romania",* ASE Publishing, 2006

[4] D.F. Kouratko, *„Entrepreneurship Education: Emerging Trends and Challenges for the 21st Century"*, College of Business, Ball State University, 2005;

[5] C. Sasu, R. Bernier, "*Entrepreneur's Encyclopedia"*, Economics Publishing, Bucharest, 1999

[6] S. Vaduva, *Entrepreneurship,* Economics Publishing, Bucharest, 2004

Nominal and Real Convergence in the Process of Single Currency Adoption in the New EU Member Countries

Potlog Dorian
«Al. I. Cuza» University of Iaşi
potlogdorian@yahoo.com

Abstract

The theme "Nominal and Real Convergence in the Process of Single Currency Adoption in the New EU Member Countries", is part of a first priority field for the development of the scientific knowledge as it aims, through interdisciplinary, economic, sociological and anthropological research and disseminations, at finding answers to the question which are the influences and the impact of the adherence program to the EURO zone over the commercial banks practices from Romania and the countries recent adherence to the European Union, in the context of integration and the businesses in the European environment.

As secondary objectives, the theme will contribute to opening new directions for research and to exploiting the economic research field, having a potential impact on the new trends of development in science, and through the hinted participants will help promoting scientific collaboration between researchers from different countries and with different professional background, including for participating in European and international projects.

Key words: Nominal Convergence, Real Convergence, Single Currency, New EU Member Countries
J.E.L. classification: E50, H77, G18

1. The reference of the theme

At present day, a priority of the community budgets and of the internal policy at European level is scientific and technological research. Within this, an important place is represented by exploratory research. For a long time it has been criticized for its disunity over empirical affixing. That's why it has been registered a permanent quest for methods of improvement, where the barrier between theory and practice to be removed, the employment of activity simulators being one of the most advanced methods of research.

The origin of the ideas we intend to put into light and to debate can be retrieved in the quantitative theory of money and, more explicitly, in the debates generated in England, in the second half of the XIX century, between the members of the Currency School, represented by D. Ricardo and Peel and the members of the Banking School, represented by Tooke and Fullarton. The analysis on the open economies' case is especially due to the contributions of some famous representatives of this school, as Johnson and Mundell, who came to partially different conclusions comparing to those of Friedman, concerning closed economies' case.

What would happen in the case of fixed exchange rates? The so-called global or international monetarism, represented especially by H. Johnson and R. Mundell, emphasizes that the situation would be very different. If a small open economy, which is based on fixed exchange rates, is considered, the monetarists say that the internal inflation rate is affected, first of all, by the external inflation rate, which supposes that it can no longer be under the national authorities' control. Evidently, that differs in many respects from the previous case, that of flexible analogies, which, as we have already observed, supposes that the national authorities can keep under control the national inflation by the monetary policy promoted.

The mechanism through which international inflation spreads across internal prices, within the so-called "international

arbitrage of prices" (or the law of the single price), is the one according to which the deciders buy products where they are more cheap and sell them where they are more expensive, taking advantage of the local differences in prices in order to obtain profits; this way, they generate an excess of demand in the countries with lower prices, making them grow, and an excess of supply in the countries where prices are bigger, making them diminish or stabilize; this way prices tend to verge at international level.

It is thence obvious that the existence of noncommercial products on the international market (as is the case of some services), of fiscal barriers and of other authorities' practices in international commerce, of important transportation costs, of very perishables products, of logical delays in taking decisions so., are factors that embarrass a complete and proficient international decision process, at least on long term, so that the monetarist conclusions regarding the process of open economies' adjustment to fixed exchange rates seem to be excessive. They are the following:

a) in *a fixed exchange rate mechanism*, small open economies cannot control the inflation rate, as it is determined by the international general level of prices growth rate, which depends, at its turn, on the international money supply growth rate;

b) as consequence, in order to control inflationary tensions, an adequate coordination between different countries' monetary policies would be needed, and controlling the international money supply would be very difficult, if not impossible, from a political perspective;

c) the devalorisation of the currency does not improve, on long term, the balance of payments, through the prices' own arbitrage, as a consequence the increase determined by the devalorisation of imported products' national currency prices is compensated by an increase, at the same amount, of internal prices;

d) *changes in equilibrium prices* are practically determined by the variations of the internal money supply growth rate. In reality, in a fixed exchange rate regime, if the domestic inflation is greater (smaller) than the external one, they do not vary, and the bias between the existent prices conducts to the activation of the international arbitrage, so the variations of the money supply growth rate do not affect on domestic inflation, but they affect on the balance of payments, as an excess of domestic demand (generated by ΔM) can be satisfied by growing imports, which would generate a deficit of the balance of payments.

Floating exchange rates insure the equilibrium of external payments and protect the national economy from international inflation, permitting for the inflation rate to depend on the national money supply growth rate, controlled through the monetary policy conducted by national authorities.

Starting with Mundell's trilema (foreign currency policies – fiscal policies – macroeconomic policies) and with the guide marks of the European Exchange Rate Mechanism (ERM I and ERM II) and considering the provisions of Basel 1 and Basel 2 Agreements, the research theme aims, concentrating especially on EU new member states, at:

- ✓ identifying the optimum ratio between the different macroeconomic stability objectives;
- ✓ determining at what degree macroeconomic policies can contribute to stimulating the level of employment;
- ✓ referring to other countries that have already adopted the single European currency, euro (Slovenia, Malta, Slovakia, Cyprus) and to countries that have pegged their currency to euro (Estonia).

The project aims at identifying in what degree the real and nominal convergence of EU new member states on their path to euro adoption is connected or not to the monetary principles formulated by Mundell, on other words if these countries can reach two objectives but never three, which supposes sacrificing economic growth and the rate of employment in order to maintain the exchange rate and the budget deficit at a minimum level.

In our country, the field of research is still at its beginnings, few firms or educational institutions choose, at the present, to create modulus or departaments of research, few european funds for research have been accessed by Romanian projects. This happens despite the recognition of the indispensable role of the research process. Without new perspectives, new scientific openings to include the already acquired

experience and to carry it on, Romania will not succed to find its place within the big european family. The adoption of this direction must not be considered only at external level but, at the same time, the internal opportunities of development must be revealed.

At the present moment, the research investments, although still reduced, have started to be rearranged as volume within the sphere of internal policy's priorities, there where their natural place is, for an increase of recognition of the romanian research at european and international level to be achieved.

2. The theme of research's innovative character:

- The impact of the adhesion programme, for the recent EU Member States, of adhesion to Euro area, generates many specific implications, for which the monetary policies derived from the credit theory differ in many respects to those derived from the monetary theory founded on the need of transactions.
- Starting with the existing stage of knowledge in the field, it is generally admitted that central banks have influence because the market participants believe that they do. They have an effect because of an informative co-ordination. If everybody believes that the relaxation of the monetary policy will lead the economy to expansion, and they react by mutual agreement by increasing the investments and the locations, this becomes a prophecy that will certainly fulfill. But, in this context, it is trust turn and, as it happens in all the cases it is involved, a great fragility must be taken into account. If the players of the market estimate that the central bank is not too efficient, it will really become inefficient. From this point of view, the credibility of the central bank and of the central banker is a very sensitive element; in reality, the statements of the central bankers seem to confirm this view.
- The credibility is similar, as it represents nothing else but the trust in the competence and informing of individual or institutional agents. The players of the market have added a great trust to the credibility of Mr. Greenspan when the market was growing, during Clinton ages, although there was little evidence that he was at the origin of the boom; all that could be said was that he hasn't managed the monetary policy too bad, considering the previous monetary policy, stopping the untimely expansion.
- If the monetary policy must relate on the central bank and its president's credibility, is really the case of an real fragile instrument. That is because this emperor will look more and more naked or, just on the line, summary dressed and, although this kind of affirmations are rarely issued in the high circles, there is a growing presumption that this is already a reality.
- Mixing up the metaphors: the central bank's governors will continue to say that they drive the car, will continue to deliver serious speeches, will be responsible for maintaining the appearances. They will continue to turn the steering wheel, sometimes to the right, sometimes to the left, with firm hands, without going too much into a direction or another. They will hide the secret of their success, that the steering wheel is hardly related to the wheels and that the wheels are equipped with a gyroscope that adjusts on its own and that frequently leads the whole. On an intuitive basis, they are convinced that, if they rapidly fallow the direction of the wheels, all the others will be convinced that they control the wheels and non vice-versa.
- This fiction is not far from the reality: when the leader makes too many suppositions, when he thinks that he can lead the economy better and when he knows what he is capable of, he keeps a tight hand on things or he pulls to much into a direction or another; because, although the steering wheel is not too tight, it is not too loose: the central bank has the power to make the economy leave the track. There is another case when fiction is not innocent: when a crisis emerges. It is imperative than to make use of all the instruments available. There is no reason to believe that, because of the new economy, the monetary policy will be more efficient than the old one in taking the economy out of the crisis, on the contrary, there are reasons according to which it will be less efficient. If the excessive trust in the monetary policy conducts to abandoning the other directing instruments, the economy could be hurt,

because the slowing downs and the turnovers could last more that they should.

• Romania's accession to EU, accomplished at the 1st of January 2007, represents a step forward of great importance, reflecting the economic and institutional progresses realized as well as the progresses in the process of catching-up;

• The adoption of euro by candidate countries – EU member countries – is conditioned by the fulfillment of some nominal convergence criteria, which can be considered as quantitative targets of reference, also known as the Maastricht criteria. But, besides the nominal convergence criteria, the community institutions also impose the necessity for the Monetary Union's candidate countries to accomplish a great degree of real convergence. Besides, the economic reality and practice show a close connection between nominal and real convergence, as well as the necessity to accomplish them simultaneously. As an example, the crises experienced by the European Monetary System, especially in 1992 and 1993, have been related to the fundamental differences registered in the evolution of the member states' real conditions.

• According to the Treaty of Maastricht, the countries becoming members of EU will not automatically adopt the single currency euro, but they will definitely participate at ERM II (which supposes an maximum variation of the national currency against euro of ±15%), for at least two years, when they should also accomplish the nominal convergence criteria.

• The entering of a Monetary Union candidate country's national currency to ERM II is conditioned by the fulfillment of nominal convergence criteria and by the progresses registered in reducing the gaps in the real economy in order to minimize the period of participating to ERM II. For Romania, the moment of entering the ERM II is expected to be in 2012 (accordingly to the National Convergence Program elaborated by the Government in collaboration with the National Bank of Romania), time considered optimum for fulfilling the nominal convergence criteria and for accomplishing important progresses in real convergence.

• An analysis of the convergence criteria fulfillment by Romania emphasizes big gaps, the necessity to restructure the economy and to realize viable investment programs in order to catch-up with other European countries.

The international financial volatility, with impact on the Romanian economy, reflects the necessity to coordinate different states' economic policies and to promote an adequate mix of internal economic policies in order to ensure convergence and macroeconomic stability.

The theme "**Nominal and real convergence in new EU Member States' euro adoption process"** aims at organizing debates on some fundamental issues regarding:

❖ The exchange rate mechanism ERM II and the necessity to fulfill nominal and real convergence criteria for adopting euro;

❖ The comparative analysis of the results accomplished by Central and Eastern European countries (candidate countries to the Monetary Union) in ensuring nominal and real convergence;

❖ The role of economic policy mix (especially of the monetary and fiscal-budgetary policies) in ensuring convergence and maintaining macroeconomic stability.

3. The theme's interdisciplinary character considers the tasks carried out by the participants, which justifies the clear need for co-operation and research.

In order to become a member of the European Union and, afterwards, to adopt the single european currency, EURO, a programme with multiple stages has been proposed to the EU non-member countries to carry out. The project will effectively assume the role to reveal the european dimension over the issue of real and nominal convergence in the process of single currency's adoption by the new EU Member States.

By realizing this theme of exploratory research and study of the effects of the programme of adhesion to the EU and, afterwards, to the Euro area, in the new context, we intend to investigate:

1. the romanian banking system and the macroeconomic environment in order to identify at what degree it is prepared to implement at a big scale the EURO area's standards;
2. at what degree the monetary policy of the central banks of the countries already a member of the European Union differs from the situation of a country that would not adopt EURO;
3. if, in the situation that a programme of monetary policy has already been announced (for example in Romania), the delay of the adoption or implementation of the proposed measures will generate micro and macroeconomic effects?
4. if it is necessary to establish a macroeconomic mix, not only of monetary policy but also of other objectives to be fallowed through fiscal and sectorial policies?
5. at what degree the adoption of some components of the european social model produces effects contradictory to those of the EURO area?
6. if economic growth mantained at a high rate is compatible to the requirements of adopting EURO, beeing well know the fact that the countries already member of the EURO area do not register such high rates of growth?
7. the development of scientific research based on the problems of money and credit in the context of the information society
8. the possibilities of training the employee of the romanian financial and banking institutions according to EU's principles of functioning
9. to higher the standards of the romanian financial and banking institutions' functioning
10. the improvement of the quality of life at workplace in financial-banking and educational institutions
11. a better quality of the services offered to the comunity by the financial and banking employees
12. conceiving some models of the financial and banking institutions' functioning in the region under the impact of the mutations produced in money and credit in the information society.

4. References

[1] Mundell, R.A and others, *Options in Therapy: The Role Of The Fiscal And Monetary Policy*, publishend in Inflation as a Global Problem (R. Hindshaw ed.) John Hopkins University Press, 1972.
[2] James C. van Horne, John H. Wachowicz J.R. – *Fundamentals of Financial Management* – twelfth edition, Prentice Hall, 2005.
[3] Salvador Ballada – *Gestion finaciere*, Gualino editeur, 1998.
[4] Mark Grimblatt, Sheridan Titman – *Financial Markets & Corporate Strategy*, McGraw – Hill Irwin, 2002.
[5] Stephen A. Ross, Randolph W. Westerfield, Jeffrey Jaffe – *Corporate Finance* – seventh edition, McGraw – Hill Irwin, 2005.
[6] Meyendorff Anna ,Thakor Anjan V. - *Designing financial systems in transition economies*, The MIT Press, Massachusetts, 2002.
[7] Hickman Kent A. ,Hunter Hugh O. ,BYRD John W. - *Foundations of Corporate Finance*, Thomson South Western 2002.
[8] Bofinger Peter ,Reischle Julian ,Schachter Andrea - *Monetary policy*, Oxford University Press, Oxford, 2001.
[9] Maes Ivo - *Economic thought and the making of European Monetary Union*, Edward Elgar, Northampton, 2002.
[10] Dickinson David G. ,Mullineux Andrew W.- *Financial and monetary integration in the new Europe*, Edward Elgar, Cheltenham, 2001.
[11] Falcao Silva Maria Luiza - *Modern exchange rate regimes, stabilisation programmes and coordination of macroeconomic policies*, Burlington, 1999.
[12] Friedman Milton, *Capitalism şi libertate*, Ed. Enciclopedică, Bucureşti, 1995.
[13] Friedman, B., *Optimal Expectations and the Extreme Information Assumptions of Rational Expectatives Macromodels*, „Journal of Monetary Economics", ianuarie 1979.
[14] Friedman, M., *Quantity Theory of Money*, în Eatwell, J., Milgate, M. şi Newman, P. (ed.), Money, „The New Palgrave", MacMillan, Londra, 1989.
[15] Friedman, M., *The Effects of full employment Policy on Economic Stability: a Formal Analysis*, „Essays in Positive Economics, University of Chicago Press", Chicago, a III-a ediție.
[16] Friedman, M., *The Optimum Quantity Of Money and Other Essays*, MacMillan, 1969.
[17] Friedman, M., *The Quantity Theory of Money*: A Restatement, din „Studies in the Quantity Theory of Money", ed. M. Friedman, Chicago, University of Chicago Press.
[18] Hossain, A. şi Chowdhury, A.: *Monetary and financial policies in developing countries*, Routledge, Londra, 1996.

[19] Mises, L. Von, *Monetary Stabilization and Cyclical Policy, în Graves*, P. L. (ed.), On the Manipulation of Money and Credit, Free Market Books, New York, 1966.
[20] Mises, L. Von, *Prices and Production*, A. M. Kelley, New York, 1967.
[21] Mises, L. Von, *The Theory of Money and Credit*, Foundation for Economic Education, New York, 1971.
[22] Mishkin S. Frederic, *The economics of money, banking and financial markets*, Columbia University, 2003

The Analysis of Financial Conditions Imposed by Banks for the Approval of Long Term Credits Requested by Economical Agents

Radu Riana Iren
"Dunărea de Jos" University of Galati, Faculty of Economic Sciences
raduriana@yahoo.com

Abstract

Amid economic crisis, more and more companies are facing financial deficits. In these circumstances it is necessary to find solutions to finance economical activity. Given the demand contraction and financial blockade, calling the long-term loans for development or at least maintaining the basic business parameters, it appears strongly as an attractive option for economical agents.

Unfortunately, due to pronounced financial risk on this period of crisis and due to currency loans required by the state, banks have been tightening ever more theirs conditions and it have been increasing the collateral requirements also.

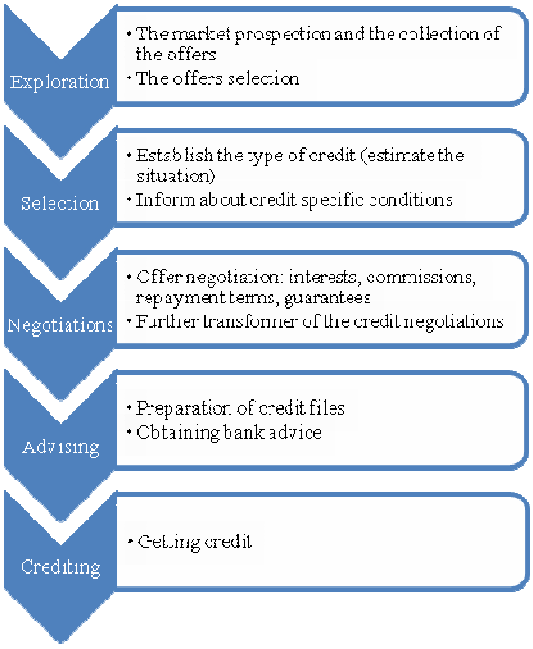
In this debate, I am proposing to shortly describe the necessary steps to be taken for credit obtaining, and also to make a critical analysis of financial conditions imposed by banks for the approval of long term loans. Shortly exemplification of reliability analysis made by banks on this occasion, through financial indicators, will be also done.

Key words: credit crisis, guarantees, payment terms
J.E.L. classification: G; G2; G21

1. Introduction

A loan involves the following stages to be made as we are mentioning below:

Figure 1. Graphical representation of the stages to be passed for a loan obtaining



Source: Own contribution

2. The effectively obtaining of a long-term credit

Acquisitions of fixed assets for the diversification of the production or for the open and development of one work shop are important investments. Usually, this type of expenditure required a loan for a long period of time (7-30 years). [1] In practice, the purchased goods served as guaranties for the loan, the payments terms and taxes are establish from the beginning.

A first step in obtaining a long-term credit is the market prospecting and best offer choice. This stage involves careful information and exam of all competitors offers which ate existing on the market. It is necessary the centralization of the offers and identifications of the selection criteria

according to the economical agent benefit. Not always, these criteria's are related to the credit cost.

Before applying for a specific credit agreement, it must be made an offer that will include information about the entity's particular requirements. The offer includes identification data such as name of the agent, registered office, registration code (at ORC) and requested credit information such as: amount, maturity, purpose, and fixed assets which will be guaranty subject, information about its creditworthiness. Written offer must be available for the customer at least 10 days before signing the contract. The contract must contain all the conditions and validity period. The offer not requires necessarily the signing of the credit contract, the retreatment being possible in any moment.

An important step in obtaining a long-term credit is the evaluation of the financial situation including the financial one.

The evaluation starts at Economic Agent. The agent has must determining his financial ability to repay the loan. Usually it is considered:

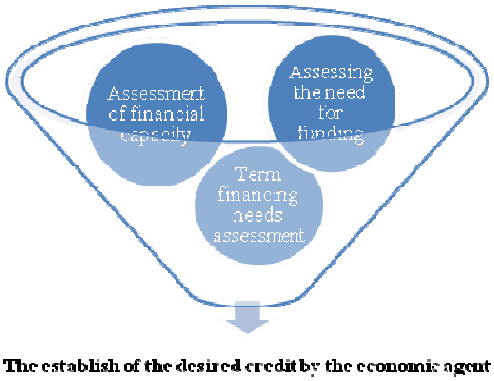
- The current situation and future risks.
- Future incomes and a uncertainly degree which may affect them
- The expenditures, particularly the fixed one, which can be long-term predicted
- The expenditures regard other charges and taxes which must be paid as: stamp duty, tax assessment, honorarium, notary taxes, etc.

The correct evaluation of the financing needs, especially regards the optimization of effort-results ratio. It will prepare market studies for the disposal of new products derived from the investment. It will be carefully evaluating the complexity degree of equipments which are the investment subject, or the size of the new work shop, all these issues directly affecting the cost of credit.

Another evaluation that the economical agent must have in mind is that the life of the loan. It is know that, as the credit is giving on long term basis, as it costs are increasing. However repayment effort must be carefully metered to avoid the entry on payment incapacity.

Schematically, the evaluation phase can be represented as:

Figure 2. The establish of the desired credit by the economic agent



Source: Own contribution

After the defining of the loan type which is wanting, it is follow the budgeting revenues and expenditures or the business plan conception. A substantial part of it is cash-flow forecast. If cash flow which is calculated will be positive, then the economical agent will be able to use credit. In the other case it is recommended the abandoning, at least for a period, of investment project. The tables below identifies a cash flow model that allows the entity (in this case PEC Group companies from Galati city) to access credit long-term basis for investments

Table 1. Net cash flow - forecast (2010)

INDICATOR	Year 2010
1. Total revenues	211.410.920
2. Total expenditures	199.119.844
3. Gross Profit	12.291.076
4. Tax on income	1.834.411
5. Net profit	10.456.665
6. Amortization	2.652.014
7. Capital expenditure	0
8. Increasing Net Working Capital	0
9. Net Working Capital decrease	2.763.245
10. Increasing long-term loans	0
11. Decrease in long term loans	3.925.014
12. Net Cash Flow	11.946.909
13. Shareholder equity	53.607.000,00
14. Fixed assets	73.670.000,00
15. Its working capital (SE-ACA)	-20.063.000,00

Source: Own contribution

Table 2. Net cash flow - forecast (2011-2013)

IND.	Year 2011	Year 2012	Year 2013
1	233.934.500	271.446.575	317.326.376
2	215.951.000	242.732.200	274.226.740
3	17.983.500	28.714.375	43.099.636
4	2.339.360	3.656.300	5.379.942
5	15.644.140	25.058.075	37.719.694
6	2.908.915	3.224.000	3.607.700
7	0	0	0
8	6.193.000	2.350.000	4.620.000
9	0	0	0
10	0	0	0
11	6.406.286	4.873.328	4.519.499
12	5.953.769	21.058.747	32.187.896
13	61.800.000,00	69.400.000,00	78.300.000,00
14	75.670.000,00	80.920.000,00	85.200.000,00
15	-13.870.000,00	-11.520.000,00	-6.900.000,00

Source: Own contribution

The applicant will negotiate credit terms with the bank after the selection of the bank and after the determination of the whish type of loan (self evaluation-phase). Target goal of this phase is additional obtaining, as many facilities, as possible.

The next stage is another elimination one in terms of loan approval. At this stage is completed, inspected and approved credit file. In Romania, according to the eligible incomes of the applicant the admitted indebtedness varied from 30% up to 65% - 70%. [2] Economical agent offered to the authorized representatives of the bank, the business plan and copies of financial statements for the recent years. The bank checked if the operator (applicant) falls within the financial conditions required for a loan.

Here is continuing this type of analysis performed to the members of the PEC Group. The analysis which are offering in this case the results conform to the restrictions imposed by the bank, are permitting the members of the PEC Group to obtain bank investments credit from a Dutch bank capital. Although the case presented is positive, on the credit market, exists the trend of reducing the investments' crediting base on increased financial risk background on the phenomenon of financial jam and currency amid rising demand from the Romanian state faced a major budget deficit.

Ind.	The norm	2010	2011	2012	2013
EURO PEC SA					
A	min 6,5%	7,20%	6,27%	6,53%	6,67%
B	min 30%	53,88%	58,54%	59,52%	61,18%
C	Max 2	0,5	0,33	0,26	0,21
TRANS PEC SA					
A	min 6,5%	12,92%	9,30%	10,00%	8,33%
B	min 30%	5,44%	7,50%	11,36%	15,56%
C	Max 2	75,44	5,48	4,03	2,6
TRANS PEC LEASING IFN SA					
A	min 6,5%	32,31%	38,79%	41,38%	46,88%
B	min 30%	-2,32%	2,35%	4,62%	6,98%
C	Max 2	22,06	14,23	9,91	6,95
MENAROM PEC SA					
A	min 6,5%	6,08%	7,29%	12,50%	15,00%
B	min 30%	66,82%	67,11%	72,53%	77,78%
C	Max 2	0,05	0,08	0,03	0,01
TOTAL GRUP					
A	min 6,5%	7,88%	7,20%	8,26%	8,56%
B	min 30%	33,42%	37,98%	40,30%	43,91%
C	Max 2	1,49	1,1	0,72	0,43

Source: Adaptation after the minimal bank request of financial performance for credit appliance customer

Note: In the table above, the indicators noted with A, B, C letters are the following:

A. Rate of operational profitability = (Operating result / net turnover) * 100

B. Solvency ratio = (Total Shareholders equity / Total assets) * 100

C. Borrowing Rates = (Total interest bearing debts - Cash Money) / annualized profit before deduction

3. Conclusions

In their attempt to find solutions in a difficult economically period, the companies have been forced to diversify their market positions and roles. [3] It was therefore necessary for the companies to find flexible financing programs that would provide necessary funds to continue their business or for investment. Especially for small and medium enterprises, lack of financing could make impossible the further economical activities of those companies. Companies that need alternative funding can now use: banks offer for credits, IFN offers or intra-group financing modalities. [4] On the credit market currently appeared the trend of reducing the investments' crediting base on increased financial risk background on the phenomenon of financial jam and currency amid rising demand from the Romanian state faced a major budget deficit.

4. Bibliography

[1] Capraru, Bogdan – Banking activity, Systems, operations and practices, Ed. CH Beck, Bucharest, 2010

[2] National Bank of Romania. Regulations of the National Bank of Romania on the payment instruments. Bucharest: Official Gazette, 1995;

[3] http://economictimes.ro/restructurarea-creditelor-in-romania-ii/

[4] Petrescu, Oana; Dorobantu, Anamaria; Gherghescu, Gelu; Saucan, Anne-Marie, Steinhagen, Raluca. Guide to understanding and application of IAS 30: Disclosures in the financial statements of banks and similar financial institutions. Bucharest: C.E.C.C.A.R., 2004

Competition among Top 25 International Accounting, Auditing and Consultancy Networks in Romania

Ristea Luminița
„Spiru Haret" University
luminita.ristea@crgnexia.ro

Abstract

This article examines the competition regarding the world and Romanian rank and financial situation among top 25 International Accounting, Auditing and Consultancy Networks.

Romanian market is still a very dynamic one and includes beside these representatives companies of the first 25 international networks other local rival companies which are positioned in the immediate upper zone after BIG FOUR in top 30. These companies are either the representatives of other networks positioned out of top 25 networks or being founded by international foreign experts, or are fully Romanian owned companies, strongly anchored in the local market in the last years, but they are positioned after the top 10 of the international networks. General trend regarding fusions and aquisitions in case of smaller local accounting, audit and consultancy firms, as well as the entrance of other international networks on this market segment of services, will be also remarked in Romania in the future, trends in accordance with the adjustment to the global competition.

Key words: competition; international networks; top accountancy, consultancy and auditing
J.E.L. classification: M4, M49

The biggest accounting, audit and consultancy networks in the world have registered a growth in the demand of services, especially in the field of consultancy and related services for the emergening markets, in the last five years until mid 2008 when the biggest economic downturn starts its unpredictable movement.

Despide the implementation of Sarbanex-Oxley law as a representative decisive milestone starting with 2005, which contributed to the strengthening of the corporate governance and led to the regaining of the investors' trust after the huge scandals which envolved representative companies from the USA, as well as consultants and their auditors, together with the reorientation towards the medium-size networks for some of the services rendered in the past exclusively by the BIG FOUR (PWC, Deloitte, Ernst&Young and KPMG) starting with 2009 „falling revenues and a constant fear of legal action have made life tough for all the international accountancy networks, associations and alliances this year." (Philip Smith, Accountancy Age, International networks survey: the big chill, 27 May 2010).

This stratification is very obvious concerning the annual value of fees and BIG FOUR is detached from the platoon represented by the next 6 networks (3000-5000 $m) and this from the next 12 networks (1000-3000 $m) and than the last 3 networks (500-1000 $m).

Unlike 2008, when the top 25 international accountancy networks, associations and alliances reported continued growth, 2009 was marked by a drop in fees as the recession on one hand and because the figures are quoted in dollars and the dollar had fluctuations had a major influence upon their results, on the other hand.

Looking at the top of the table Big Four alone reported a 7.5 billion decrease of its overall turnover (93.7 billion $ in 2009, compared to 101.2 billion $ in 2008), although, adjusting for currency changes the revenues show either a slight increase (0.2% for Ernst & Young), a small decrease (0,2% for PwC and 2,6% for KPMG) or a stagnation (Deloitte). The top in the league is again PricewaterhouseCoopers with fee

income of $26.2bn, down 7% on last year's total. The second place belongs to Deloitte which obtained $26.1bn in revenues, down 5% on the previous year. Ernst & Young is still in third place with around $21.4bn in fee income, down 7%, while KPMG, which saw the biggest fall among Big Four (11%), is located on the fourth place with $20.1bn.

The mid tiers also suffered from the currency devaluation roller coaster. The fifth ranked, BDO International had a total combined fee income for all BDO Member Firms of US$ 5.026 billion for the year ended 30 September 2009, a creditable year over year increase of 1.7 % in euro terms but a decrease of 2.3 % in US dollars terms. Grant Thornton International revenues also went dropping 9% leading to losing its spot to RSM International.

Despite the situation of the global economy, some mid tiers reported continuous and solid growth. It's the case of Geneva Group International with a 9% growth and RSM International with 2009 worldwide revenues of 3.6 billion $, up a solid 8% from 2008. Michael Reiss von Filski, secretary general of Geneva Group says that "Now more than ever, customers are looking for excellent professional services at a reasonable and fair price. Entrepreneur-owned accounting firms are preferred by clients. It seems that many managers without any entrepreneurial attitude have completely lost touch with reality and paved the way to the world's largest financial crisis."(Accountancy)

In effect, corporate cutbacks have hit revenues in areas such as audit and tax and transactions, while corporate collapse forced creditors to accept massive write-down of their debts and opened numerous insolvency procedures all around the world.

Overall, audit demand was affected by severe fee reductions, as high as 40% in some cases. Tax demand suffered as clients generally paid less tax, affecting the appetite for tax planning advice. But the most impacted was corporate finance with 2009 being the worst year for Merger & Acquisitions since 2004.

Restructuring services were in good demand. Most firms noted heavy investment in, high-growth markets in Asia-Pacific, with Asia Pacific, the Middle East and Latin America reporting solid growth.

There are also a number of sectors which shown great perspectives and potential for growth, such as: infrastructure using public funds or public-private partnerships, financial services, healthcare sector, carbon markets and trading and environmental data management and represent new targets for the biggest players on the audit, accounting and consultancy market.

In respect of the number of countries the comparison between 2010-2009 shown that the BIG FOUR representatives are present in over and more than 145 countries, but also mid-tier networks counted continue increasingly representation, some of them being spreaded in approximately and more than 100 countries (Grand Thornton, Baker Tilly International, Crowe Horwath International, Nexia International, PKF International, HLB International, MSI Global Alliance)

Our study has the main scope to present the ranking of the biggest 25th international network and alliances of accountants, auditors and consultants on the Romanian market and to compare with global ranking and local specific market.

The Romanian market for accounting, auditing and financial consultancy services has grown significantly in the five past year, following the international global trend, both due to the significant growth of the number of clients and due to the diversification of the companies' needs which apply the accounting regulations in accordance with the IFRS or the 4th and 7th European Union Directives.

Within the same context, foreign investors have begun to have an active presence besides the local investors, natural persons and legal entities who show more interest in investing in Romania.

The great majority of these foreign investors resort mainly to the international accounting, advisory and audit networks. Such international networks, regardless of their organisational legal form, are endowed with a series of advantages, mainly related to the capacity and ability to work at an international level with clients from different countries with different business mentalities.

Another aspect that is worth taking into account is the trust of the foreign investors in the common standards applied at international level, in the implementation and

application of the quality control at network level.

Romania has lined up to such international requirements for the past more than 15 years and the first international network was present even since 1992 (Ernst&Young srl). Within the period 1993-1995 representatives of the other more important networks in the world started to activate on the market (PricewaterhouseCoopers, KPMG, Deloitte&Touche, BDO, RSM, Grant Thornton, Moore&Stephens, Mazars).

For the past 5 years other international networks have joined those already present in Romania, through their local representatives (Baker Tilly, DFK, Nexia International, Kreston, IAPA, Geneva Group International, Crowe Horwath International , PKF International), thus contributing to the quality growth for the services offered both to the international clients and the local ones.

The situation of localization of international networks in Romania, from the local representatives point of view, Romanian companies founded after 1990 is presented in Table XXX

One thing to be noticed:there are still international accounting, audit and consultancy networks which are not present at this date in Romania: IGAF, CPA international, situation which create new opportunities for Romanian companies to lead to strategic alliances in the future.

In the case of MSI International a local representative is ensured by a lawyers company and we had not available the figures. We noticed the same situation in case of Cunescu, Balaciu&Asociatii (one of the Nexia International representatives and Dragomir &Asociatii the law firm representing Geneva Group International) and therefore the fee figures have not been included in our study.

Additionally, we have to mention the presence of mid-tier international networks in other cities than Bucharest, the main business center in Romania, such as: AGN International (Arad), IAPA (Cluj), PKF International (Timisoara), Nexia Interantional (Constanta).

The panel concerning the situation of representation in Romania, based on the data provided by the financial statements for the financial years 2008-2009 is presented below.

Tabel 1. International networks of accountancy, consultancy and audit in Romania – representative figures (Thousands lei)

Intl networks	Companies	Turnover 2009	Turnover 2008	%
PricewaterhouseCoopers	PRICE WATER HOUSE COOPERS AUDIT S.R.L.	70,425	80,307	-12
	PRICE WATER HOUSE COOPERS TAX ADVISORS & ACCOUNTANTS S.R.L.	47,944	52,998	-10
	PRICEWATERHOUSECOOPERS SERVICII S.R.L.	32,928	40,323	-18
	PRICEWATERHOUSECOOPERS MANAGEMENT CONSULTANTS S.R.L.	21,220	42,953	-51
Deloitte	DELOITTE AUDIT S.R.L.	61,327	60,685	1
	DELOITTE CONSULTANTA S.R.L.	46,108	64,862	-29
	DELOITTE TAX S.R.L	12,463	11,956	4
Ernst & Young	ERNST & YOUNG S.R.L.	115,766	117,956	-2
	ERNST & YOUNG ASSURANCE SERVICES S.R.L.	38,739	28,839	34
	ERNST & YOUNG SERVICE S.R.L.	864	778	11
KPMG International	KPMG ROMANIA S.R.L.	130,147	115,355	13
	KPMG AUDIT S.R.L.	34,972	20,841	68

	KPMG TAX S.R.L.	17,389	14,660	19
	KPMG BUSINESS TAX SERVICES S.R.L.	0,423	34	-99
BDO International	BDO AUDIT S.R.L.	24,288	22,102	10
	BDO BUSINESS ADVISORY S.R.L.	923	792	17
	BDO TAX S.R.L.	1,262	894	41
Geneva Group International	MIRUS ACCOUNTANTS & PAYROLL S.R.L	230	168	37
	MIRUS ADVISERS S.R.L.	2,027	1,965	3
RSM International	SCOT & COMPANY CONSULTING S.R.L	6,462	5,477	18
Grant Thornton International	BOSCOLO & PARTNERS CONSULTING S.R.L.	8,170	7,478	9
	BOSCOLO & PARTNERS AUDIT S.R.L.	4,979	3,869	29
Praxity	MAZARS CONSULTING S.R.L.	6	4	54
	MAZARS ROMANIA S.R.L.	8	7	23
Baker Tilly International	BAKER TILLY KLITOU AND PARTNERS BUSINESS SERVICES S.R.L.	3	2	38
	BAKER TILLY KLITOU AND PARTNERS CORPORATE SERVICES S.R.L.	0,019	0,21	-90
	BAKER TILLY KLITOU AND PARTNERS S.R.L.	3,143	2,578	22
Crowe Horwath International	TPA HORWATH QUINTUS ACCOUNTANTS CONSULT S.R.L.	5,350	5,441	-2
	TPA HORWATH QUINTUS SERV S.R.L.	3,803	2,606	46
	TPA HORWATH QUINTUS AUDIT S.R.L.	3,081	2,628	17
	TPA HORWATH QUINTUS CONSULT S.R.L.	1,250	1,895	-34
Leading Edge Alliance	DASONS BUSINESS SERVICES S.R.L.	N/A	N/A	N/A
	MENAF ROMANIA	N/A	N/A	N/A
Nexia International	CRG NEXIA GROUP	2,236	2,070	8
	CONSULTING R GROUP SOLUTIONS S.R.L.	128	144	-11
	KG AUDIT & ACCOUNTING S.R.L.	2,599	1,777	46

Moore Stephens International	SC Audit One SRL	1,552	1,495	4
	SOTER S.R.L.	8,237	7,723	7
	SOTER ACT S.R.L.	436	459	-5
	SOTER ADVISORY SERVICES S.R.L.	439	133	228
	SOTER AUDIT S.R.L.	333	306	9
	SOTER HR S.R.L.	757	733	3
	SOTER TAX S.R.L.	905	836	8
PKF International	CONSULTOR ENTERPRISE S.R.L.	1,711	1,456	17
	PKF FINCONTA S.R.L.	4	3	30
	PKF AUDIT S.R.L.	1,034	852	21
	PKF ECONOMETRICA S.R.L.	1,801	1,172	54
	PKF ECONOMETRICA AUDIT S.R.L.	265,003	381,985	-31
Kreston International	BG CONTA S.R.L.	4,178	4,013	4
HLB International	HLB FREEMARK AUDIT S.R.L.	666	350	90
	FREEMARKONSULT INTERNATIONAL S.R.L.	102	273	-63
AGN International	BOSTINA ACCOUNTING AND FISCAL CONSULTING S.R.L.	561	138	305
	MARA INTERNATIONAL CONSULTS S.R.L.	1,329	1,169	14
IGAF Worldwide	*No representation in Romania*			
BKR International	EUROGLOBAL AUDIT & ADVISORY S.R.L.	608	572	6
MSI Global Alliance	SERBAN MARES & ASSOCIATES	N/A	N/A	N/A
DFK International	DFK ROMANIA S.RL.	968	1,402	-31
IAPA	INFO AUDIT CONSULTING S.R.L.	1,023	802	28
	M D M CONSULTING S.R.L.	1,104	1,187	-7
CPA Associate International	*No representation in Romania*			
UHY International	UHY AUDIT CD S.R.L.	N/A	893	-
Accounting, auditing and consultancy market covered by the first 25th interantional networks in Romania		***750,121***	***757,315***	-1

N/A* - we do not dispose of any published information

The total accounting, audit and consultancy services rendered by the representatives of the biggest 25th international networks in Romania amounted for around 180 million Euros in 2008 and following the global trend a decrease up to more than 178,5 million Euros in 2009.

Given the international circumstances, Romania is characterized by a more obvious stratification in respect of the annual value of the fees, BIG FOUR leading with a percentage of 84% from total in 2009 with a slightly decrease from 86% in 2008 and counted for approximately 150 million Euros in 2009 decreasing from more than 155 million Euros in 2008.

In comparison with global ranking the situation in Romanian is quite very interesting that the 4th internationally ranking network (KPMG) is by far the leader in

Romania, followed by the international leader (PricewaterhouseCoopers).

Big Four platoon is followed by far but hard consolidated in Romania by BDO International which realized an increase of the market percentage from 3,1 in 2008 up to 3,5 in 2009 and counting for a double fee then the upcoming four competitors and maintain his international ranking in Romania.

The next 4 competitors are very close in respect of fees counted from 12,6 million lei (Moore Stephens International) up to 14,7 million lei (Praxity) and in the next year competition will be tougher and tougher, but the international ranking is changed, as follows:

World ranking	Romanian ranking	International network
9	6	Praxity
11	7	Crowe Horwath International
8	15	Grant Thornton International
14	8	Moore Stephens International

The same different positioning is to be taking into consideration in the case of other networks the main causes being on one hand the date of entrance in the accounting, consultancy and audit market in Romania and on the other hand the streghten of the international network in dealing with international referrals among members firms, such as:

15	9	PKF International
7	13	RSM International
10	14	Baker Tilly International
13	11	Nexia International
16	18	Kreston International
6	26	Geneva Group International
23	24	IAPA
18	29	AGN International
22	44	DFK International
	45	ASCONTA A & D S.R.L.
17	46	HLB International
17	53	HLB International
20	63	BKR International

Romanian market is still a very dynamic one and includes beside these representatives companies of the first 25 international networks other local rival companies which are positioned in the immediate upper zone after BIG FOUR in top 30. These companies are either the representatives of other networks positioned out of top 25 networks or being founded by international foreign experts, or are fully Romanian owned companies, strongly anchored in the local market in the last years, but they are positioned after the top 10 of the international networks.

We can enumerate the following other players on the Romanian market besides Top 25 networks: Roedl&Partners, Noerr Finance & Tax , Contexpert, Ensight Finance, Group Teaha, Fidexpert Audit, JPA Audit&Consultancy srl, Group Riff.

Mark Lucas, head of audit, tax, advisory at 6th placed RSM Tenon, said: "It's clear the profession can all do better to build on the quality of services and responsiveness to the marketplace"(Paul Grant , Big Four audits are off the pace, Accountancy Age, 25 Feb 2010).

Conclusion

Considering the growth of the Romanian economic potential, the market of accounting, audit and consultancy services faced in 2009 in comparison with 2008 only a very small decrease (1%), the same trend being present in case of employees andit will meet new challenges in the next years, being more competitve and transparent..

These will satisfy the need for specialised services for:

- foreign companies which already aim at Romania for their international businesses;
- medium and large Romanian companies which are already prepared or in progress for sustaining the new settlements and standards, as to be competitive on communitary market, taking part in the free circulation of goods and services.

General trend regarding fusions and aquisitions in case of smaller local accounting, audit and consultancy firms, as well as the entrance of other international networks on this market segment of services,

will be also remarked in Romania in the future, trends in accordance with the adjustment to the global competition.

References

[1] Ackerlof, George A. "The Market for 'Lemons': Quality, Uncertainty and the Market Mechanism", Quarterly Journal of Economics, Vol.84, No.3, Aug.1970, p.488.

[2] Global Dialogue with Capital Market Stakeholders 2 A Report From the CEOs of the International Audit Networks January 2008, www.globalpublicpolicysymposium.com/GPPC_Vision.pdf

[3] Lawrence A. Cunningham, "Too Big to Fail: Moral Hazard in Auditing and the Need to Restructure the Industry Before it Unravels", Research Paper 108, September 1, 2006, Social Science Research Network, http://ssrn.com/abstract=928482

[4] Mario Christodoulou, Audit market is "fiercely competitive" Deloitte argue, Accountancy Age, 24 Sep 2010, available at http://www.accountancyage.com/accountancyage/news/2270409/audit-market-fiercely

[5] Mario Christodoulou, Restrictive bank covenants keep the Big Four on top, Accountancy Age, 17 Jun 2010, http://www.accountancyage.com/accountancyage/news/2264881/restrictive-bank-covenants-keep

[6] Paul Grant, Big Four audits are off the pace, Accountancy Age, 25 Feb 2010, available at http://www.accountancyage.com /accountancyage/news/2258454/big-four-audits-pace

[7] Peter Joy, Audit services: top to bottom, Accountancy Age, 25 Feb 2010, available at http://www.accountancyage.com/accountancyage/features/2258452/audit-services-top-bottom

[8] Philip Smith, International networks survey: the big chill, Accountancy Age, 27 May 2010, available at http://www.accountancyage.com/accountancyage/features/2263746/international-networks-survey

[9] Rethinking the Structure of Accounting and Auditing, Shyam Sunder, Yale School of Management, Indian Accounting Association Research Foundation's Sixth International Accounting Conference, t Calcutta, January 11, 2003, http://www.som.yale.edu/faculty/sunder

[10] Ronen, Joshua. 2002. "Post-Enron Reform: Financial Statement Insurance, and GAAP Revisited." Stanford Journal of Law, Business and Finance, 8:1.

[11] Sunder, Shyam. 2002b. "Regulatory Competition Among Accounting Standards Within and Across International Boundaries," Journal of Accounting and Public Policy, 21:3 (Autumn 2002), 219-234. Pre-publication version available at: http://www.som.yale.edu/Faculty/sunder/Regulatory/RegulatoryCompetition.pdf.

Unconventional Monetary Policy Measures and Their Role in Contending the Effects of the Current Global Financial Crisis

Roman Angela
Bilan Irina
„Al. I. Cuza" University of Iasi, Faculty of Economics and Business Administration
aboariu@uaic.ro
irina.bilan@uaic.ro

Abstract

On the background of the current international financial crisis, the central banks of major developed countries took unprecedented action aimed at restoring the confidence in financial systems and at ensuring the normal functioning of the monetary policy transmission mechanism on the real economy.

This paper aims to highlight the reactions of these central banks during the current crisis, especially analyzing the implementation of exceptional monetary policy measures aimed at correcting financial markets failures and at supporting the flows of credit to the real economy.

Key words: the current global financial crisis, central banks, monetary policy, unconventional measures
J.E.L. classification: E52, E58, G01

1. Introduction

The U.S. subprime mortgage crisis, which started in August 2007 and turned, in September 2008, into a global economic crisis of a depth unseen since World War II, caused unprecedented central banks reactions in the most affected major developed countries. Beside successively reducing the policy interest rate, central banks especially focused on the design and implementation of some exceptional monetary policy measures, the so-called unconventional measures. Such measures were required because the transmission mechanism of the monetary policy did not function satisfactorily any more, in other words the decrease in the nominal policy interest rates did not influence on the real economy.

This paper is structured as follows: section two presents the content of unconventional monetary policy measures, as revealed in the literature; section three synthetically presents the economic and financial context that claimed the need to adopt unconventional monetary policy measures; section four reviews the unconventional measures adopted by some central banks in developed countries; the study ends with conclusions.

2. Some features of the unconventional monetary policy measures

The unconventional monetary policy measures, called this way as they are not commonly found and implemented [12], are those policies that directly target the cost and availability of external finance to banks, households and non-financial companies [13].

According to Bernanke, Reinhart and Sack [5], the unconventional monetary policy measures encompass three broad categories:

a. Central banks' commitment to maintain low policy interest rates for a certain period of time in countries where it reaches zero or it is very close to this threshold. Provided that central bank's commitment is credible, an decrease in medium and long term real interest rates is registered and thus, global demand is stimulated;

b. Measures aimed at increasing the size of central bank's balance sheet, also known as „quantitative easing" or unconventional policies oriented towards central bank's balance sheet liabilities. Such measures are targeted to increase the monetary base and,

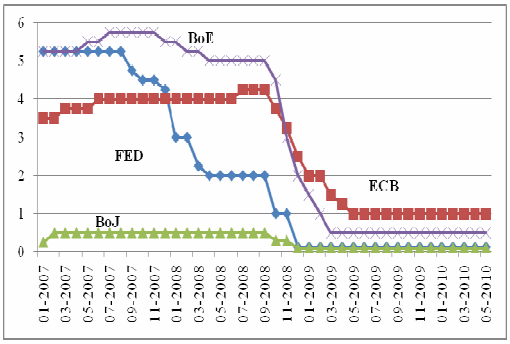
from the point of view of the central bank, consist of direct purchases of private or public securities in order to influence on the financial assets' long-term interest rates;

c. Measures aimed at shifting the composition of central bank's balance sheet assets, also known as „credit easing" or unconventional policies oriented towards central bank's balance sheet assets. Such measures are targeted to directly and/or indirectly support the flows of credits to the economy and imply changes in the structure of central bank's balance sheet assets. In the case of the direct credit easing measures, central bank mainly purchases private securities (commercial paper, corporate bonds, asset-backed securities etc.) to improve liquidity and reduce risk premiums on certain segments of the market, as well as outright purchases of government securities to influence on their yields [2]. Indirect credit easing measures are mainly aimed at reducing tensions on the interbank market and consist of central bank loans to other banks on longer term and collateralized with eligible assets, possibly assets traded on temporarily disrupted markets [13].

3. The context of the unconventional monetary policy implementation

The turbulences generated by the deterioration in U.S. mortgage values rapidly spread on the 9th of August 2007 to the interbank and, more generally, money markets and turned into a severe financial crisis. On this background, central banks have found themselves in a dilemma [1]. On the one hand, a significant reduction in interest rates was required to restore confidence on financial markets and thus to avoid the spread of financial problems to the real economy. On the other hand, a significant easing of the monetary policy stance, on the background of high inflation, would have weakened public confidence in the ability of central banks to ensure the stability of prices and would have resulted in long-term inflationary expectations, which would have required a tightening of the monetary policy with negative consequences on the economy. Faced with such a dilemma, central banks' reaction was not identical. For example, in the euro area, on the background of an economic environment characterized by economic growth as well as inflationary pressures, the Governing Council of ECB was forced to announce, during its meeting in September 6, 2007, maintaining the monetary policy interest rate at its pre-crisis level of 4%. The Central Bank of Japan reacted by keeping the monetary policy interest rate at 0.5%, due to increasing risk of economic recession. At the same time, the Bank of England responded by keeping the monetary policy interest rate unchanged until December 2007 when, due to deteriorating economic outlook, it was reduced by 25 basis points, from 5.75% to 5.50%. In opposition, the real estate crisis arising on the background of households' over-indebtedness, the slow economic growth and fears of economic recession forced the Federal Reserve of U.S. to change the monetary policy stance by relaxing it. Thus, on the 18th of September 2007 the Federal Open Market Committee (FOMC) decided to reduce the federal funds rate by 50 basis points, from 5.25% to 4.75%. The relaxing of the monetary policy in U.S. was warranted by Federal Reserve's dual mandate, which gives the same importance to both economic growth and price stability. By comparison, other central banks (for example, the Reserve Bank of Australia, the Swiss National Bank and Sveriges Riksbank) have increased the policy interest rates, due to existing inflationary pressures. The evolution of the central banks' policy rates in some developed countries is presented in figure no. 1.

Figure 1. The evolution of the monetary policy interest rates in some developed countries between January 2007 and May 2008



Source: [3].

The different reactions of central banks can be explained by the different economic conditions, the different impact of the financial turmoil on national economies and, also, by the different mandates of central banks [1]. If we consider the reaction of central banks depending on the economic conditions, we can notice that most central banks which increased the monetary policy interest rate or kept it unchanged took into consideration the increasing inflation forecasts at a greater extent in comparison with those central banks which relaxed the monetary policy. The reaction of central banks depending on the gravity of the financial turbulences – measured by the average spread between three-month Libor and overnight index swaps (OIS) of the same maturity in a particular currency – shows the existence of a correlation between the gravity of financial turbulences and monetary policy loosening. For example, the impact of the financial turmoil was lower in Australia and Sweden compared to USA and Great Britain, thus Australia and Sweden's central banks reacted by increasing the monetary policy interest rate, while the Federal Reserve and the Bank of England reduced it. As for the reaction of central banks depending on their mandate, one can notice that monetary policy loosening in USA was triggered by the Federal Reserve System's dual mandate, which assigns the same consideration to both economic growth and price stability. Comparatively, for other central banks the priority was, in line with their mandate, the stability of prices.

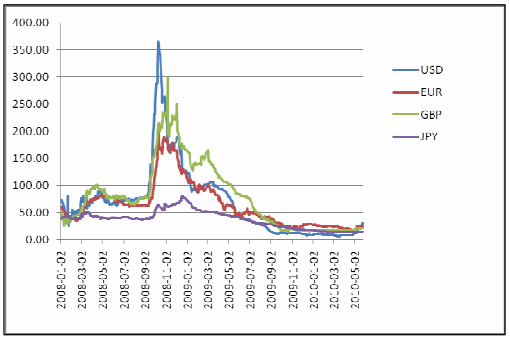
Between August 2007 and September 2008, the measures undertaken by central banks were oriented towards managing money market liquidity and funding liquidity on some money market maturities. In this respect, central banks responded by modifying the policy rate, adjusting the operating framework of the monetary policy and also by implementing new policy instruments. For example, regarding the last aspect mentioned, in December 12, 2007, in order to facilitate banks' funding on the background of the interbank market disruptions, the Federal Reserve System implemented the first innovation in terms of access to liquidity by launching the ***Term Auction Facility (TAF)***, which allowed for the deposit-taking institutions to anonymously participate in auctions for direct funding (between 20 and 50 billion dollars), with a wide range of securities used as collateral and for a period of time between 28 and 35 days, extended to 84 days in July 30, 2007. In March 2008, in order to increase banks' liquidity and to reduce risk premiums, Fed implemented two new policy instruments: the ***Term Securities Lending Facility (TSLF),*** allowing Fed to lend Treasury securities to primary dealers, secured by a pledge of other, less liquid, securities and the **Primary Dealer Credit Facility (PDCF)**, allowing Fed to provide to primary dealers with a permanent overnight lending facility, in exchange for eligible collateral.

Since the beginning of the financial crisis, central banks from developed countries intensified cooperation in order to identify the appropriate measures to restore confidence in the financial system and to prevent it from collapsing. Thus, on December 12, 2007, a concerted action began, aimed to provide U.S. dollar liquidity to banks outside the U.S. in order to alleviate money market disturbances. Fed, ECB and the Swiss National Bank concluded swap agreements allowing banks from eurozone and Switzerland to refinance in U.S. dollars. Under normal conditions, central banks use swap lines in order to intervene in the foreign exchange markets; however, in times of crisis, the activation of swap lines aims at correcting money market disruptions.

The actions undertaken by central banks between August 2007 and September 2008 aimed at ensuring the normal functioning of the money market and the efficient transmission of monetary policy impulses on the real economy. But, after Lehman Brothers' bankruptcy in September 2008, the financial turbulences worsened and reached all economic sectors, both the developed and developing countries, and turned into a global economic crisis. On the background of increasing risks to the stability of the financial system and deeper global economic recession, the central banks of developed countries started an unprecedented concerted action. Thus, on October 8, 2008, six central banks from developed countries – the Bank of Canada, the Bank of England, the European Central Bank, the Federal Reserve, Sveriges Riksbank and the Swiss National

Bank – simultaneously announced the reduction in the policy interest rate by 50 basis points. This coordinated reduction in the policy rates (a first in history) indicated the strong commitment of the international community of central banks to respond to the macroeconomic implications of the financial markets crisis [10]. For the next months, due to deteriorating macroeconomic conditions and declining inflation rate as a result of diminishing oil and commodity prices, the developed countries' central banks repetedly reduced the policy rates which, from May 2009 till present range between 0 and 1% (see figure 1). However, these actions undertaken by central banks did not succed to correct the failures of the financial system. Uncertainty about banks' refinancing needs and the counterparty risk led to a significant increase in risk premiums on interbank loans and to a rapid decrease in interbank transactions. On this basis, the spread between 3-month Libor and overnight index swap (OIS) of the same maturity increased (see figure 2).

Figure 2. The evolution of the spread between 3-month Libor and OIS[1] 3 month between January 2008 and May 2010



[1)] Euro area: swap EONIA
Source: [3].

Since bank interest rates depend on Libor interest rates (Euribor in the euro area) and are often indexed to these, they also increased. In addition, due to the financial crisis and economic downturn, many banks increased the required credit risk premiums and tightened lending standards. In this context, the decrease that central banks operated in policy interest rates since October 2008 did not impact on bank interest rates, so that the monetary policy transmission mechanism has been disrupted. These circumstances called for central banks to adopt some unconventional monetary policy measures to facilitate the transmission of policy rates on the real economy and restore the confidence in the financial system.

4. Typology and role of unconventional monetary policy measures

The unconventional measures taken by some major developed countries' central banks during the current financial crisis (see table 1) aimed at improving the funding conditions in the interbank market by decreasing risk premiums, at easing borrowing conditions in the non-bank sector and at improving conditions on financial markets [2].

Table 1. Unconventional measures adopted by some central banks between August 2007 and June 2009

Measures	FED	ECB	BoE	BoJ
Enhanced liquidity provision				
Modified discount window	x		x	
Exceptional long-term ops	x	x	x	x
Broadening collateral	x	x	x	x
Expanding counterparties	x		x	x
FX swap lines	x	x	x	x
Asset purchases/funding				
Government bonds	x	x	x	x
Foreign currency securities				
Commercial paper	x		x	x
Asset-backed securities	x			
Corporate bonds			x	x
Other securities	x	x		x

Source: [4].

When designing and implementing the unconventional measures, central banks especially took account of the particularities of the financial system. For example, in the euro area, where bank credit is the main finance source of finance for the economy (see table 2), the "enhanced credit support measures" taken by ECB targeted the credits granted by banks. By comparison, in U.S., where the financial market is the main source

of finance for businesses (see table 2), the "credit easing' measures adopted by Fed focused on the non-bank credit markets and on the operations with securities issued by the private sector.

Table 2. The external financing structure of private enterprises in euro area and U.S. in 2007

Percentages of GDP	Euro area	U.S.
bank loans to the private sector	145	63
quoted shares issued	85	144
debt securities issued by the private sector	81	168
Total	311	375

Source: [6].

Regarding the exceptional measures taken by ECB in order to improve the functioning of various financial markets segments, they were called by its president Jean Claude Trichet "enhanced credit support" measures and they mainly consisted of [11]: providing unlimited central bank liquidity to euro area banks, at a fixed interest rate in all refinancing operations; providing foreign currency (especially U.S. dollar and swiss frank) liquidity in order to correct foreign currency interbank market disruptions; extending the list of assets accepted as collateral in open-market operations, for improving banks' access to liquidity; extending the term of three months refinancing operations up to one year, in order to reduce the refinancing requirements of banks in the short-term; outright purchases of eligible collateralized bonds denominated in Euro and issued by euro area central banks. The deterioration of financial conditions in the euro area markets, in April and May 2010, mainly consisting in turbulences in the government bonds market which passed forward to foreign currency and stock markets, forced ECB to adopt a new unconventional measure of monetary policy. Thus, on May 10, 2010, the Governing Council of ECB decided to undertake interventions in euro area public and private bond markets, under the Securities Markets Program.

The unconventional monetary policy measures taken by central banks during the current crisis targeted, mainly, to help restore the normal functioning of the monetary policy transmission mechanism by facilitating the provision of liquidity to markets and improving their functioning. Later on, when the policy interest rates became significantly low, even close to zero in some countries (for example in the case of U.S., Japan and England – see figure 1), central banks targeted, by implementing new measures, to further strengthen monetary policy easing. In this respect, central banks designed and implemented unconventional monetary policy measures to support the financing conditions and credit flows beyond what would have been achieved only by reducing the policy interest rates [14].

At the same time, these measures supported credit flows to the real economy - through low interest rates – and favorable financing conditions in the financial sector. However, lending to non-financial private sector is still low both due to credit supply and demand factors.

According to a bank lending survey conducted by ECB in July 2010 [7], euro area enterprises, especially the small and medium-sized ones, encounter difficulties in debt financing, which is mainly due to tighter bank lending standards as a result of the financial markets disturbances and the deteriorating economic outlook. As for the demand for bank loans, at least for the moment it is, as the same survey indicates, negative, both due to bank lending standards tightening and to lower debt capacity of enterprises, as well as to the uncertainty about future economic conditions.

The unconventional monetary policy measures are temporary and are designed to be used only under crisis conditions. Thus, as the functioning of the financial markets and the economy improves, it is no longer necessary to maintain them. Therefore, the exit from these extraordinary measures depends on the state of the financial markets and of the economy in general.

Keeping the unconventional measures for a long period of time could lead to distorted competition between financial institution and excessive risk taking.

On the background of improving conditions in euro area financial markets in 2009, ECB announced, in late 2009, the progressive exit from the "enhanced credit support" measures, which were considered no longer necessary. By a justified exit from

these measures, ECB intended to return to a normal monetary policy framework. However, in early May 2010, as a result of the disturbances in the euro area government bond markets, ECB decided to suspend the exit from unconventional monetary policy measures. In U.S., on the background of improving financial conditions, the Federal Reserve also launched, on the 1st of February 2010, the strategy of gradual withdrawal from unconventional measures. However, in May 2010, due to the disturbances in euro area financial markets, Fed reintroduced some measures, namely it reactivated the swap lines with the Bank of Canada, the Bank of England, the European Central Bank and the Swiss National Bank, which will remain active until January 2011.

5. Conclusions

The current international crisis induced unprecedented reactions of the major developed countries' central banks in order to restore the normal functioning of the financial markets and to ensure that the monetary policy impulses are efficiently transmitted on the real economy.

The actions undertaken by central banks consisted of significant and repeated decreases in the monetary policy interest rate, adjustments of the monetary policy operating framework and, mainly, of the design and implementation of unconventional measures.

The unconventional monetary policy measures are temporary and are designed to be used only under crisis conditions. Thus, as the functioning of the financial markets and the economy improves, it is no longer necessary to maintain them. Therefore, the exit from these extraordinary measures depends on the state of the financial markets and of the economy in general.

By a gradual exit from unconventional measures, central banks intend to return to a normal monetary policy and the policy interest rate to resume its crucial role as signal for the monetary policy stance.

6. References:

[1] Bank for International Settlements, „78th Annual Report, 1 April 2007 – 31 March 2008", Basel, 30 June, 2008, pp. 60-65.

[2] Bank for International Settlements, „79th Annual Report, 1 April 2008 – 31 March 2009", Basel, 29 June, 2009, pp. 97-101.

[3] Bank for International Settlements, „80th Annual Report, 1 April 2009 – 31 March 2010", Basel, 30 June, 2010, p. 23- 36.

[4] C. Bean, M. Paustian, A. Penalver, T. Taylor, „Monetary Policy after the Fall", Federal Reserve Bank of Kansas City Annual Conference Jackson Hole, Wyoming, 28 August 2010, p. 50, http://www.bankofengland.co.uk/publications/speeches/2010/speech444.pdf

[5] B.S. Bernanke,V.R. Reinhart, B.P. Sack, „Monetary Policy Alternatives at the Zero Bound: An Empirical Assessment", Brookings Papers on Economic Activity, Issue 2, 2004, p. 8, http://www.federalreserve.gov/pubs/feds/2004/200448/200448abs.html

[6] ECB, „Monthly Bulletin", April 2009, p. 70.

[7] ECB, „The euro area bank lending survey", 28 July 2010.

[8] Federal Reserve, „Monetary Policy Press Release", 11 March 2008.

[9] Federal Reserve, „Monetary Policy Press Release", 16 March 2008.

[10] J.M. González-Páramo, „Beyond the financial crisis: Some issues on the future of central banking", Speech at the Inaugural Conference of "Cátedra Fundación Ramón Areces de Distribución Comercial" at University of Oviedo Oviedo, 19 June 2009, http://www.ecb.int/press/key/date/2009/html/sp090619_1.en.html

[11] J.M. González-Páramo, „The European Central Bank and the policy of enhanced credit support", Speech at the Conference organised by Cámara de Comercio de Málaga and University of Málaga, Málaga, 18 June 2010, http://www.ecb.int/press/key/date/2010/html/sp100618_2.en.html

[12] A. Orphanides, „Central bank exit policies", Panel remarks at the Shadow Open Market Committee Meeting on "Exit Policies for Sound, Central Banking", Washington, DC, 30 September 2009, p. 2, http://www.centralbank.gov.cy/nqcontent.cfm?a_id=7193

[13] L.B. Smaghi, „Conventional and unconventional monetary policy", Keynote lecture at the International Center for Monetary and Banking Studies (ICMB), Geneva, 28 April 2009, *BIS Review* 52/2009, pp. 3-8.

[14] J.C. Trichet, „The ECB's exit strategy", Speech at the ECB Watchers Conference Frankfurt, 4 September 2009, http://www.ecb.int/press/key/date/2009/html/sp090904.en.html

The Importance of Corporate Governance Codes in European Union Countries

Sarchizian Sergiu
"Al. I. Cuza University" Iasi, Doctoral School of Economics
ssarchizian@yahoo.com

Abstract

Globalization, the treatment of investors and major corporate scandals have been major driving forces behind corporate governance developments. The corporate governance code is a set of principles, standards and best practices issued by an organization. Codes are flexible and non-binding.

Key words: corporate governance, best practices, codes of conduct
J.E.L. classification: G30

1. Introduction

Corporate governace issues came to prominence in the USA during the 1970s and in the Europe from late 1980s. Modern interest in corporate governance improvement and the development of corporate governance codes in EU Member States dates to the early 1990's and, in particular, a series of financial scandals and related failures of listed companies in the United Kingdom. In 1992, the Cadbury Report was issued in an attempt to address what were perceived as underlying problems in the corporate performance and financial reporting of leading companies, the lack of effective board oversight that contributed to those problems, and pressure for change from institutional investors.

2. The driving forces of governance code development

A "corporate governance code" is generally defined as a non-binding set of principles, standards or best practices, issued by a collective body, and relating to the internal governance of corporations.

The most important driving forces associated with the increasing demand for the development of governance codes where:

- Increasing internationalisation and globalization meant that investors and institutional investors in particular, began to invest outside their home countries.
- The differential treatment of domestic and foreign investors, both in terms of reporting and associated righs/dividends, also the excessive influence of majority shareholders in insider jurisdictions, caused many investors to call for parity of treatment.
- Issues concerning financial reporting were raised by many investors and were the focus of much debates and litigations. Shareholders confidence in what was being reported in many instances was eroded.
- The characteristics of individual countries may have a significant influence in the way corporate governance has developed.
- An increasing number of high profile corporate scandals and collapses prompted the development of corporate governance codes in the early 1990s.

3. Development of corporate governance codes

To combat these problems, the codes of best practice were developed in many jurisdictions: governmental or quasi-governmental entities; committees or commissions organised by governments or by stock exchanges; business, industry and academic associations; directors associations; and investor-related groups.

Since 1991, every EU Member States were issued one or more corporate governance codes. All of the codes call for voluntary adoption of their substantive recommendations:

- Fifteen of the codes specifically encourage voluntary disclosure related to governance.
- Six codes either recommend or envision the creation of a mandatory disclosure "comply or explain" framework or are being recommended to listed companies by a stock exchange on a comply or explain basis. (Korby Commission Report -Denmark; Cromme Commission Code- Germany; Preda Report-Italy; Cadbury Report-U.K.; Greenbury Report-U.K.; Combined Code-U.K.)
- Another code provides advice on complying with such a framework (Turnbull-U.K.).
- Eight codes (all from investor-related entities) create criteria for the selection of portfolio companies, shareholder voting, protection of shareholder rights, or encourage pressure through investor voice or voting.
- Two codes focus on guidelines for director remuneration.

In Romania, Bucharest Stock Exchange issued the "Corporate Governance Code" for its listed companies and launched the "Transparency Plus" tier in line with OECD's Corporate Governance Principles.

Only two countries, United Kingdome and Belgium, have merged or consolidated codes. In the United Kingdom, the Combined Code, which was issued in July 1998, has integrated certain of the recommendations of the Cadbury Report with those of the Greenbury and Hampel Commissions. The Combined Code is linked to the London Stock Exchange listing rules for disclosure purposes. In Belgium, the code issued by the Belgian Banking & Finance Commission and the code issued by the Brussels Stock Exchange (Cardon Report) were consolidated in original form in December 1998 into a single document entitled "Corporate Governance for Belgian Listed Companies" .

There are also four pan-European and international codes that are relevant to EU Member States. This codes have been issued by four distinct types of organisations:

- An intergovernmental organization (OECD Principles of Corporate Governance) - encourages creation, assessment & improvement of appropriate legal & regulatory framework; encourages voluntary adoption of best practice standards;
- A committee related to a pan-European association of securities professionals (EASD Principles and Recommendations)-advocates disclosure on a comply or explain basis for markets and companies adopting the code, to encourage improved practice;
- An association of investors and others having an interest in governance (ICGN Statement) - investors recommended to apply to portfolio companies; companies recommended to disclose compliance or explain): pressure through investor voice/voting; encourages voluntary adoption of best practice standards;
- An investors association (Euroshareholders Guidelines) - association members (investors) recommended to apply to portfolio companies): pressure through investor voice/voting.

All this codes (nationals, pan-Europeans, or internationals) have common objectives. The most common objective is improving the quality of supervisory board governance of companies. This objective is most strongly associated with the codes emanating from business and industry-related groups.

The next most common objectives are: improving accountability of companies to shareholders and/or maximising shareholder value; and improving companies' performance, competitiveness and/or access to capital, the focus of many of the government-related entities.

4. Contribution of corporate governance codes

The corporate governance codes have undoubtedly made a number of contributions to the corporate environment:

1. The reports have highlighted the contributions good corporate governance can make to companies;
2. The codes have emphasized certain dangers that have contributed to corporate governance failure;
3. The provisions have provided benchmarks that can be used to judge the effectiveness of internal controls and risk management systems;

4. The guidelines have promoted specific good practice in a number of areas (for example: non-executive directors, performance-related pay and disclosure);
5. The recommendations have highlighted the importance of basic concepts and highlighted how these can be put in practice (for example: accountability and transparency).

5. Limitations of international codes

There have been identified a number of problems regarding internationals codes:

a. International principles represent a lowest common denominator of general, fairly bland, principles.

b. Any attempt to strengthen the principles will be difficult because of global differences in legal structure, financial systems, structures of corporate ownership, culture and economic factors.

c. As international guidance hase to be based on best practice in a number of regimes, development will always lag behind changes in the most advanced regimes.

d. The codes have no legislative power.

e. The codes describe practices for joint stock corporations that are listed and traded on stock exchanges. Only OECD Principles encouraged to all companies.

6. Conclusions

The most important differences in corporate governance practices among companies incorporated in Member States result from differences in company law and securities regulation rather than differences in code recommendations. For a part, the code recommendations are almost similary and serve as a converging force.

Code variation does not appear to be perceived by private sector participants to raise barriers to company efforts to attract investment capital. Most European companies apparently continue to consider their domestic capital market as their primary source for equity capital. Corporate decisions regarding which capital markets to access appear to be influenced primarily by liquidity and company law considerations, more than by the existence of corporate governance codes. Codes are flexible and non-binding: Even when a "comply or explain" disclosure mandate exists, a company is generally free to choose not to follow the code's prescriptions, so long as it discloses and explains such non-compliance.

By and large, codes are supplemental to company law. Companies may choose from among the codes that emanate from the EU Member State of incorporation. Alternatively, so long as there is no inconsistency with the company law in the State of incorporation, companies are free to seek guidance from codes from any jurisdiction.

The code movement is a positive development, both for companies and for investors, given its emphasis on disclosure, improved board practices, and shareholder protection. Codes have proven beneficial in a number of ways:

- ❖ Codes stimulate discussion of corporate governance issues;
- ❖ Codes encourage companies to adopt widely-accepted governance standards;
- ❖ Codes help explain both governance-related legal requirements and common corporate governance practices to investors;
- ❖ Codes can be used to benchmark supervisory and management bodies;
- ❖ Codes may help prepare the ground for changes in securities regulation and company law, where such changes are deemed necessary.

The various codes emanating from the Member States appear to support a convergence of governance practices. This, taken together with the need for corporations to retain a degree of flexibility in governance so as to be able to continuously adjust to changing circumstances, lead us to conclude that the European Commission need not expend energy on the development of a code applicable to companies in the European Union. Ideas about best practice as reflected in the codes should be allowed to develop over time by the business and investment communities, under the influence of market forces.

A voluntary European Union-wide code could conceivably result in some benefits along the lines discussed above. However, efforts to achieve broad agreement among Member States on detailed best practices that fit well with varying legal frameworks is more likely to express a negotiated "lowest

common denominator" of "acceptable" practice rather than true "best" practice. Alternatively, an agreed European Union code might focus on basic principles of good governance. However, the OECD Principles of Corporate Governance (which issued in 1999 after considerable consultation with, and participation from, Member States) already set forth a coherent, thoughtful and agreed set of basic corporate governance principles.

7. Bibliography

[1] Cadbury, Sir Adrian, "Corporate Governance and Chairmanship, a personal view", Oxford University Press, 2002, www.ecgn.org

[2] European Commision, Internal Market Directorate General, "Comparative Study of Corporate Governance Codes Relevant to the European Union and Its Member States", January 2002, http://ec.europa.eu/internal_market/company/docs/corpgov/corp-gov-codes-rpt-part1_en.pdf

[3] Robu, V., and Vasilescu, C., "The improvement of corporate governance system – the growing strategy of global performance of the company", The Journal of Accounting and Administration IT, 10/2004

[4] OECD, "OECD Principles of Corporate Governance", 1999, www.oecd.org

International Corporate Governance in Globalisation Context

Sarchizian Sergiu
"Al. I. Cuza University" of Iasi, Doctoral School of Economics
ssarchizian@yahoo.com

Abstract

At present, there are global differences not just in cultural and legal systems affecting management and directors, but also among investors. There is no common language of accountability for corporate functioning. However, there are global institutions concerned to find common corporate governance principles and guidelines.

Key words: coprorate governance, globalisation, principles
J.E.L. classification: G30

1. Introduction

Good corporate governance is now widely recognised as essential for establishing an attractive investment climate characterised by competitive companies and efficient financial markets. The OECD and the World Bank Group have combined their efforts to promote policy dialogue in the area of corporate governance and have established Regional Corporate Governance Roundtables in close partnership with national policy-makers, regulators and market participants.

Today, Corporate Governance Roundtables exist in Asia, Eurasia, Latin America, Russia and South East Europe. The work of the different Roundtables is adapted to the specific issues in the respective regions. But each Roundtable is using the OECD Corporate Governance Principles as a common framework for discussions and has agreed to issue a Regional Corporate Governance White Paper formulating key policy objectives and reform priorities.

The ability and incentive for international investors to transcend the rules and limitations of their domicile economies is evident from the creation of international associations dedicated to sharing information and developing global policies on investment and shareholders rights and responsibilities.

2. The OECD Principles of Corporate Governance

The Organisation for Economic Co-operation and Development (OECD) was founded in 1960 to promote policies designed:

- to achieve the highest sustainable economic growth and employment and a rising standard of living in member countries, while maintaining financial stability, and thus to contribute to the development of the world economy;
- to contribute to sound economic expansion in member as well as non-member countries in the process of economic development;
- to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations.

The OECD Principles of Corporate Governance were originally developed in response to a call by the OECD Council Meeting at Ministerial level on 27-28 April 1998, to develop, in conjunction with national governments, other relevant international organisations and the private sector, a set of corporate governance standards and guidelines. Since the Principles were agreed in 1999, they have formed the basis for corporate governance initiatives in both OECD and non-OECD countries.

Moreover, they have been adopted as one of the Twelve Key Standards for Sound Financial Systems by the Financial Stability Forum. Accordingly, they form the basis of the corporate governance component of the World Bank and the International Monetary

Fund Reports on the Observance of Standards and Codes (ROSC). They have been endorsed by the International Organisation of Securities Commissions (IOSCO), as well as by private sector bodies, such as the International Corporate Governance Network. The OECD Principles have also served as a reference point in the development of an increasing number of national codes of corporate governance.

The Principles are intended to assist OECD and non-OECD governments in their efforts to evaluate and improve the legal, institutional and regulatory framework for corporate governance in their countries, and to provide guidance and suggestions for stock exchanges, investors, corporations, and other parties that have a role in the process of developing good corporate governance. The Principles focus on publicly traded companies, both financial and non-financial. They might also be a useful tool to improve corporate governance in non-traded companies. The Principles represent a common basis that OECD member countries consider essential for the development of good governance practices. They are intended to be concise, understandable and accessible to the international community. They are not intended to substitute for government, semi-government or private sector initiatives to develop more detailed "best practice" in corporate governance.

3. World Bank

The World Bank focus on corporate behavior, management, and polices increased after the Asian financial crises of the late 1990s. it pays particular attention to the governance of the banking sector, due to the sector's enormous influence on developing economies, especially where stock markets are underdeveloped.

At its October 1998 annual meeting, the World Bank announced an initial draft of measures to improve corporate governance worldwide, including expert and technical assistance, knowledge sharing and loans tied to governance reform. The World Bank also opened an internet site offering a catalogue of corporate governance codes, research, and links.

4. The International Corporate Governance Network

The International Corporate Governance Network (ICGN) was founded in 1995 at the instigation of major institutional investors, represents investors, companies, financial intermediaries, academics and other parties interested in the development of global corporate governance practices. Its four primary purposes are:

1. to provide an investor-led network for the exchange of wiews and information about corporate governance issues internationally;
2. to examine corporate governance principles and practices;
3. to develop and encourage adherence to corporate governance standards and guidelines;
4. to generally promote good corporate governance.

The ICGN has developed Global Corporate Governance Principles to contribute to achieving these objectives, and particularly to fulfil its objective to promote high standards of corporate governance. The aim of these Principles is to assert standards of corporate governance that all companies should aspire.

The Principles intend clearly to express the expectations and concerns of international investors with regard to the governance of companies in which they invest, and also to express their commitment to play their role in the governance of those companies. ICGN members recognise that they have responsibilities as shareholders as well as rights, and these Principles outline these responsibilities as well as shareholder expectations of companies.

The Principles are intended to apply to public companies predominantly, providing them with guidance as to the behaviour which will influence investors' investment decisions; they will also be of value for companies seeking investment from the international investment community. Aspects of the Principles will also be of relevance to governments, legislators, regulators, operators of investment markets, audit firms and investment intermediaries. Good corporate governance plays an important role in the integrity and attractiveness of public investment markets, and where relevant

ICGN members will seek to enhance regulatory and other rules impacting shareholder rights in particular markets.

The ICGN will also seek change to legislation, regulation or guidance in particular markets where it believes that this will be helpful to generating corporate governance improvements and particularly where such change will facilitate dialogue and accountability. For the ICGN, the core aspects of corporate governance are the accountability of board members to shareholders and alignment between the interests of management and investors.

5. The Global Corporate Governance Forum

Corporate governance is recognized as an important element of sustainable private sector development. The Forum contributes to the efforts of the international community to promote the private sector as an engine of growth, reduce the vulnerability of developing and transition economies to financial crises, and provide incentives for corporations to invest and perform in a socially responsible manner.

The Forum seeks to address the corporate governance weaknesses of middle-income and low-income countries in the context of broader national or regional economic reform programs. The Forum has an extensive work program to support corporate governance reform in developing countries.

The work program of the Forum is executed, managed, and implemented by the Secretariat, which is the executive arm of the Forum. The Secretariat is also responsible to allocate funds in accordance with the procedures criteria agreed by the Steering Committee of Donors and Founders.

6. Governance Metrics International

Governance Metrics International (GMI) is an independent research and ratings agency founded in 2001 to provide institutional investors and objective way of assessing corporate governance risk as well as governance leaders in their portfolios. GMI starts the rating process by developing a governance profile incorporating hundreds of variables per company plus analysts' insights. In addition to reviewing board composition, board leadership, company documents, and websites to identify stated policies and procedures, GMI also reviews regulatory actions, legal proceedings, and other sources to determine whether company behavior is consistent with its stated policies.

Between July 1, 2003-June 30, 2006 , GMI looked at the effects of significant ratings changes on total shareholder return and found evidence suggestive of a relationship:

- For Standard&Poor's 500 companies whose GMI rating increase by three or more points returned 12.85%;
- The Standard&Poor's 500 Index returned 11.63%;
- All Standard&Poor's 500 companies rated by GMI in 2003 that still traded in 2006 returned 9.96%;
- Companies whose overall rating decreased by 3 or more points returned -0.69%.

7. Conclusions

There is no single model of good corporate governance. However, work carried out by ICGN and OECD has identified some common elements that underlie good corporate governance. The Principles are build on these common elements and are formulated to embrace the different models that exist.

The Principles are non-binding and do not aim at detailed prescriptions for national legislation. Rather, they seek to identify objectives and suggest various means for achieving them. Their purpose is to serve as a reference point. They can be used by policy makers as they examine and develop the legal and regulatory frameworks for corporate governance that reflect their own economic, social, legal and cultural circumstances, and by market participants as they develop their own practices.

Research has demonstrated that the design of a country's corporate governance is the highest importance for the macro-economy. An example of this importance are the events that followed in the wake of the Asian currency crisis in 1997, and which led to a sharp decline in many countries' stock markets. Countries with poor corporate governance systems experienced the largest

stock market declines. In many of those countries, outside investors' rights were routinely expropriated by strong corporate insiders.

Most of the public policy focus and energy , especially in emerging economies, is on the "supply side" of corporate governace – what managers and directors must do. But it is important to make sure that the "demand side" is set up with the authority, ability, and incentives aligned to enable effective oversight and market response. Financial accounting standards and open disclosures on climate change also deserve particular attention.

8. Bibliography

[1] European Corporate Governance Institute, www.ecgi.org
[2] International Corporate Governance Network, http://www.icgn.org
[3] Monks, R.A.G., and Minow, N., "Corporate Governance" (fourth edition), John Wiley&Sons Ltd, England 2008
[4] OECD, "White Paper on Corporate Governance in South East Europe", 2004, www.oecd.org
[5] OECD, "Survey of Corporate Governance Developments in OECD Countries", 2004, www.oecd.org
[6] OECD, "OECD Principles of Corporate Governance", 1999, www.oecd.org
[7] World Bank, http://www.worldbank.org

The Evolution of European Tourism Within the Frame of the Economic Crisis

Sava Cipriana
„Dimitrie Cantemir" Christian University,
Tourist and Commercial Management Faculty

Abstract

All economic activities are affected, more or less, by the appearance and manifestation of certain global financial – economic crises. The current crisis started in the USA was also felt in the tourist activity. Tourism plays an important role in the economies of many states or regions of the world. Europe is the region that annually attracted half of the number of global tourist arrivals. Their evolution and revenues is worth paying attention to within the frame of this crisis.

Key words: sustainable tourism, influence factors, financial – economic crisis, tourist arrivals, tourist revenues
J.E.L. classification: L83

1. Tourism and the influence factors

As a consequence of the current socio-economic matters that the world is dealing with, a sustainable development of all economic sectors is needed.

The sustainable tourism, according to WTO develops the idea of meeting the tourists' and the tourist industry's needs as well as protecting the environment and the opportunities for the future. They take into consideration the meeting of all economic, social and esthetic needs of the „actors" involved in tourism, by maintaining the cultural, ecological, biological integrity and all the systems that sustain life.

The performances imposed by the sustainable development concept are economic, social and ecologic. The increase of the exploitation and value degree of tourist resources is part of the first category. The increase of the number of job opportunities, the involvement of the population in practicing tourism, the development and preservation of traditional crafts, as well as the increase of life expectancy are part of the second category. The ecologic effects regard the avoidance of environment degradation.

The global evolution of tourism has demonstrated that this phenomenon came as a sine qua non condition of economic, social, political and spiritual development of all peoples.

At an international level, as well as at a national level of the countries that provide or receive tourists, efforts are made to follow and analyze the evolution of tourist circulation, the indicators being:

- the dynamics of tourist arrivals in the international tourism;
- the distribution of the tourist movement in the regional geographic area;
- the structure of tourist trends;
- the evolution of the economic-financial indicators of the tourist industry.

In order to trigger tourism and sustainable development, the state must intervene through a system of economic-financial leverage and facilities for the entrepreneurs and for the tourists.

At an international level there are countries whose economy is based on this activity. The interference of the state is necessary for economic, social, political and environmental reasons.

The government's vision regarding tourism and its added value is reflected in the macroeconomic policies it promotes.

A government can provide tourism activities with:

- political stability;
- security;
- legal and financial frame;
- various public services;
- basic infrastructure.

The economic implications of this activity are noticeable in regional development, in creating new job opportunities, in increasing

the incomes of the population and of the state, in the encouragement of investments in non-tourist areas and in the balance of payments.

At a macroeconomic level the objectives of tourist policies are economic, socio-cultural and environmental. They regard the development of the tourist activities and the tourist market, the training of the labor force, the protection and preservation of tourist resources.

The impact of tourism development can be positive, as well as negative it can be economic, social and ecologic. Therefore the specialists' concerns must focus on the diminishing and even eliminating negative effects and maintaining positive ones.

Elaborating and implementing macroeconomic policies in tourism could also present internal and external constraints.

The internal constraints refer to:

- the quality of tourist resources and existing amenities;
- the use of tourist attractions and amenities by the host population;
- the land and the amenities are not meant for tourist activity but for certain purposes of the destinations;
- the existence of the labor force.

The external constraints comprise:

- the economic situation of the countries providing tourist;
- the situation of energy in the world;
- the circulation intensity of some tourist fluxes;
- the climate factors.

Tourism development is also influenced by internal factors, known as endogenous factors. The most important are considered to be the following:

a) the launching of new tourist products;
b) the diversification of the range of services provided;
c) the quantity and quality of human resources.

The exogenous factors globally stimulate tourism development, as they are exterior to this activity. They act together and interfere in various ways, according to area and period. The outcome of their influence on tourism evolution can be positive or negative.

This category includes tourist demand, economic, demographic, social, technical, psychological, educational, cultural and political factors.

The main exogenous factors are:

- the demographic increase and mutation in the population structure;
- free time;
- the variation of incomes;
- the urban development process;
- political factors and liberalization.

The population's incomes are an essential condition for the manifestation of the tourist demand.

The level of incomes determines the tourism form practiced (short or long period), the tourist services quality (comfort degree), the distance to the destination, the organized or private character of the provided tourist service.

During economic prosperity, a percentage of the total income allocated to tourist expenses increases. The travels are done on long distances, and besides the holiday corresponding to the holiday period other short-period (week-ends) travels come up.

A decrease of economic growth entails the diminishing of tourism allocated expenses. The distances to the destination and the periods are reduced, and in most of the cases the mass vacations become fractionate and limit to the territory of the tourists' resident country.

The exchange rates of the international currencies used in tourism (American dollar and Euro) have a significant importance in the international tourist transactions, in directing the fluxes of tourists.

2. The current crisis

The appearance of the global crisis is characterized by a major decrease of the economic activity during a longer period of time (a few months), the dropping of GNP, of the individual income, the increase of unemployment rate, the diminishing of production and consumption.

The financial crisis manifests itself through a bigger demand of money than the available offer. In other words, the cash is rapidly absorbed, the available money being withdrawn from the banks, causing the banks to either sell their own shares and investments, or to file for bankruptcy. This type of crisis can lead to an economic crisis.

The forms that economic crises can take are economic depressions, recessions, and economic collapses.

The signs of the current global crisis were obvious starting with the second half of 2007 in the USA, becoming bigger in 2008 and spreading all over the world. In 2009 the financial-economic crisis reached its maximum intensity.

This phenomenon was triggered by the blockage and then the falling of the USA crediting banking system in the real estate business. Being the main global economic power, the USA influences the evolution of other countries' economies. Europe was next to be affected by the crisis, even though the majority of governments adopted a series of measures meant to limit the effects of the crisis and to take steps towards the recovery of the economy. The crisis then spread to the other regions of the earth.

The effects of the crisis are felt in all economic activities, tourism not being an exception.

3. European tourism

Following years of permanent growth, international tourism suffered a significant drop in 2009. This situation was brought up by the global crisis and the viral flu A/H1N1.

Globally the evolution of tourist arrivals is shown in table 1

Table 1

Number of tourist arrivals (millions of persons)

Region \ Years	2005	2006	2007	2008	2009
Europe	441	463,9	485,4	487,3	460
Asia and the Pacific	153,6	166	182	184	180,9
Americas	133,3	135,8	142,9	146,9	140
Africa	35,3	39,1	42,6	44,5	45,9
Middle East	37,8	40,9	46,9	56	52,9
World	801	846	900	919	880

One can notice that international tourist arrivals dropped by 4% in 2009 compared to 2008, after annual increases noticed in previous years. Europe lost most of the tourists (the drop being 5,6% in 2009, compared to 2008), followed by the Middle East (5,4% drop), Americas (4,7% drop), Asia and the Pacific (1,7% drop). At the same time, Africa had an increase of 3% in 2009 compared to 2008.

One can also notice that Europe attracted, in all analyzed years, over 50% of the tourists, but the trend is decreasing, from 55,06% in 2005, up to 52,27% in 2009. Figure 1 shows the evolution in the number of tourist arrivals in this part of the world in the last five years. Thus, the number of tourist arrivals in 2009 is lower than the number of arrivals in 2006, 2007, and 2008, and higher than 2005.

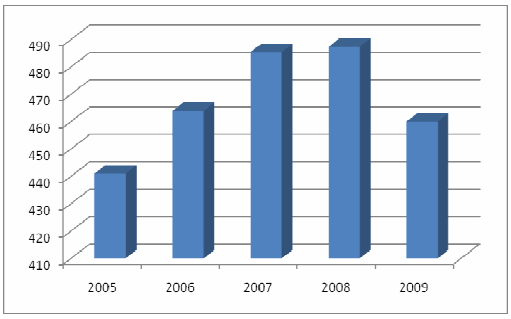


Figure 1 The evolution in the number of tourist arrivals in Europe

Table 2

The number of tourist arrivals in European regions (millions of persons)

Region \ Years	2005	2006	2007	2008	2009
Northern Europe	52,8	56,5	58,1	56,4	53
Western Europe	141,7	148,6	153,9	153,2	145,9
Central/Eastern Europe	87,5	91,4	96,6	99,7	89,8
Southern/Mediter. Europe	159,1	167,3	176,8	178	171,3
Europe	441	463,9	485,4	487,3	460

Table 2 shows the annual increase in the number of tourist arrivals in European regions until 2009 when they dropped. These drops from 2009 were, by comparison with 2008, of 9,9% for Central and Eastern Europe (the most affected by the crisis), 6% for Northern Europe, 4,7% for Western Europe, and only 3,8% for Southern and Mediterranean Europe.

The input of the European regions at the total number of tourist arrivals indicates the preferences of the tourists, especially Southern and Mediterranean Europe, and Western Europe (table 2).

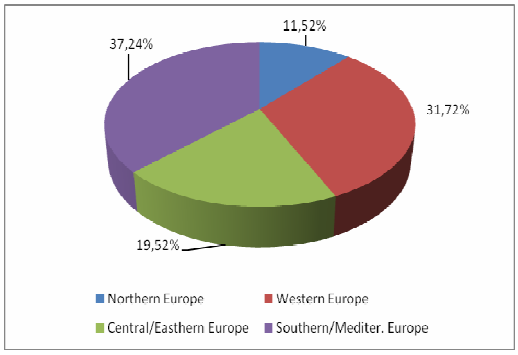


Figure 2 The percentage of the number of tourist arrivals in European regions in 2009

The evolution of revenues in tourism is also related to the evolution of the number of tourist arrivals. Thus, there were increases between 2005 and 2008 of the revenues at an international level and a decrease in 2009 by 5,8% compared to 2008 (table 3).

Table 3

Tourism revenues (US$ billions)

Years / Region	2005	2006	2007	2008	2009
Europe	349	375,39	435,24	472,62	412,4
Asia and the Pacific	134,57	154,74	186,78	209	202,8
Americas	145,23	153,92	170,93	187,7	165,6
Africa	21,76	24,4	29,1	29,9	28,1
Middle East	27	29,01	34,98	42,8	43,3
World	677,56	737,46	857,03	942,02	852,2

One can notice that Europe has 50% of the tourist revenues in each of the analyzed years (51,5% in 2005 and 50,17% in 2009). The loss suffered by Europe in the revenues is 6,6% in 2009 compared to 2008.

Table 4

Tourist revenues on regions in Europe (US$ billions)

Years / Region	2005	2006	2007	2008	2009
Northern Europe	54,27	60,29	70,78	70,02	60,8
Western Europe	123,24	131,57	149,6	161,4	143,1
Central/Easthern Europe	32,28	36,97	48,55	57,8	47,5
Southern/Mediter. Europe	139,91	146,56	166,31	183,4	161
Europe	349,7	375,39	435,24	472,62	412,4

Table 4 and figure 3 show the increase of the revenues in European regions up to 2008 and the drop felt in 2009. The lowest decrease of the revenues in 2009 compared to 2008 is in Northern Europe: 3%. The value of the revenues in 2009 is between the ones gained in 2006 and 2007.

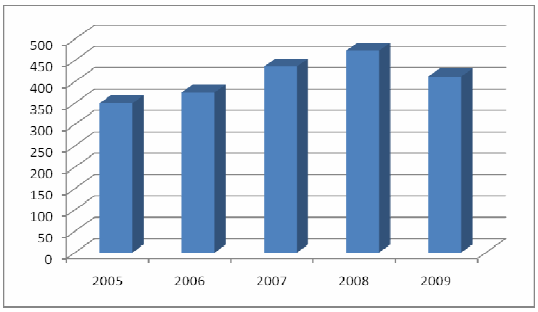


Figure 3 The evolution of tourist revenues in Europe

The lowest decrease in the number of tourist arrivals in Europe was in 2009 in the southern and Mediterranean regions, while the lowest decrease in the value of the revenues was in the northern region. We can conclude that the tourists arrived in the southern and Mediterranean regions chose either cheaper tourist packages or all-inclusive tourist packages on shorter periods of time by limiting their travel expenses.

The southern and Mediterranean regions bring the most revenues while the central and eastern regions bring the least. (figure 4).

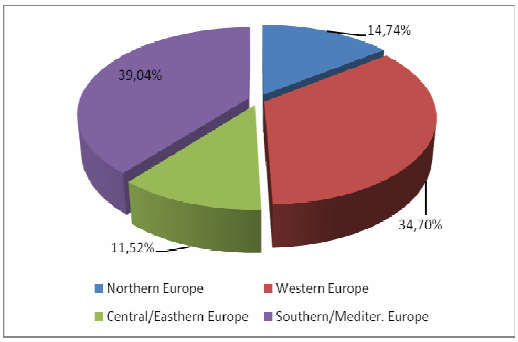


Figure 4 The percentage of revenues in European regions in 2009

4. Conclusions

Europe is, even during the financial-economic crisis, the first destination preferred by tourists, being the continent that offers a wide range of natural and anthropic tourist resources. Southern, Mediterranean and Western Europe bring the biggest input as to the number of tourist arrivals and revenues.

The tourists' tendencies are those related to the period allocated to vacations (short periods, sometimes weekends), the distance to the destination (shorter distances), the quality of the services, the choosing of new destinations, preferences towards ethnic and religious tourism, the use of new technologies for information and booking of tourist packages, the practice of leisure tourism rather than business tourism.

Together with the economic recovery there is the hope for the recovery of European and global tourism.

5. References

[1] Cristureanu Cristina, Strategii şi tranzacţii în turismul internaţional (Strategies and transactions in international tourism), Ed. CH Beck Bucureşti, 2006

[2] Masser,I.,Wegener,M.,Sviden,O.,The Geography of Europe's Future, Belhaven, London, 1992;

[3] Sava Cipriana, Strategii de dezvoltare a activităţii de turism (Development strategies of the tourist activity), Ed. Aprilia Print, Timişoara, 2007;

[4] ***UNWTO World Tourism Barometer – collection 2008,2009 and January - August 2010

[5] ***WTO, WTTC, The Earth Council-Agenda 21 for the Travel an Tourism Industry: Towards Environmentally Sustainable Development, 1995

Evolution and Perspectives of E-Commerce in Romania

Săseanu C. Andreea Simona
The Bucharest Academy of Economic Studies, Romania
saseanu@yahoo.com
Toma Sorin George
University of Bucharest, Romania
tomagsorin62@yahoo.com
Zgură Ion Daniel
The Bucharest Academy of Economic Studies, Romania
daniel_zgura2001@yahoo.com

Abstract

This present paper is aiming to highlight the evolution of electronic commerce in Romania between 2000 – the first quarter 2010. Were processed, analyzed and interpreted data on the number of electronic stores and online transaction volume in this period. Also,based on these data to make a prediction of the evolution of electronic commerce in Romania for the 2010-2013 period, expecting a boom phenomenon.

Key words: electronic commerce, online transaction, Romania
J.E.L. classification: M30

1. Introduction

Since the early 1990s, the term "Information Society" began to be used to describe the many and varied changes in economy, politics, culture and generally throughout society, the rapid development of modern information and communication technologies.Reported that more time the information age was gradually take the place of the information industry and traditional society is superseded by the information society.The process is virtually indistinguishable and is happening under our eyes. People are made to communicate. In the new society, information one, the communication, the transfer and the exchange of information taes place through technical systems.

The transition to information society, globalization, scientific progress and the crazy spead, they all do that people are faced with an avalanche of information. In the information society, the man will be assaulted by a huge flow of information. Ease of use infomaționale networks and content knowledge databases are basic features contemporary for the information age. The brief history of Internet and World Wide Web shows the important contribution of the Web page to the development of commercial activities on the internet.

Intensity of Internet use reflect the economic development. United States, Canada and the Nordic countries have adopted Internet technology the fastest.European Union, Australia, New Zealand, Japan, Korea, Singapore and Hong Kong were also among the first in this field.Individually, various organizations and companies in SE Asia, China, India, Argentina and Brazil had Internet access since 1996. It seems that the Internet has less impact in less developed countries such as Africa and Asia, and there are countries where Internet use is prohibited. The Internet is a powerful tool for conducting trade.Using the Internet to lower costs, reduce time to market goods and services, can transfer information about goods and services in digital form, reduce distribution costs and transportation are just some of avanatajele use the Internet as a means of achieving trade.

Both customers and companies are very concerned about how the various uncertainties related to electronic commerce. Shows lack of confidence in the security of personal data during transfers of electronic transactions. Customers are still suspicious, but experts believe that e-commerce transactions have a higher degree of security

than credit card purchases. Electronic trading of goods and services is an extension of current trade.Thus obtain greater efficiency, to reduce the cost and effect in terms of marketing and improve the relationship between customer and client. The electronic commerce make facilitate and cooperation between firms. Reduce marketing costs and delivery, support and marketing strategy firm providing access to new markets.In the near future, electronic commerce will have an impact on the competitiveness of firms. Electronic commerce is not restricted by national borders but depends on the existence or computer networks. Electronic commerce allows even the smallest suppliers, regardless of their geographical origin, and to be ubiquitous in the business world. Economic Commerce positive influence not only small and medium business but come and support clients, offering many options

Unprecedented development in the last two decades has determined the need for storage of information technologies and rapid transmission of information with the lowest cost revolutionized global trade. Today, the term E-Commerce has become synonymous with profit growth. Electronic commerce (E - Commerce), the conception of the Organization of Economic Cooperation and Development (OECD) is running a business through Internet, sale of goods and services taking place offline or online.

Electronic commerce consists in running a business as value generating activity, with the support Internet and use of specific software packages.

Electronic commerce is key to the competitiveness of enterprises in the Information Era, providing: access to new market segments (new customers); growth rate of developing business; wholesale trade policy flexibility; reduce supply costs, sales, advertising, etc.; simplification.

2. E-commerce development in Romania during 2000-2009

In Romania, according to Web Internet Archive, the first online store launched by PC Net in 1997, it marketed music CDs. Shortly after appearing first virtual store, which introduces the concept of shopping cart - it is true, in a rudimentary version in terms of usability. During the 2000s, at which level of confidence of Romanian Internet users in online trading was extremely low, the company Netbridge Investments starts OKazii.ro, an online auction website eBay famous almost similar. In late 2001, launching eMag.ro - currently the biggest online shop in Romania. Until 2006, in Romania there were timid attempts to make electronic commerce, most sites are actually extensions of existing businesses in the classic retail.This period can not be associated with volume or record time so that e-commerce concept itself was treated as an additional marketing channel, viewers often speculative and unregulated.

2006 began timidly, with only transactions in January 2812 but their number has increased steadily by an average of 15% per month in October 2006 exceeded the threshold of 12,500 transactions on the Romanian online stores. Even if the Romanians have generated the most transactions, the average value of a transaction with a card issued in local currency was lower than the average card transactions denominated in foreign currency (dollars, euros respectively). Thus, Romanians spent an average of 160 RON per transaction, while foreign cardholders spent 180 USD, 210 Euro respectively - according to figures RomCard.

According Trafic.ro gauge, which may be considered relevant in measuring the activity online stores in Romania, can appreciate a spectacular evolution in the number of stores relative to the size of the Internet market in Romania, between 200-2009. Upward trend is observed regarding the evolution of the number of electronic stores in Romania, it is changing on average approximately 252 stores.Thus, if in 2000, in Romania there were only three stores, in 2001 the number had risen to 19, indicating an increase of almost 6.3 times its.Since 2003, the number of electronic stores in Romania has increased sharply, recording values of 142 in 2004, 328 2005, 589 2006, 918 in 2007, reaching in 2008 a value of 2215.From 2008 to 2009, the number of electronic stores in Romania has increased, but to a lesser extent (namely, 0.7%), leading to a number of electronic stores in 2277. (Table 1)

Table 1. Evolution of the number of e-commerce stores during 2000-2009

Anul	Comerț Electronic Nr. Magazine	Evolutie
2000	3	
2001	19	+ 633%
2002	43	+ 226%
2003	54	+ 126%
2004	142	+ 263%
2005	328	+ 231%
2006	589	+ 180%
2007	918	+ 156%
2008	2215	+ 241%
2009	2277	+ 0.7 %

Source: http://www.trafic.ro/vizitatori/comert -electronic/saptamana-pg146

2007 is the first year that the overall balance RomCard reported higher than in 2005. Basically, for the first time, e-commerce volume exceeded Romanian easily result in 90% of cases of specific cross-border activity of 2005 and thus ending 2007 with about 35 million from online trading card system 3D Secure.

Interesting trend to watch is the number of transactions monthly trend that has been preserved in 2008. If the average number of transactions per month in 2007 was approx. 37,400 transactions in 2008 their number increased to nearly 51,000 transactions per month. by 2006 we can speak of a real trend and rate of emergence of online stores was dictated by criteria other than pure economic ones, then we witnessed a revolution of the phenomenon. With financial reporting success of several market players, trading volume attracted by the Internet environment has become attractive. According Trafic.ro increase of 250%. Trafic.ro drawback system used in 2008 is but self-classification of companies into the system and are classified as all activities related to electronic commerce in a broad sense and not just online stores.

RomCard According to statistics, areas which generate the largest volumes in Romanian electronic commerce are: travel services and reservations for airline tickets, mobile phone bills and IT & C products, electronics and appliances.

The same source reveals that 2008 ended with about 60 million online credit card processed in 3D Secure but still, this represents only 5% of all payments made in Romanian online stores. Note that RomCard can not provide statistics only for dealers enrolled in 3D Secure currently number 187. It is not known but the exact number of Romanian traders who process through an external process and not set up 3D Secure.

Electronic commerce in 2009 exceeded 75% in 2008 amounting to EUR 92.8 million euros, with a total of 1,246,130 transactions, double the number recorded the previous year. Note the dramatic differences in terms of transaction volumes in two quarters (up to 11,311,907 euros), 3 (up to 12,975,579 euros) and 4 (up to 10,633,805 euros) in 2009 compared with 2008. (Table 2)

Table 2. Transaction volume (EUR)

Volume transactional (euro)	**2008**	**2009**
Trimester 1	9.410.252	16.937.032
Trimester 2	12.224.174	23.536.081
Trimester 3	12.097.145	25.072.724
Trimester 4	11.643.813	22.277.618

Source: RomCard

As in 2007, 2009, the average transaction value was 79 euros, registering a slight decline from 2008 when the average transaction value was 85 euros.

In 2009, in the third quarter of this year were the highest volumes of transactions, while in the fourth quarter were processed most transactions, over 100,000 every month. A possible explanation for the large number of transactions in late 2009 may be present as the winter holidays and holiday packages to purchase end - especially during October-November.

And in 2009, as in previous years, marketed products online store the same tendinţă: telecom sector had accounted for 45% of transactions processed by Avangate, followed by tourism with 38%, services 10% and 7 eTail %.

3. E-commerce analysis in the first quarter of 2010. forecast for the period 2010-2013

2010 started with a moderate increase of electronic commerce in Romania, a good example in this respect is online transaction volume in the first quarter of 2010 compared with Q4 2009.

In the first three months of 2010, online credit card payments totaled 26.34 million, up 65% compared to same period last year, according to data centralized Romcard being processed over 600,000 pay.

The platform of payments Gecad were processed 575,000 of the 603,437 transaction value reaching 25.45 million.

In the first three months of 2010, average transaction value was 52 euros, down from the same period last year, when the recorded value was 79 euros. A possible explanation for this phenomenon could be entering the online market of new products and services players with lower values, and promotions practice most electronic stores.

Most products sold online during this period were telecom, tourism, services, payment utiliatilor, retail and entertainment, keeping roughly the trend until now. The most spectacular increase in the number of transactions was recorded in tourism - with 270% more than last year. A significant development witnessed and telecom, utilities and entertainment where payment compared to last year, the number of transactions increased by 230%, 178% and 160% respectively.

Forecasting the evolution of electronic commerce in the period 2010-2013 was based on existing data in the paper, using the TREND function in Excel. To estimate the value of online transactions for the next years, the trend was calculated by quarter. (Table 3 – processing by the authors)

Tabel 3. Estimated transactions (Euro) per quarter from 2010 to 2013

Volume tranzactionale (euro)	2010	2011
Trimester 1	26.345.464	28.075.479
Trimester 2	25.716.232.5	29.253.317.63
Trimester 3	26.352.602.5	30.114.755.88
Trimester 4	28.071.909.75	30.705.459.81

Volume tranzactionale (euro)	2012	2013
Trimester 1	31.725.098.25	34.894.816.44
Trimester 2	32.451.169.34	35.733.829.41
Trimester 3	33.256.340.53	36.553.067.37
Trimester 4	34.129.195.3	37.355.384.43

Note the upward trend of the volume of transactions in electronic commerce until 2013, when it recorded a value of 144 million euros. Based on the data presented, it appears that the volume of online transactions will grow from EUR 106,486,208.75 (in 2010) to EUR 144,537,097.65 (2013). It forecasts a steady growth of electronic commerce transactions, therefore a development of electronic commerce in Romania. If by 2006 can not refer to a real development of electronic commerce, since 2008 can be seen a real expansion of the phenomenon of revolution. Regarding the evolution of the number of e-commerce stores, the 2010 can appreciate that prefigures a decrease in e-commerce stores by 9%. For subsequent years we see a growing trend, increases were 12%, 11% and 9% from one period to another. (Table 4)

Tabel 4. Evolution of e-commerce stores

Anul	Comerț Electronic	Evoluție
	Nr. Magazine	
2009	2277	
2010	2059	- 9 %
2011	2314	+ 12%
2012	2568	+ 11%
2013	2823	+ 9%

Source: processing by the authors

Growth and development of electronic commerce will lead to a number of significant changes in economic. IT revolution has had a major impact in the global economy, bringing economic development that the necessary transparency.

Electronic commerce has the most relevant improvements in consumer welfare, the economy of mass production, after the Second World War, until now. Consumers today can make better decisions, can get more diverse products and services, many of them non-existent before the advent of the Internet.

4. Conclusions

Electronic commerce allows a more efficient allocation of money and resources. By reducing the time needed to perform transactions, online payments reduce the need for companies to retain working capital due to delays processing payments. Thus, the same money will be associated more economic activity. Enhanced competitiveness due to the expansion of online commerce may lead to an increased pace of innovation as enterprises try to distinguish their products and competitors. Electronic commerce is global market, representing an opportunity for many small businesses that otherwise would have had chances to capture significant market segments in different geographical areas.

Electronic commerce in Romania, although up to 2006 saw a relatively slow growth rate after 2008 was unavoidable and was directed to ensure a spectacular development. It continued an upward trend estimates regarding the number of online stores in Romania, as well as electronic transactions volumuli thus an exciting evolution of this phenomenon in our country.

5. Bibliography

[1] Baer W. - Electronic Commerce: status and trend, World Bank, noiembrie 2000, www.romcard.ro, accesat in 28.04.2010

[2] Rosca I. G., s.a. - Comertul electronic. Concepte, tehnologii si aplicatii [E-commerce. Concepts, technologies and applications], Bucharest, Editura Economica, Bucuresti, 2004.

[3] Vishwanath G. H.; Zinovy R. - Factors influencing e-commerce implementation: analysis of survey results, Journal of Academy of Business and Economics, martie, 2004

Should We Continue the Process of Researching for Business or Give it up Because of the Crises?

Săvescu Dan
„Transilvania" University of Braşov, Faculty of Technological Engineering
dsavescu@unitbv.ro
Sima Mihaela-Georgia
Bucharest Chamber of Commerce and Industry
georgiasima@yahoo.com
Bârsan Simona-Clara
Research Institute for Analytical Instrumentation of Cluj-Napoca
simonaclara_barsan@yahoo.com

Abstract

Paper presents the permanent process of research for business, its compulsory steps, the role of innovation and business incubators, as supporting element for SME's growth, especially in a crises period. Beside the facilities offered to SMEs, other benefits come from creating a business incubator, such as: developing innovative products, product design, prototyping, technological transfer and nevertheless, registration and exploitation of intellectual property rights, coming from the obtained products. All these contribute to the improvement of SMEs obtained results, reflecting into the national economy.

In order to be even more practical, we chose an example of a functional business incubator, ITA Pro-Energ, and showed the facilities that it offers to its eleven incubated SMEs, as well as their improvement on market position.

Key words: Incubator, technological transfer, business, sustainable, energy
J.E.L. classification: M 20, O10, O32

1. Introduction

The actual worldwide economic context forces SMEs, to adopt measures to enrich resistance to potential waves due to new arrangements of the actors involved - clients, suppliers, competitors, the state and government institutions.

Since the SME's are the providers for two third of working places, in Romania there is a permanent search for solutions in order to sustain them, by intensifying the contacts between Government, social partners, national bank and other factors (innovation and technological transfer network) that can contribute to defining a coherent politic for the field.

There are many factors that influence competitiveness, such as: material base, financial means, market information, skilled and competent staff, creative potential of human resources and expertise level of the company. Still, when you ask a manager about his business and the influencing factors, not many seem to realize that, somehow, not mentioning innovation, they leave out the most important instrument of development for their company. This happened even more recently, when nobody seems to care about anything else but paying wages and save what is left of their business.

Whether we are talking about developing new products or services or identification of the most efficient already existing methods of accomplishment, innovation brings added value to an organization. In the same time allows it to maintain or improve their market share.

Since innovation does not have the proper quotation in the life of a potential competitive company, we decided to emphasize its importance along the way and that of those sustaining it, entities like Technological and Business Incubators, showing how this will contribute to national economic recovery.

2. Case study-ITA PRO-ENERG

According to a definition of the European Committee, a Technological and Business Incubator is a place where, in a limited space, new created companies are concentrated. The incubators' objective is to increase, for these companies, the chances to grow up and survive time. This objective can be accomplished due to the supplying of modular spaces with common services (copiers, communication services, and computers) and an enrolment for specific services (production spaces having modern technology). The accent essentially is on local development and creation of new jobs, technological orientation coming second.

The Business Incubator represents a property initiative which assures a small office and/or manufacturing units for new or young companies. It usually assures a flexible work space for accessible prices, common services and direct affairs consulting, access to specialized assistance (such as support in R&D and risk capital) [5-9].

Business Incubators and Contractor Supporting Services help people to become independent due to their own small business. Contractors are persons who recognize the opportunities. Once an opportunity is identified, the contractor's action line will be drawn. In other words, Business Incubators promote an environment where the new business can develop.

Business Incubators transform an idea into an opportunity. Once the idea is moving, the contractor's way is open and it's time to look for the working instruments. These instruments include business analyses, management, marketing and technological support. They also include the business software, communication skills and presentation means.

It is important to mention that most of these studies have a basic form which is free of charge. If detailed studies are required, then taxes are applied, but they are still not as high as those practiced by other companies.

This is a part of the support offered to companies and it is done mostly through funds obtained from research projects.

The Incubation and Technological Transfer Program aim is to stimulate the sub-products (spin-off) and applications which develop the newest technologies in different research fields, all these in the actual context of R&D activities. One major objective is represented by the assurance that SMEs having no technologies now have opportunities to easily use advanced technologies. Another objective is to support the technologies' renewing and to help technology developers to learn from other sectors. Beside the spaces, the assistance includes affair's presentation inside a network dealing with business and technical consulting that promotes legislation in the field, marketing, engineering, design, relationships with financial institutions, access to universities' resources and new business opportunities in cooperation with other incubator's clients.

In order to become one of the selected potentially valuable businesses, assisted within an incubator, a company is submitted to a rigorous analysis. Its stages are: the analysis of the economic potential to be incubated; the selection of the incubated, depending on potential, interests, the activity field; incubation with a coherent and steady program of support / collaboration activities; making of the product in the phase of prototype; accreditation and technology transfer; consultation and logistic support; transfer from incubation to independent activity.

An example of well functioning business incubator is The Technological and Business Incubator "Products and Technologies for Sustainable Energy" (ITA Pro-Energ), build within "Transilvania" University of Brasov. It respects the Romanian G.D. no. 406/2003 and can assume obligations only to accomplish its goals and meaning. It's certified to work since February 2008, by the Romanian National Authority for Scientific Research (ANCS) and the Ministry of Education Research and Innovation (MECI).

ITA Pro-Energ is affiliated to: ARoTT – Romanian Agency for Technological Transfer; RENITT – The National Network for Innovation and Technological Transfer and an active participant in an international consortium that belongs to BISNET network, affiliated to the European Community.

It was created to initiate and develop innovative companies, based on advanced technologies in the field of Sustainable Energy, especially in: industrial processes'

energy efficiency, renewable energy systems and buildings' energy performance.

The strategic goals are:

- Consolidation of relations between the university and the economic environment to increase economic competitiveness in the field of sustainable energy at level of Region 7, especially for SMEs.
- Increase of the rhythm of implementation of innovative results due to enforcement of loading advanced technologies for energy efficiency, for buildings' thermal rehabilitation and for developing renewable energy systems by the economic environment.
- Efficient use of economic and human existent potential inside the university and close geographic area, its orientation toward advanced technologies in the field of sustainable energy.
- Development of competence level and entrepreneurial spirit, especially for young people from the university, and support for physical implementation of innovative ideas, limiting in this way the intelligence exodus.

Daily activity consists of:

- Incubation activities for investments and business;
- Activities of technological transfer and entrepreneurial formatting;
- Promotion of inventions and innovations;
- Development of entrepreneurial spirit to the specialists community, researchers, teachers, designers, students and also the stimulation of private initiative;
- Attraction of private investment in the field of research-development, creating new jobs in small companies;
- Knowledge dissemination – organizing seminaries, workshops, demonstrations;
- Consulting in business – analyses, offerings, partnerships assurance, promotion etc.;
- Specialized assistance – investments at product level, increasing efficiency for time to market;
- Innovative ideas promotion by means of projects [5], training for projects editing, getting finances due to projects, partnerships assurance, promotion etc.;
- Expressing of strategies for cooperation with local, regional and national authorities;
- Assurance of collaboration relationships with the staff of "Transilvania" University of Brasov, ANCS and research departments from the University.

Following its goals and the very essence of a business incubator, ITA Pro-Energ offers its incubated SMEs all sorts of facilities, helping companies to start-up and evolve, preparing them for the most important confrontation, that with the real, competitive market.

Due to its activities, besides common spaces, provides:

- accomplishment and promoting of activities in the field of sustainable energy;
- partnerships building and financial incomes through grants;
- logistic support for incubated companies and partnerships created in the national industry;
- prototyping and micro-production in the sustainable energy's field;
- testing and homologation for products and materials in the sustainable energy field;
- presentation of products, systems and results at fairs, exhibitions, symposiums and / or publishing of pornographies and scientific paper works;
- promotion of offers and necessities of incubated companies, innovations, inventions and technological transfer requiring systems through its own network and also through partnerships, at national and international level;
- the support needed by SMEs to remain successful in the competitive environment;
- human resources improvement, training courses, dedicated software; a company's level mainly depends on the company's accessibility to competitive human resources.

In present time, there are 7 real incubated SMEs and 4 virtually incubated ones. They all benefit from the facilities offered by the incubator and beyond any reasonable doubt, have developed, proved themselves on the market already (although the time since incubation started is quite short) and most definitely will maintain their share market in the future, if not conquer more and more of the specific activity field layer.

As incubated companies and activities objects there are:

- S.C. ECO TECHNOLOGY S.R.L.

Design, production, implementation of hydro-energetic systems.

- **S.C. THERMOFIX S.R.L.**

Design, selling, putting in order, maintenance, equipments for alternative energy (solar panels, PV panels, heating pumps, afferent equipments).

Design, and execution buildings, civil and industrial installations.

- **S.C. ORIENT EXPRES S.R.L.**

Design, selling, putting in order, maintenance for air and powders transfer equipments, equipments for alternative energy.

Design and execution of civil and industrial constructions and installations.

- **S.C.JIRMAN ENGINEERING S.R.L**.

Design, execution and implementation of wood houses and components.

- **S.C. ELETTRONIKA RESEARCH S.R.L.**

Design, execution and implementation of digital and analogical systems in telecommunications, personalized software, satellite telecommunications, research and develop DVBT2 apparatus and ATSC, control of intelligent mechanical systems for alternative energy.

As virtual incubated companies there are:

- **S.C. REGAL AMESER S.R.L.**

Design, execution, implementation for wind energy systems.

- **S.C. IDTECH S.R.L.**

Design, execution, implementation for civil and industrial constructions and installations.

- **S.C. CAMIRO ENGINEERING S.R.L.**

Design, execution, implementation for mechanical couplings with industrial practicability.

- **S.C. TECHNOLOGICAL, INVENTION AND BUSINESS CENTRE S.A.**

Design, execution, implementation for hydro and wind energy equipments, PV panels, prototypes.Regional Center for IPR, agreed by OSIM and EPO, partner with IP Department in Transilvania University of Braşov.

3. Conclusions

The research for viable businesses is a risky and exhausting job, but has a huge final reward: economic success.

The existence of business incubators near universities, research institutes, R&D platforms, definitely stimulates entrepreneurial initiative, improves the innovative spirit, and contributes to regional technological development and economic growth.

Big companies have their own resources, but they are distant in assuming the risks that comes from a quick development of the innovative field. SMEs are more flexible and, interested in sustaining innovative activities but, they have no human, material or financial sufficient resources that are vital for innovative process's ignition.

Through their services, the business incubators are a real supporting instrument for new-born SMEs, hopping to evolve to the rank of recognized competitiveness elements on the market.

The wordy example to be followed, ITA Pro-Energ, offers today to its incubated SMEs modern location, offices endowed with all needed facilities, training, consultancy (including on intellectual property rights), financial facilities, access to the micro-production and testing infrastructure, prototyping and micro-production workshop, modern manufacturing line for products in the field of sustainable energy, testing – homologations laboratory, material testing and characterizing laboratory,

What is not to be forgotten, since is very important for the entire economy, is the opportunity to technological transfer, TO/TR technologies or products. ITA Pro-Energ has directed its effort to perform this important operation especially in sustainable energy field, alternative solutions for heat pumps, wind turbines, PV panels.

Considering the fact that there is a national network available – 42 entities cooperating between them- the procedure should be fully exploited and extended to all economic regions, adapted of course to the local specific needs, so that the efforts, experience and money involved will not be wasted.

On the other hand, with all the good intentions of these entities, if the companies refuse to cooperate, have no open mind, do

not ask for help and support, have no tendency toward innovation and improvement, the results obtained, although forecast properly, will not rise up to the expectations or be nearly close to the needs of the Romanian economy.

So, if one thinks about the causes of the lack of performance in the Romanian economy, especially in these difficult times, will come naturally to the conclusion that all involved factors should cooperate and cannot through the guilt of failing only to one or some of the parts.

Besides that, the situation does not concern only the economic world, but the entire society, since all of us are affected by the effects of economic regression registered lately, so we consider that everybody should do something about it.

So, one could see our opinion in the matter, but the question still stands: what shall we do? What do you think? You all are a part of this business research.

4. References

[1] G. Atti, *Cheia succesului în afaceri 500+,* Editura Bravox, Braşov, 1992.

[2] Gh. Negoescu, *Risc şi certitudine în economia contemporană*, Editura Alter-Ego Cristian, Galați, 1995.

[3] I. Pițurescu, *Incubatoare de afaceri, Parcuri ştiințifice şi Tehnologice*, Editura Promotel, 2005.

[4] S. Spica, *Directory - Science Park and Innovation Center Association,* WEINDLER Buchverlag, Berlin, 2001.

[5] A. Duff, *Best Practice in Business Incubator Management,* Booragoon 6154, Western Australia, 2000.

[6] N. Naum, G. Bala, G. Năstase, „Centre de Inovare şi Afaceri", În: *Revista de Inventică şi Economie*, nr.23, 1998.

[7] I. Pițurescu, *Contribuții privind implementarea Incubatoarelor de Afaceri în industrie,* Teză de doctorat, Bucureşti, 2006.

[8] P. Cosic, G. Dukic, Journal article reference. *Journal of MOTSP*, 2009, vol. 1, no.1, p. 1-5

[9] G. Baric, Article in conference proceedings. *Proceedings of MOTSP 2009*, Sibenik, June 2009, p. 20-26.

[10] N. Dubreta, , a.o. *National parks in Croatia*, Publisher, City, 2009.

[11] D. Săvescu, "Technological and Business Incubators, a good opportunity in regional development". *Proceedings of 1st International Conference, MOTSP*, Sibenik, Croatia., 2009.

[12] D. Săvescu, "Technological and business incubators, a good opportunity in developing the technological regional transfer". *The 2nd Conference on Sustainable Energy, Section 4,* Braşov, 2008, CD-Rom, ISBN 978- 973-598-316-1.

[13] D. Săvescu, "Some aspects regarding the relationship between SMEs and the innovation process". *The 2nd Conference on Sustainable Energy, Section 4,* Braşov, 2008, CD-Rom , ISBN 978- 973-598- 316-1.

[14] D. Săvescu, "Regarding on a new concept in product design". *Proceedings of Tehnonav*, Ovidius University Press, Constanța 2008, CD-Rom, ISBN 978 – 973- 614-447-9, pag. 688-691.

[16] D. Săvescu, "Incubatoarele tehnologice şi de afaceri, motoare în dezvoltarea transferului tehnologic regional." *Simpozionul național cu participare internațională „Durabilitatea şi Fiabilitatea Sistemelor Mecanice", editia I,* Tg. Jiu, 2008, pag. 395-402, ISBN 978- 973- 144-180-1.

[17] * * *, *Ghid de lucru pentru intermediarii care sprijină transferul tehnologic la nivel local în România,* Sussex Technology Transfer Centre Ltd., 2006.

[18] * * *, *Stimularea Cererii de Tehnologie,* Comisia Uniunii Europene, Program PHARE, 1996

. A Statistic Financial Analysis and its Purpose in Decision-Making in Touristic Companies under the Present Economic Downturn

Secară Mirela
Nenciu Daniela
"Dimitrie Cantemir" Christian University of Bucharest
Faculty of Management Touristic and Commercial Constanta
mirela_secara@yahoo.com
nenciu75@yahoo.com

Abstract

Worldwide economic downturn has its deep impact on Romania as well, which is not yet a fully developed market economy, but one based on consumption and loan. Consequently, touristic domain has been affected, and it is important and necessary for managers in touristic industry to consider internal and international economic environment of tourism, by using statistic financial analysis to provide explicit financial reference that is also credible, appropriate and comparable at international level to support decision-making in a touristic company.

Key words: statistic financial analysis, worldwide economic downturn, tourism, qualitative analysis.
J.E.L. classification: L8; L83

1. Introduction

Economic development of today and the globalization phenomenon have determined a growing need of financial information. In the international and European context, the financial accountancy information need to be transparent and managers and investors need plain pertinent and comparable financial knowledge to support their decision-making.

These aspects are valuable for the field of tourism that is an industry taking advantage of very optimistic predictions for the future, its importance growing at world level, regionally, nationally and locally. Tourism brings an important contribution to the gross domestic product and to the value added tax, it has an important effect of production stimulation in various other fields, it generates new work place and it is the most important capital investor.

Worldwide economic downturn spread its effects on Romania as well, which does not yet have a fully developed market economy, but one based on consumption and loan. Implicitly, tourism has been affected in Romania, as part of the European area. European statistics claim that Romania has a low position considering the number of nights accommodated by foreign tourists in hotels here. According to Eurostat, the number of accommodated nights in Romanian hotels registered a decrease in 2009 with almost 22% than in 2008, reaching 2.5 million. The same statistic shows Spain with a number of accommodated nights of 141.6 million, Austria has 75.7 million, Italy has 102.2 million, Germany – 43.2 million and France – 63.8 million nights.

Under these circumstances, it is important and necessary for the managers in touristic industry to consider internal and international economic environment of tourism development, the study of internal organization and services' manner of operation, the analysis of strong and weak points, the opportunities and risks of touristic activity.

The efficiency of decision-making process is directly linked with the nature, quality, periodicity and volume of information available to the decision-maker. Financial reports and especially financial-accountancy reports are the kind of documentation situated at the basis of diagnosis of the financial situation and tourism lucrativeness; they allow investigation, confirmation and information of strong and weak points in manifestation of tourism functions.

2. Content and types of economic-statistic analysis and financial analysis at the company level

Economic-statistic analysis is a manner of research of the economic processes and phenomena, based on deconstruction of one phenomenon in its component parts. Considering the specificity of the touristic field, each component has to be analyzed, causality relationships are established and the factors generating them, conclusions are drawn and the future activity framework is outlined[1].

The economic-statistic analysis is a research of the activities or phenomena from din economic and social points of view, and the resource consumption and obtained results. In the economical-statistic analysis, also important are the structural-functional relationships of cause-effect that refer, besides the economic activity to the technical, social, administrative activity etc.

The complexity of cause-effect relationships is amplified in the analysis of economical-social phenomena because of the heterogeneous aspect of this domain. Main aspects of the analysis of causality relationships are the following: the same effect can be generated by different causes, the same cause can rise different effects that can combine themselves leading to a result of the complex of actions and forces, the complexity of the cause can determine not only the intensity of given phenomenon, but its quality.

In specialized documentation there are several classification criteria of the economic statistic analysis with some mentioned below[1]:

- According to the relationship between the moment of analysis and the moment of phenomenon occurrence, we can mention as:

post-factum analysis (analysis of the activity or analysis of the objective completion); predictability or prospective analysis based on prognosis models.

- From the point of view of essential trait follow-up or of quantitative investigation of phenomena, we can mention: qualitative analysis – it assumes a systemic approach of phenomena, cybernetic research that finally leads to elaboration of models in which the elements, factors and interdependence links of phenomena are presented; quantitative analysis – requires the research of the phenomenon by means of numeric determinations expressed in definite measurement units (physical and accounting). Within quantitative analysis, modern mathematical methods are being used nowadays.

- According to level of analysis development, we can mention: micro-economical analysis – it is developed at company level and its elements as part of a system. Micro-economical analysis studies each company policy in the economic activity as well as the obtained results; macro-economical analysis – it studies the phenomena at the level of economic branches, national economy and world economy, operating mainly with global or aggregated indicators.

- According to specifics of phenomena research we can mention: statistic-economic analysis – it uses the classical statistic methods and models, yet adapted to the specificity of developed activity (aggregation procedure leads to determination of level indicators – in absolute expression – referring to: capital amount, amount of labor force, expenses amount etc.; selective research methods as: determination of sample amount, option for a selection procedure, evaluation of poll errors etc.); economic-financial analysis – of correlations in the economic activity (of exploitation, financial and exceptional); financial analysis – considers the financial flows that form at the company level, patrimony management and capital investment. The statistic-economic analysis at touristic company level concerns mainly[3]: procession of accountancy information and calculation of financial indicators, interpretation and evaluation of financial-economic indicators, of financial performances, of the risks and explanation of obtained results, a dynamic analysis of touristic circulation and calculation of indicators that characterizes chronological series, the setting of premises concerning future activity that are necessary to predictions, prognosis calculations, prospect of touristic demand according to competition, market research and needs that are at the basis of touristic services consumption.

An important role of the economic-financial analysis is that of the efficiency of touristic activity that means appropriate use of assets, energy and fuel, labor force and natural attractions, as well as the integral use of accommodation capacities, transport means, restaurants etc. or financial funds[4]. At the same time, efficiency means the necessity of some expenses – of introducing new technologies of production, development and modernization, and the extent that the developed activities meet tourists' demands and are available to them under optimum circumstances.

3. Conclusions

Statistical-economic analysis performed at the level of touristic company provides useful information to company management to meet the needs of touristic demand, to connect dynamically the company to the economical-social environment, to adapt to acknowledged trends in its evolution with a view to prevent bad influences and especially to capitalize external opportunities, to maximize profit by appropriate allocation of resources and optimization of development of the whole link of economical processes.

According to the connection between supply and demand, each company conducts studies and analyses that target investment and management of capital into efficient future activities. A modern company cannot develop its activity efficiently unless it is organized to allow decision-makers to take decisions – especially those of operative character – whose result is the elimination of negative aspects, the capitalization of existing reserves, the continuous improvement of efficiency and all the above under the circumstances of results' adaptability to market requirements[2].

4. Bibliography

[1] Cristache Silvia Elena**,** *Metode statistice de calcul şi analiză a eficienţei economice în comerţ,* ASE Publishing House, Bucharest, 2003.

[2] Lungu Ion, Secară Mirela, Ceauşescu Andreea, *Analiză economico financiară*, Ex Ponto Publishing House, Constanţa, 2004.

[3] Biji Elena Maria, Secară Mirela, Popa Gratiela, *Statistica*, Publishing House - Ex Ponto, Constanta, 2006.

[4] Secară Mirela, *Analiza eficienţei economice şi sociale a turismului balnear din zona litoralului românesc al Mării Negre*, Magazine of Oradea University Annals, Economic Sciences, vol II Economy and Business Administration, TOM XVII, 2008.

The Effects of the Crises on Human Resorces and their Management

Sima Mihaela-Georgia
Bucharest Chamber of Commerce and Industry
georgiasima@yahoo.com
Cruceru Raluca
"Prof. dr. Matei Bals"Institute of Infectious Diseases
raluca11c@yahoo.com

Abstract

The present paper deals with the specific picture on human resources, regarded from two viewpoints: the national available viewpoint and the managers viewpoint. It continues with the diferences between what comes out of school and what the labor market requires, the problems encountered in the field of HR in the last two years within the companies functioning on the romanian market, some of the solutions proposed and their effect on the romanian labor force.

Key words: Human Resources evaluation, efficiency, impact
J.E.L. classification: J01, J21, J23, J24, M12, M54

1. Introduction

The human resources subject is always a sensitive one, since we talk about us.

Generally there are two sides: the employers and the employees, each with a correct point of view, if you consider only its side of the problem.

The smart choices of a manager are those that manage to fix both sides of the story, with reasonable resource exploitation and minimum bad effects.

In a crises time, the situation changes, since the risks are higher and personal behavior control is diminished because of the higher threats and uncertainties.

2. Problems and solutions for the present situation

The evaluation of the present human resources situation has emphasized the following strong points: good quality of human resources, trained and rather cheap labor force, with creative and innovative skills, the education system, despite the weak connection with the business sector, is well distributed in Romania and has infrastructure, institutions and good trained human resources in the strategic fields (IT&C, textiles, wood, engineering), a remarkable number of foreign language speakers concentrated in big cities and trained specialists with key roles in multinational companies.

The weak points are yet numerous: lack of synchronizing, communication and cooperation between companies, research centers and public sector, weak communication and connection between the needs of the business sector and curricula of the education system, not enough business networking in order to create clusters, marketing centers, lack of understanding the need of control and certification, insufficient industries' capacities (IT, ecologic agriculture, food processing) to absorb the European financing because of low demand and entrepreneurial capacities.

The opportunities are given mainly by the Romanian integration into the European Union which opened the access to the research and education infrastructure and legislative background. The research and education are gradually more connected to production; good foreign language knowledge encourages the development of delocalized services.

The threats are connected with brain drain, especially in the IT field, engineers, medical field; the lack of a good industrial design school; the focus of the human resources on unqualified activities with low income, companies' lack of interest in valorizing the research-development and innovation

activities.

This is the nationally available SWOT, regarded from the viewpoint of specialists dealing with social economic studies.

Besides that, if you ask for human resources managers' opinion, the following problems are revealed:

Need to reduce staff costs

The dismissal of the employees is the first thought that most of the managers have. Even if it is the simplest and most conventional solution, restructuring should be the last option on the list of employers to appeal to when all other possibilities have been exhausted.

In recent months, several companies have announced massive layoffs amid declining activities.

If you consider the national situation, according to ANOFM, this brings in front the following:

The unemployment rate in August was 7.39% compared to 7.43% in July 2010 and 6.6% in the same month of 2009. The total number of unemployed recorded in county agencies for employment was 675,790 persons, out of which 289 490 are women.

The counties with recorded rate below nationwide of unemployment were: Ilfov 2.69%, Bucharest 2.79%, Timis 4.28%, Constanta 5.11%, Arad 5.59%, Cluj 5.87%, Botosani 5.91%, Bihor 6.04%, Sibiu 6.08%, Satu Mare 6.23%, Maramures 6.66%, Bistrita 7.06%, Tulcea 7.27%, Iasi 7.36%.

The highest rate of unemployment was registered in the districts of Brasov 7.60%, Vrancea 7.67%, Suceava 7.70%, Arges 7.71%, Olt 7.73%, 8.11% Salaj, Braila 8.18%, Mures 8.30%, Calarasi 8.45%, Bacau 8.56%, Dambovita 8.70%, Harghita 8.74%, 8.87% Giurgiu, Neamt 9.01%, Caras Severin 9.39%, Buzau 9.53%, Valcea 9.59%, Galati 10.17%, Hunedoara 10.17%, Prahova 10.27%, Alba 10.29%, Dolj 10.41%, Ialomita 10.58%, Gorj 10.89%, Covasna 11.19%, Vaslui 11.64%, Teleorman 11.86%.

Of the unemployed registered nationwide, 327,144 are unemployed paid and 348.646 are unpaid. It should also be noted that the unemployment rate among women was 6.84%.

Precisely in such periods, the essential role of human resource specialists is to propose alternative solutions, before the managers reach to the final option, the dismissal of the employees.

Some of these were already implemented and operating efficiently, with important effects on the professional and most important, on the personal life of the people submitted to them.

These solutions include:

Review salary benefits package, which does not necessarily mean lower wages. One can give up those benefits implying high costs for the company and less valuable for the employees (giving up subscriptions to fitness centers, reducing personal mobile service ceilings etc.).

This was experimented on medium and big size companies.

In the beginning people felt disappointed by the management's decision, but they realized that it was the advisable option, instead of cutting of wages.

Job sharing. An employer who has two secretaries and realizes that he needs only one can reduce their timetable from 8 hours per day to 4 hours per day for each of them in order not to have to operate any redundancy and reduce labor costs at half;

Reducing the number of vacation days, that means a cost reduction;

Although costly efficient, this solution proved not to be admissible on a long term run, since employees get tired even more then they were before and have less time to recover. This would definitely lead to diminished efficiency in time.

Waiver of premium money and appealing to a simpler and less expensive reward: luncheon vouchers or gift vouchers whose value is deducted from income tax.

This is a solution that really worked out just fine for everybody, until recently applied taxes on these vouchers, that determined the employers to decide they are not helpful anymore and started to cut them off.

Appealing to technique lay-off, covered by GEO no.4/2010 which enables employees to benefit from an allowance of 75% of their normal salary and the employer is exempt from social contributions up to a period of 90 days.

This was the most utilized method, with real effects on the economic life of the company, starting from January 2010, spreading it on more than three months. For

example, most of them utilized 10 up to 15 days/month, helping the company's finances for six months.

The period of performed services by workers who, because of age, have specific needs.

Declining birth rates and aging were important factors that contributed to a worsening staffing crisis. The new generation is not willing to move towards occupations involving a lot of practical training, high physical effort and low wages.

Identify balance between work and personal life

23% of employees work 10-12 hours a day, 66% do overtime, and 45% of them feel exhausted because of their job. However, 85% are satisfied with the program, 78% of workload, 59% of the salary and 82% say they are pleased with the relationship with their superiors.

The Romanian employee seems to be the most beautiful embodiment of employer's expectations: works a lot, is pleased with his salary and colleagues, work overtime on their own initiative, and if faced with a breach in their jobs, 23% are likely not to do anything about it. This is the portrait of the Romanian employees, as it follows a survey of the Romanian Institute for Evaluation and Strategy (IRES).

Talent management in the organization

Major problems encountered the young people that return to their native country after attending specializations in prestigious institutions abroad. They have good and solid knowledge but less experience. They want to be promoted into management positions, but most companies have not implemented programs to develop their career and they are not willing to pay the required wages. Employers say that these candidates have exaggerated expectations for the Romanian market. They ask for 20% higher wages than they had abroad. The only companies that can make good offers are the big ones working in telecommunications, pharmaceuticals, services, because of their big profits.

Because of that, some of them end up leaving abroad, which proved to be harmfull for the level of knowledge in different fields. It is also an impediment in the process of introducing innovative methods in the romanian working system, used to improve it, by adapting to the real needs of the market, but using new, less expensive methods.

Developing leadership skills

Some managers in Romania have started to get a good education and business experience. Many have attended training courses and programs and have benefited from practice in prestigious companies abroad. A large number of managers of human resources, finance, procurement and logistics actually worked on top management companies in Central and Western Europe. After gaining experience in that host country, they have returned to their native one to a high position such as General Manager, becoming responsible for the mother company's extension and work undertaken by these companies in Eastern Europe.

That is the opposite site of the problem mentioned before. In fact, they are the ones who manage to upgrade something in their companies, to change for better the course of action.

Still, in most companies there are records of bad management due to the low level of employees trust in the company they work in. This leads to lower performance among employees. The alternative some employers adopt, namely to "whip the people", is not the best solution in times of crisis. In this situation, they should redefine the performance criteria.

Proactive vision on costs reduction, setting ambitious goals among employees and adopting a system of recognition of their merits are gaps of panic managers facing precarious situation.

Managers must turn toward capital investments and marginal business development that could support organization-wide performance. Is a change of vision or goals required? If one can change goals or vision, then all other processes within the company can be changed.

Equally important is how the message is sent to the employees. If you send a negative message like "I want to survive", or a positive one such as" I want to build something that means development or growth of the company within today's market", it makes a huge difference.

The current problems have not identified a financial crisis, but a leadership one among managers.

So, if one considers the effect on the human resources crises, from the leadership viewpoint, you can only say that, besides their proven ineficiency, they also took advantage on the general obsesion that nothing will be able to improve because we are in a crises period.

4. Conclusions

SMEs human resources development must be sustained (managerial and operational) in order to adapt them to structural changes within the labor market and Romania's strategic priorities to achieve progressively the medium level of development from EU Member States, with accent on managerial skills development, quality management, human resources and assistance on human resources development (development of human resources strategies, training needs evaluation, training plans, exchange of best practices in human resource development).

Innovative ideas should be used to create a better economic performance, instead of rejeacting them.

Looking upon the facts, one might say that many suplimentary problems apper, compared to the before crises period, some solutions were found and applied.

Each of them had a certain effect on the population: some helped people to at least maintain their financial security level, some to have a diminished income, but still have one and others put people in a bad situation, since they end up with no income.

It is said that every war has its victims, only this one is actually efecting everybody, since we are not responsable in general just for us.

It is to be appreciated that managers did, and still do, search for alternative solutions and we think that this is an example that needs to be perpetuated for the benefit of everybody.

5. References

[1] S. Adirondack, *Managementul pur şi simplu?* Ed. F.D.S.C. , Bucureşti, 1999

[2] C. Carnal, *Managing change in organizations*, London 1998;

[3] D. Cristea, *Tratat de psihologie socială*, Ed. Pro Transilvania, Bucureşti, 2000;

[4] C. Grey, *Management as a technical practice: Professionalization or responsibilization?* Systemic Practice and Action Research, Volume 10, Issue 6, 1997, Pag. 703 – 725;

[5] G. Johns, *Comportamentul organizațional*, Ed. Economică, Bucureşti, 1998;

[6] *** *http://www.anofm.ro/comunicat-de-presa-privind-situatia-somajului-pe-luna-august-2010*

The Accountancy Profession in the Context of Global Financial Crisis

Socea Alexandra-Daniela
"Alexandru Ioan Cuza" University of Iaşi
alexandra.socea@yahoo.com

Abstract

There is no human progress without the development of markets, and this implies the existence of professional accountants. Therefore, accountants satisfy general interest.

The financial and accounting scandals that culminated with the collapse of large corporations have had an important impact, on the economy and the accountancy profession, at international level. Accounting information quality degradation as a result of such events led to the deterioration of the specialists image. The globalization of world economy requires that the accountancy profession to be prepared for the future, to cope with a set of priorities aimed at ensuring proper communication, able to meet the requirements propagated to and by the users of financial accounting information. By its nature and objectives, the accountancy profession has a responsibility in the complex world of business.

In the context of the global financial crisis with effects throughout the economy, the independence, integrity, objectivity and professionalism of the specialist, that produces the accounting information, are absolutely necessary. Essential for the health of the economic environment, these values lead to true and fair view and generates the credibility of business partner.

Key words: accountancy profession, professional accountant, regulation, deontology, professional ethics
J.E.L. classification: M41

1. Introduction

The paper intends to identify the role of the accountancy profession in the context of the global financial crisis.

Such an approach requires first a few clarifications on the concept of the accountancy profession: meanings of the term, similarities and differences compared to other professions, etc. We consider also issues concerning the regulation of the accountancy profession, some aspects of the accountancy profession ethics, the profession's challenges.

Considering the implications of the accountancy profession throughout the economy, the topic is one of present interest. The approach is based on consulting the literature and formulating personal opinions rigorously substantiated.

The humanity is presently affected by a global financial crisis. Bankruptcies of large companies, small companies decline or extinction, significantly reducing revenues, increasing unemployment and degree of indebtedness, outlines an economic situation characterized by instability and uncertainty. In the short term, there is no magic formula for such complex problems. Faced with such circumstances, the accountancy profession could not stay immune. We consider that it occupies an important place in economic and social life.

The synthesis and accounting reporting documents represents a business card, and the professional accountant is its artisan. The enterprises development depends on their cost of capital, and the latter depends on the confidence in financial informations, the quality of professional accountants work.

2. Considerations on the concept of accountancy profession

A profession is individualized based on certain characteristics, which include the following elements:

- mastery of intellectual skills acquired through training and vocational education;

- adhesion by its members to a common code of values and behavior, set by the professional body, which includes maintaining an image, essentially objective;
- accepting the existence of duties to society.

Experts consider that the accountancy profession concept can be approached from two points of view: [4]

- *in the wider sense,* the accountancy profession includes all economic experts, whose activity is wholly circumscribe or at least preponderant the applied accounting, namely: people who lead and organize the accounting of economic agents, financial and accounting departments workers, administration control bodies, persons authorized to verify, analyze and evaluate the accounting work and certify its regularity and sincerity;
- *in the narrow sense,* the accountancy profession refers only to dedicated professionals and public certified by administrative authorities or official business court, performing inspection and certification of annual accounts, accounting advisory, supervising of the economic agents management, judicial and extrajudicial accounting expertises.

We also mention that the accountancy profession means, increasingly, the liberal accountancy profession, that profession pursued by liberal professionals, or defined through a more accurate expression of self-employed accountants.

Liberal professions are seen as independent professions, non-commercial, unconnected with any speculative spirit, set in bodies, companies or rooms with self-regulatory and disciplinary powers, socially recognized by promoting their own rules to execute their missions given in responsability, but also the rules of professional ethics. [1]

The accounting profession is distinguished from other professions by assuming responsibility for the public interest, stakeholders: shareholders, employees, suppliers, creditors, banks, budget, national accounts, stock exchange bodies, investors etc.

Professional accountants have a key role in regulating economic systems. Limiting the regulation at two functions, reducing information asymmetry and increasing markets efficiency, it is easy to delimit the role of professional accountants: on the one hand, they are the ones that ensure reliability of accounting information, and on the other hand, they have knowledge and experience in different areas of enterprises management.

3. The regulation of the accountancy profession

How the accountancy profession should be regulated has been the subject of many debates in recent years. There have been many changes, because the accountants, their clients, the professional bodies and the governments want to ensure that the accountancy profession continues to provide high quality services and contributes to global economic growth and development.

While individual members of the accountancy profession have an obligation to serve the public interest, professional bodies have a specific responsibility and an essential role that can be found in the three fundamental objectives of the professional bodies: [11]

- education: ensuring continuous professional development of their members;
- ethics: deontological behavior of their members;
- quality: certification of services quality of their members.

To achieve these objectives, the professional organizations should support and promote high-level professional practices, including through legislation, to their members. A profession, in general, is defined and judged by the knowledge, skills, attitudes and ethics of those involved in this profession. The regulation of a profession is a definite answer to the need for reliable standards, performed by the members of that profession. The need for regulation and its nature depends on:

- the profession itself, its ability to effectively and efficiently meet economic and social demands;
- the market conditions where the profession activates;

- the quality of services provided by its members.

The regulation of the accountancy profession covers the following areas: the access requirements and the certification or licensing, the continuing education requirements, monitoring the behavior of professional accountants, the professional and ethical standards, the disciplinary systems and procedures.

A well-drafted legislation will provide the assurance that the nature and quality of accounting services meet both beneficiaries needs and those of the economy in general.

We appreciate that the legislation is important, but not sufficient and may not be fully effective unless it is accompanied by a professional accountant's ethical behavior, which ultimately is the guarantee of good services and quality.

4. Some references on deontology and ethics of the accountancy profession

The accountancy profession is characterized by a balance between theory and professional experience, resulting from the values that shape the nature of this profession: a profession with special responsibilities for the values management and the decisions concerning the company's management. The accountancy profession is: [10]

- *an art,* as assumes by those who practice a number of personal qualities, special capabilities, which develops skills and abilities through education, and formes the necessary talent to act in a variety of situations;
- *a science,* because it developed over time personal ideas, principles and operational concepts;
- *a profession,* because it takes into account all the attributes of a profession: a body of expertise, common values and symbols, a long-term activity serving the needs of society, personal legal system and ethical dimension, a specific professional profile.

The accounting deontology expresses all the rules and practices governing the relations between the professional accountant, producer of the accounting information and its user. It is the art of exemplary performance of professional duties. [5]

The professional accountant must impose upon himself through deontological behavior, a working manner compatible with good reputation of the profession, avoiding any activity that might harm this reputation. The professional accountants behavior must be based on: integrity, objectivity, independence, professional secrecy, professionalism and professional competence.

Integrity, as a basic principle, expresses conceptual the requirement of the professional accountant to show honesty and uniformity in the professional and business relationships.

Objectivity is the expression of professional obligation not to compromise the image of the profession because of errors, conflicts of interests, undue influence and pressures of the external environment.

Professional competence and prudence refers to the professional accounting incumbency to hold a solid level of knowledge, which ground in a responsible manner the professional reasoning underlying the opinions expressed by this one. The observance of this principle implies a steady approach of the professional accountant, oriented towards maintaining professional knowledge and skills, so that users can be assured of a perfect professional competence.

Confidentiality, as a principle, imposes to professional accountants the refrain from using confidential informations during execution of the mission, for personal or third person advantage, as well as the disclosure of confidential informations outside the organization.

Professional behavior requires equally honor and loyalty, the obligation of professional accountants to comply with relevant laws and regulations and to avoid actions that may discredit the accountancy profession.

Professional ethics does not allow unfaithfulnesses or violations, the person who commits such a deed is not a professional who is wrong, it's just a person who does not act like a professional. [2]

5. Challenges of the accountancy profession

The accountancy profession has seen remarkable progress, but nonetheless experienced a period of crisis, has lost some credibility as a result of ethics mistakes and errors of government of the world's largest companies such as Enron, WorldCom or Parmalat.

The accountancy profession faces a number of changes in attitudes, which are *challenges* to be taken into consideration, both by the normalized and professional bodies. [1]

One of these challenges concerns the elaboration of accounting standards and requires the substantiation of normalization process based on principles rather than rules. A principles-based approach requires that both companies and their auditors should exercise the professional discernment in public interest. Clear principles, supplemented by certain rules of proper application in particular cases, provide more benefits as conceptual basis for issuing standards than detailed rules.

Another challenge relates to the needs of global financial information, reflected in the shift from the concept of harmonization to convergence.

A third challenge concerns a new approach of the position of professional accountants independence and an increased attention to compliance with principle of integrity deontology.

Also a challenge is implementing the concept and operation of ever larger corporate governance mechanisms. The concept of corporate governance defines the whole principles, rules and regulations which ensure the management of enterprises, in the interests of current and potential investors in those entities.

Another challenge relates to the impact of new developments in information technology on the accountancy profession. The new companies aspiration is to become "intelligent". The intelligence sought by the modern economy is a substitute for human intelligence, or assist the latter.

The modern enterprise will operate in a global computerized environment. The company's accounting information system, defined as the set of human and capital resources from an organization that deals with the preparation of accounting informations and also collecting and processing economic transactions, will become more computerized and will be based on an information system with a growing share. [9]

For the accountancy profession, the acquisition of skills in line with modern technologies is essential.

6. Conclusions

Professional accountants provide a representation of business reality, which underlies the decision-making process and influence the distribution of wealth in society. Although they represent private interests of a client, they must take into account the social mandate given under which they exercise their profession.

Professional accountants should act in the public interest to contribute to a fair distribution of wealth between different social actors, thus providing a climate of confidence for the society in the accounting information and business environment. [8]

The accountant is regarded in the literature as a professional of the information in conjunction with the existing economic model at a time in society. The professional accountant relationship with society and implicitly, the business environment is dynamic. Therefore, he must pay attention to changes that have occurred in the economic environment, to maintain his social statute. Some studies examine the potential for continued professional accountant statute in society. [3] In this context, the elements that define a profession are: the holding of practical skills based on theoretical knowledge, ensuring professional training, skills testing, the profession organisation, adhering to a code of ethical behavior, etc. Of these, the knowledge held is shown as the main underlying attribute of a profession.

There are three trends that characterize the world's accounting profession today: [7]

- the formation of an "universal" professional accountant, on the globalization background of accounting normalization;
- the increasing role and responsibility of the professional accountant in the enterprise efficient governance;

- the professional judgments importance in producing and reporting the accounting information.

The specialized studies highlight the importance of accounting in enterprise governance. [12] We consider that between company governance and accounting, as the main source of information there is a biunivocal connection, meaning that the governance mechanisms ensure the reliability of accounting information and a quality information enables an effective governance.

We believe that, although the elaboration of a company's accounting image involves more than one part, the professional accountant continues to fulfill a major role in producing and reporting the financial and accounting informations. In the professional practice, he must take into account the deontology and good application of the rules and professional judgments based on shaped reality.

In the context of business globalization, we find out that contemporary accountancy profession crosses a process of conversion, with the aim of forming an "universal" professional accountant. [7] This will build the accounting image of the company, relying on a regulatory accounting referential applied on a global scale, aiming to provide quality informations.

As environmental sustainability and social and economic performance have become vital business concepts, the accountancy profession must be in line with the tasks of providing the services needed for reporting and for ensure reporting on corporate social responsibility. [2]

The financial language that professional accountants use must do more than communicate variables related to profit and loss, it must provide objective methods for quantifying the enterprises values in terms of the common good.

Professional accountants should be alert at all times to the needs of market and of community in general, and to identify which of these are related to their specific skills. Is necessary to adapt services and create new ones to meet those needs. Knowledge and skills will remain a key factor in future relevance of the profession.

The professional accountant is a person authorized and competent in solving the most complex problems generated by the current crisis: the management of declining resources, promoting "crash" solutions to avoid bankruptcy of enterprise, risk management advice, establishing options for optimal use of treasury, regulatory and financial discipline compliance, completed by a fair summary in the synthesis and accounting reporting documents. [6]

IFAC and IASB rules specify that in this century, the accountancy profession must become a proactive mentor in economic growth and development, whatever the factors that are in the path of economic progress and of the professional accountant:

- the existence of corruption and fraud;
- the questionable quality of some settlements;
- IT insufficient development;
- the reduction of available resources;
- the shortage of capital;
- the dependence on foreign energy resources;
- the political instability;
- problems of behavior, mentality, culture and tradition, etc.

In the context of global financial crisis with effects throughout the economy, the independence, integrity, objectivity and professionalism of the specialist, that produces the accounting information, are absolutely necessary.

7. Acknowledgements

This work was supported by the the European Social Fund in Romania, under the responsibility of the Managing Authority for the Sectoral Operational Programme for Human Resources Development 2007-2013 [grant POSDRU/88/1.5/S/47646]

8. References

[4] D. Botez, *Tradiții, actualități şi perspective ale profesiunii contabile din România,* Sedcom Libris Publishing House, Iaşi, 2005.

[5] Congresul al XVII-lea al Profesiei Contabile din România *„Profesia contabilă între reglementare şi interesul public",* Discursul domnului Fermin del Valle, preşedintele IFAC, CECCAR Publishing House, Bucureşti, 2008, pp. 70-71.

[6] R.K. Elliot, P.D. Jacobson, „The evolution of the knowledge profesional", *Accounting Horizons,* vol. 16, no.1, 2002.

[7] I. Florea, M. Boulescu, „Profesia de expert contabil şi contabil autorizat în economia de piaţă", Expunere la Congresul al VIII-lea al profesiunii contabile din România, CECCAR Publishing House, Bucureşti, 1994.

[8] E. Horomnea, *Fundamentele ştiinţifice ale contabilităţii. Doctrină. Concepte. Lexicon,* 2nd edition, Tipo Moldova Publishing House, Iaşi, 2010.

[9] E. Horomnea, *Audit financiar. Concepte. Standarde. Norme,* Alfa Publishing House , Iaşi, 2010.

[10] I. Ionaşcu, „Mutaţii în exercitarea profesiei contabile în lumea contemporană", Congresul al XVI-lea al profesiei contabile din România *„Profesia contabilă şi Globalizarea",* CECCAR Publishing House, Bucureşti, 2006, pp. 534-541.

[11] M. Ionaşcu, „Profesia contabilă, mediul de afaceri şi societatea: o perspectivă postmodernă", Congresul al XVI-lea al profesiei contabile din România *„Profesia contabilă şi Globalizarea",* CECCAR Publishing House, Bucureşti, 2006, pp. 526-533.

[12] D. Oprea, *Premisele şi consecinţele informatizării contabilităţii,* Graphix Publishing House, Iaşi, 1995.

[13] D. Rada, *Doctrina şi deontologia profesiei contabile,* Mirton Publishing House, Timişoara, 2009.

[14] M. Toma, J. Potdevin, *Elemente de doctrină şi deontologie a profesiei contabile,* CECCAR Publishing House, Bucureşti, 2008.

S. Trébucq, „De l'idéologie et de la philosophie en gouvernance d'entreprise", *Revue Française de Gestion,* vol. 31, no. 158, 2005

The Balance Sheet and the Financial Position of the Enterprise

Socea Alexandra-Daniela
"Alexandru Ioan Cuza" University of Iaşi
alexandra.socea@yahoo.com

Abstract

In terms of recording substantial improvements in communications, technology and economy, the interest in accounting information tends to become increasingly larger. Because of trade barriers disappearance and intensifying international economic competition, macroeconomic data and general informations are not sufficient to substantiate the decisions. The attention is directed to specific informations about enterprises, in the interest zone of investors.

In this context, the balance sheet has a major role as a tool that reflects the company's financial position. Through the balance sheet as synthesis document, can be presented systematically, in a desired structure or imposed by accounting settlements, the patrimonial assets and liabilities. Through analysis and interpretation, the balance sheet values get their real meaning, able to provide relevant informations about the company's financial position.

Even if the balance sheet presents some limits, the dynamic analysis of several successive balance sheets can be a basis for designing the forecast balance sheets, thus contributing to the financial decision and conduct of business in the future. In this way, the balance sheet will ensure transparency and quality of information on the company's financial position.

Key words: balance sheet, financial position, financial position analyse, annual financial statements, users
J.E.L. classification: M41

1. Introduction

The paper envisages the appreciation of the balance sheet as a tool that reflects the company's financial position.

Our approach takes into account issues relating to annual financial statements and provided accounting information, the meanings of the balance sheet, the different views of users of accounting information on the financial position, possibilities and limits of the balance sheet.

The topic of present interest is very important, especially if we consider the importance of the balance sheet as a synthesis and accounting reporting document. The approach is based on consulting the literature and formulating personal opinions rigorously substantiated.

It is obvious that each user wants to have informations that would reduce uncertainty and give him the opportunity to make the best decisions. In fact, these requirements designate the need of accounting to produce quality informations. Some studies suggest that higher quality financial reporting should increase investment efficiency. [1]

In the first printed paper of accounting of the mathematician scientist Luca Paciolo, entitled "Summa de Arithmetica, Geometria, Proportioni et Proportionalita" (Venice, 1494), are presented the double entry accounting principles and the need to prepare the balance sheet.

2. The accounting information provided by the annual financial statements

An accurate information, held at the appropriate time is a true power factor.

The accounting informations result from processing and interpretation through accounting logic of the values movements generated by economic activities. They must be real, understandable, relevant, complete, useful, consistent and verifiable. The qualitative features are attributes that determine the usefulness of accounting information. They influence the economic decisions of users, helping them evaluate

past, present or future events, to confirm or correct their previous evaluations. [22]

The accounting information may not meet the highest possible rates of characteristics, but to be useful in decision making process, it must possess, at least partially, each of the qualities that define it. [6]

Like other resources, the information could have an immediately strategic usefulness or it can be a fundamental responsibility to expand the field of enterprises opportunities. [2]

The annual financial statements represent the basic documents for publishing the accounting information, providing the dates needed to determine the conditions under which an organisation operates and evolves over time. They are a basic tool in economic and financial decisions at the management level.

Preparation of financial statements requires an exercise of judgement, which in combination with the flexibility in financial reporting, offer to companies a certain amount of leeway in the implementation of accounting standards, which may give rise to opportunistic situations. [12]

The financial statements represent the financial reporting documents, which indicate at some point the size of real and monetary flows of an economic entity, from its relations with the outside and from internal activity. Thus, the financial statements allow understanding th operation of the patrimonial unit subsystem.

In this context, given the objectives of users and decisions they must substantiate, the financial statements demonstrate their *usefulness* through:[15]

- represent a means of management and analysis, being the "mirror" of entity;
- constitute the primary means of informing the current and potential investors, the business partners and the general public interested in the company's activity;
- represent a base for calculating the macroeconomic and sectoral indicators and developing forecasts by synthetic dates they provide on patrimony and results of all entities.

3. The balance sheet – conceptual delimitations

The generalization of the balance sheet practice takes place with the widespread deployment of business organization as capital companies (joint stock companies), in the XIX-th century. Their administrators had (in some cases were even required by law) to inform its shareholders regularly on business patrimony. [13]

The balance sheet ensures the synthesis and generalization of dates on the state patrimony and results. If through the account and system accounts it is described and analyzed the morphology of the economic and financial structure of the patrimony, through the balance sheet is made syntax of the same structure.

As a description and estimation of the enterprise's patrimony, the balance sheet meets the requirements of the capital stock contributors. [4]

Erich Helfert believes that the balance sheet includes all categories of assets (the resources used) that business has at a time (the date of its preparation), as well as the total debts to shareholders and creditors (the funding sources). [9]

Bernard Esnault and Christian Hoarau indicate that the balance sheet is a synthesis financial statement which sets out the assets of the enterprise and can be presented as a double aspect: legal or economic and financial. [5]

The french professor Pierre Vernimmen mention that the balance sheet "describes the company's assets and liabilities and makes a distinct appearance the shareholders equity". [21]

The literature states that the balance sheet highlights the causal relationship between assets and values, in general, as objects of rights and obligations, on the one hand, and the rights and obligations of patrimony's titulars, on the other hand, between the allocation of values and their funding or between values use and their breeding. [8]

The different views in the literature are not limited only to the balance sheet's definition, they also manifest themself on its content and its cognitive meaning.

Although the balance sheet, as a process, is known and used for centuries, it becomes

the subject of research just at the end of last century.

The researches focused on the role and functions of the balance sheet led to many theories of the balance sheet. Depending on the purpose and the method of evaluation, the balance sheet's theories are classified in monistic theories, which have a single purpose and multipurpose theories.

These theories don't aim to explain or substantiate the balance sheet elaboration technique. Their role is to highlight the balance sheet purpose and base on it to substantiate its content and evaluation means, so that it becomes the main information system in analysis and management of the entity.

To carry out the function of overview of the activity the balance sheet must be real, honest, clear, correct, complete and timely. [19]

4. The balance sheet and the financial position of the enterprise

The balance sheet reflects the company's ability to adapt to environmental changes using controlled economic resources, financing structure and economic and financial indicators of liquidity and chargeability. The informations about controlled assets are useful for anticipating the enterprise's ability to generate cash flows. Those about the financial structure have a role in anticipating the future lending needs and sharing of future cash flows between business partners.

Thus, *the financial position* represents the relationship between the assets, liabilities and shareholders equity of an enterprise, as reflected in the balance sheet.

The balance sheet reflects the company's financial position at a time. We also consider the recent changes to IAS 1 "Presentation of financial statements", which states that the the balance sheet term is replaced by the financial position statement.

The balance sheet's values will not get their real meaning only through an analysis and interpretation that will face the past, will make them live in the present and will assess them in the likely future. [10]

Every enterprise, regardless of size, sector or form of ownership, is facing a number of issues concerning the environment's needs in which it operates, the improvement of financial performances and the competitive ability relative to other firms.

In achieving these objectives, an important role has the economic and financial analysis. Through its methods and techniques, it contributes to the knowledge of the enterprise's financial position and performance, identifying the factors and causes that arouse disruptions, as well as establishing the proper measures to control and optimize the entity's economic and financial results.

The balance sheet's informations are used in economic and financial analysis to appreciate the solvency of the organisation, for the preliminary assessment of an entity prior to liquidation or sale, to identify its financial structure, to determine the rate of return etc. This document allows the formulation of value judgments on the risk a company is taking and assessment of future cash movements. In this sense, considering the balance sheet, there are analysed the liquidity and financial flexibility that the company is facing.

The liquidity is an important factor for a company's financial position and the actual content of the balance sheet does not provide complete informations in this regard.

A high liquidity indicates the stability of the enterprise's activity even in conditions of economic recession.

The analysis of financial position of the company involves a comprehensive study, static and dynamic, on the assets, liabilities and shareholders equity and, in particular, on the correlations established among these elements. The sustainable existence of the company depends on their management. [16]

The basic equation of the financial position is: Shareholders Equity = Total Assets - Total Liabilities

A company's financial position is positive if the shareholders equity is higher or at least equal to the debts of economic value. This condition indicates that the organisation, as a matter of law, is able to pay its obligations to third parties, both during its business, as well as its liquidation.

The analysis of the financial position is important for assessing the ability of an entity to generate cash, to anticipate the needs and opportunities of lending and distribution of profits, as well as to honor outstanding

financial commitments. The ultimate goal of such an approach is the substantiation of the economic decisions of users.

With the evolution of the balance sheet's models the financial analysis has seen significant changes. Thus, the horizontal format of the balance sheet serves a static analysis of the financial balance, while the vertical format opens prospects for a dynamic analysis of financial balance. Regardless of its presentation it should be permanent balance between active and passive.

The balance sheet in vertical form aims presenting accurate informations about the company's financial position, namely its capacity to adapt to environmental changes, using controlled economic resources (assets), the financing structure (debts and shareholders equity), as well as using financial and economic indicators (liquidity and solvency). [18]

The operations of the static financial accounting analysis saw a major renewal based on three methodological currents.

The traditional approach based on comparison between the liquidity of assets and chargeabilityof liabilities is continuously updated through the introduction of: [20]

- a functional perspective, focusing on the position of the balance sheet's elements within the framework of the fundamental cycles of company's activity (investments, operations);
- a synthetic point of view, given the consistency of decisions on the acquisition and use of funds.

The financial position is influenced in a positive or negative effect by a number of factors, grouped into the following categories: technical and economic factors, legal factors, strategic and circumstances factors. In monetary terms, the financial position reflects the difference between assets and liabilities, and all these factors have an incidence that can be pecuniary measured.

Giving the balance sheet the role it deserves, the specialists have concluded that the benefits are not something else that simply the result of assumptions filtered through this synthesis document. [7]

5. Views on the company's financial position

The different categories of users of accounting informations have different views regarding the company's financial position.

The creditors are interested in recovery of granted loans, in their extension and the informations on their coverage. In this respect, the time element must be matched with debts to obtain a long term/short term classification, while the amount of the loan should be compared with the amount of capital or other liabilities of the company. However, the financial position does not reflect the same informations for all creditors.

Thus, the commercial lenders are interested in short-term situation, that warrants the use of a present value in detriment of historical cost. For the evaluation of balance sheet's elements, the liquidation values seem to be the relevant values, because they are the only that provide short-term recovery of unsecured loans.

For financial creditors, on the other hand, the financial position is reflected through informations about the solvency and future previsions on company's ability to generate cash flows. In this context, we mention the concept of continuity and the reconsideration of the importance of the elements presented in the balance sheet, in both value and structure.

Up to a point, the financial creditors interests coincide with those of investors about the company's financial position.

For creditors are important the informations about the total assets, as elements that ansure the recover of the investment.

Unlike them, *the investors* are interested in the size and structure of the capital, as value that generates the future earnings of investment or as a value that can be recovered in case of breaking off of investment.

The managers are another important category of users seeking informations about the company's financial position.

The balance sheet does not entirely meet the need for information of the management. He is however a bridge between internal and external environment of the organisation through the structure of the informations

provided and by the assessment of the components, according to management strategy.

Time is a vital coordinate in decision making process and the management needs timely and detailed informations about the company's financial position.

If the management considers the informations obtained from the balance sheet as obsolete, as resulting from the processing of past data, one solution would be to draw up a forecast balance sheet.

6. Conclusions

The importance of the balance sheet arises from *the functions* they perform: [14]

- *the function of the accounting informations generalization* involves the group of scattered dates of current acounting, after well-established criteria, in a limited number of indicators, that can provide an overview of economic and financial situation of the enterprise;
- *the report function* consists in gathering, recording, processing and generalization of accounting informations, which are needed by both the decision makers within the entity and other interested parts such as shareholders, partners, employees, tax bodies, institutions banks and various lenders etc.
- *the analysis function* requires the periodic analysis of the completeness degree of designed indicators and results, the identification of reserves and the establishment of measures to improve financial and economic activity.

The balance sheet is considered the essential document for the financial analysis, but it also presents some *limits:* [17]

- the absence of some balance sheet items reflecting the internal resources created by the enterprise and that costs can not be attached at, such as the collective experience of the team of employees;
- the evaluation based on historical costs questions the veracity of the financial situation at the end of the year;
- the effect of the principle of recognition, in the annual accounts, only of the costs that have contributed to the period's income;
- the variations in money supply determine lowers public confidence in the relevance of accounting synthesis documents and lead to consideration of other sources of financial informations to elaborate the investment decisions;
- the fluctuations in activity between the times of the year-end and the beginning of the next cycle are not included in the accounting balance sheet;
- the influence of some external factors, non-monetary, on the enterprise's activity can not be reflected through the annual accounts.

Looking ahead, the balance sheet should ensure the transparency and quality of the information about the company's financial position. In this respect, Deloitte and Touche argues in an article published in the series Integrity & Quality that the term of financial position extends far beyond the balance sheet reporting and includes more detailed reports about the economic resources, the obligations and the shareholders equity.

Some authors have identified *sources of difficulties in analyzing the financial position* of which synthesize: [3]

- the differences in assessing the significance of the financial position, according to the accounting practices in different countries. An asset in french accounting, could be an expenditure in american accounting. A liability in the british or american accounting can be considered shareholders capital in french accounting. For example, the development costs were dealt by the accounting practices from France, Italy, Netherlands, Spain as an asset, while in Germany were treated as expenses.
- the valences in the financial analysis of the balance sheet. To meet the financial analysis requirements it was reached in time to the recognition of several schemes of balance sheet, two of which can be considered as source: the balance sheet in table form and the balance sheet in list.
- the rigid or flexible nature of the balance sheet items. Thus, in a rigid model of balance sheet there can be hide durable elements in the category of those on short term and vice versa, and a flexible balance sheet model may contain certain trends of manipulation of the image about

company's financial position.

Despite all these limits, the dynamic analysis of several successive balance sheets can be a basis for designing the forecast balances, thus contributing to the financial decision and the enterprise's future behavior. In this respect, the balance sheet will be processed in financial and functional balance sheet to obtain a true and fair view of the enterprise.

7. Acknowledgements

This work was supported by the the European Social Fund in Romania, under the responsibility of the Managing Authority for the Sectoral Operational Programme for Human Resources Development 2007-2013 [grant POSDRU/88/1.5/S/47646]

8. References

[1] G.C. Biddle, G. Hilary, R.S. Verdy, "How does financial reporting quality relate to investment efficiency?", *Journal of Accounting and Economics,* 2009, p. 112, www.sciencedirect.com accessed on 12 july 2010.

[2] H. Bouquin, *Contabilitate de gestiune,* Traducere şi studiul introductiv N. Tabără, TipoMoldova Publishing House , Iaşi, 2004.

[3] S. Bunea, *Monocromie şi policromie în proiectarea politicilor contabile ale întreprinderilor,* Economica Publishing House, Bucureşti, 2006.

[4] B. Colasse, *Fundamentele contabilităţii,* în traducerea N. Tabără, Tipo Moldova Publishing House, Iaşi, 2009.

[5] B. Esnault, C. Hoarau, *Comptabilite financiere,* Ed. Presses Universitaire de France, Paris, 1994.

[6] N. Feleagă, *Îmblânzirea junglei contabilităţii,* Economica Publishing House , Bucureşti, 1996.

[7] N. Feleagă, *Controverse contabile. Dificultăţi conceptuale şi credibilitatea contabilităţii,* Economica Publishing House, Bucureşti, 1996.

[8] N. Georgescu, *Analiza bilanţului contabil,* Economica Publishing House, Bucureşti, 1999.

[9] E. Helfert, *Tehnici de analiză financiară. Ghid pentru crearea valorii,* ediţia a XI-a, Editura BMT Publishing House, Bucureşti, 2006.

[10] E. Horomnea (coord.), N. Tabără, D. Budugan, *Bazele contabilităţii. Concepte, modele, aplicaţii,* Sedcom Libris Publishing House, Iaşi, 2006.

[11] G. Iatridis, "International Financial Reporting Standards and the quality of financial statement information", *International Review of Financial Analysis,* 2010, p. 194, www.sciencedirect.com accessed on 12 july 2010.

[12] I. Ionaşcu, *Dinamica doctrinelor contabilităţii contemporane. Studii privind paradigmele şi practicile contabilităţii,* Economica Publishing House, Bucureşti, 2003.

[13] D. Matiş, A. Pop, (coord.), *Contabilitate financiară,* Alma Mater Publishing House , Cluj-Napoca, 2001.

[14] D. Matiş, A. Pop, *Contabilitate financiară,* Alma Mater Publishing House, Cluj-Napoca, 2007.

[15] M. Mironiuc, *Analiză economico-financiară: performanţă, poziţie financiară, risc,* Editura "Alexandru Ioan Cuza" University Publishing House, Iaşi, 2009.

[16] A. Nobes, *An European Introduction to Financial Accounting,* Prentice Hall International, London, 1994.

[17] S. Petrescu, *Analiză şi diagnostic financiar-contabil. Ghid teoretico-aplicativ,* CECCAR Publishing House, Bucureşti, 2006.

[18] D. Rusu, R. Petriş, E. Horomnea, *Fra Luca di Borgo şi doctrinele contabilităţii în cultura economică românească,* Junimea Publishing House, Iaşi, 1991.

[19] N. Tabără, E. Horomnea, C. Toma, *Conturile anuale în procesul decizional. Elemente de contabilitate, analiză financiară şi evaluarea performanţelor întreprinderii,* Tipo Moldova Publishing House, Iaşi, 2001.

[20] P. Vernimmen, *Finance d'entreprise. Analyse et gestion,* 4e edition, Dalloz Publishing House, Paris, 1988.

[21] OMFP 3055/2009 from 29 october 2009 for approval of accounting standards with European directives

[22] The Supreme Council of CECCAR, *The national code of ethics for professional accountants* from 25.05.2007, published in the Official Gazette no. 429/27.06.2007.

The Analysis of the Leasing Activity in Romania – Advantages, Evolution and Perspectives

Spătariu Elena Cerasela
Asaloş Nicoleta
Lazăr Cristina Mihaela
"Ovidius" University of Constanta, Faculty of Economic Sciences
ebarbu2001@yahoo.com
nicoleta_asalos@yahoo.com
cgrozea@yahoo.com

Abstract

Leasing is the solution that allows the exceeding of difficulties generated by an inadequate economic environment –limited and expensive financing, banking system bureaucracy – and allows the societies to obtain the right to use, with minimal initial financial efforts, some cars, machines, technological equipment that allow the increase of productivity, making the activity profitable, which all lead to the growth of profit.
In order to determine the implications that leasing activity development has in the company, this paper covers the advantages of leasing, the leasing market development in Romania and some measures to develop leasing market.

Key words: analysis, leasing, evolution, measures
J.E.L. classification: G21, M20

Development of leasing activity results from a careful observation and understanding of the complexity of market economy mechanisms, namely: not the ownership of assets is the one that generates profits for business but using them with maximum efficiency. The properly use of the capital resources, the continue investment of cash in business, „opportunities", allocating funds for marketing and advertising, ongoing training and higher training of personnel, all these represents policies and strategies that go to the progress of a business.

Leasing is the solution allowing to overcome the difficulties caused by inadequate economic environment - expensive and limited funding, the bureaucracy of the banking system - and allows companies to obtain the right to use, with minimum initial financial efforts on some machines, equipments, technological machineries that allows them to increase productivity, profitable business, which leads to an increased profit.

In order to determine the implications that the leasing development has at the enterprise's level, we have identified the advantages of leasing and we followed the leasing market evolution in Romania.

Leasing has many advantages for all the parties involved in its realization: the seller, lessor and lessee. For the seller (manufacturer / supplier) leasing is an additional method of promoting sales, increase customers and extension of retail area of their own products.

Leasing company (lessor) estimates its advantages through the benefit derived from the giving in use of the property. And the lessee (the beneficiary) can use modern and efficient equipment, even if it hasn't at that time the entire amount to finance the property.

A study made by the National Business Institute from the United States, outlines a "top " of the reasons why companies prefer leasing to other alternatives:

- 41% - because it allows a better management of cash and a capital economy for work;
- 18% - because of rapid technological changes require the replacement of the equipment;

- 10% - because it is a very flexible way of financing;
- 10% - because leasing companies are more open to evaluate the project and assume the risk of product, so the conditions for financing are ore accessible than at banks;
- 8% - other tax reasons.

The leasing market in Romania is structured as follows:

- affiliated leasing companies to banks;
- affiliated leasing companies to manufacturers or suppliers;
- independent leasing companies.

The leasing market in Romania is formed by thousands of traders, of whom more than 200 companies are active.

The leasing market in Romania decreased with 72% in 2009 compared to 2008 at a level of € 1.33 billion, as a return to the level recorded in 2004, the leasing dynamic market is closely linked to the development of national economy, which in 2009, has registered a decline of 7% over 2008.

In the first three quarters of 2010 assets have been financed with a total value of € 780.20 million by leasing companies. The granted funds for this period were directed to different areas, so that 22.5% (175.53 million euros) of the total were aiming the equipment, 13.8% (€107.30 million) the real estate and 63.7% (497.36 million euros) the transport.

In 2008, the auto leasing market totaled € 3.38 billion, and equipment leasing market, € 1.082 billion.

Funding evolution in September 2009 - September 2010 in this area shoes the maintaining of a constant share on vehicle categories, as follows: cars hold a share of 58%, 25% for heavy commercial vehicles, light commercial vehicles 16% of total and other types of vehicles 1%.

Likewise, the equipment segment had a decrease of 75.9%, to € 261.16 million in 2009 compared to 2008. During September 2009-2010 in equipment financing is worth mentioning that the share of construction sector has decreased from 31% to 14%, while financing other sectors of the economy is maintaining a relatively constant share, (10% agricultural equipment, 7% IT equipment and 6% software, 6% for the food industry, 6% equipment for metallurgical industry, 6% medical equipment) as well as other sectors.

Real estate leasing reduced at its turn by 33.9% in 2009, reaching € 232.65 million, compared to the € 351.84 million level in 2008. Financing real estate sector has been dominated by industrial and commercial buildings category, with a total of 36% and that of Class A, B and C, office spaces with 26%. In return, land funding was 4%, while the remaining 34% was s for hotels, residential sector and residential buildings.

Crisis period of September 2009-September 2010 showed new trends in funding real estate sector in terms of share on the real estate category. It was pointed out a growth from 23% to 35% to financing office spaces of A, B& C categories, while funding the retail outlet increased from 1% to 27%.

In contrast with these, the financing of industrial buildings decreased from 27% to 22%, and the hotel ones from 8% to 0%. A cause of this evolution is the financing under the basis of „sale and lease back" contracts as solutions to obtain the necessary liquidity during the crisis period by the customers of financiarleasing contracts. Important decreases of financing were also recorded in the residential building category and lands.

In 2009 compared with 2008, corporate clients have attracted the most part, of 91% from the total funding, followed by retail - 8% and public sector - 1%. In terms of the lease length of time, the most common period was over five years - 26%, followed by 4-5 years - 24% 3-4 years - 23% 2-3 years - 18% 1-2 years - 5% and 1 year - 4%.

During September 2009-September 2010 corporate clients have attracted the largest share (92%) of total financing, followed by retail (6%) and public sector (2%). Most common period after the lease period was 3-4 years (22%), followed by 5 years (21%), 2-3 years (21%), 4-5 years (20%) 1-2 years (10%) and 1 year (6%).

Over time legislation that regulates the development of leasing activities in Romania has suffered a series of changes so we can mention some of the main legal regulations applicable to the developing of the leasing business.

- G.O. 51/1997, republished on leasing operations and leasing companies - Official Gazette no. 9/12.01.2000;
- 414/2002 Law on income tax;

- 571/2003 Law on Fiscal Code, with amendments and completions - Official Gazette no. 927/23.12.2003;
- 533/2004 Law amending and supplementing the 51/1997Ordinance, republished - Official Gazette no. 1135/01.12.2004;
- G.O. 44/2004 for the approval of the Methodological Norms for the application of 571/2003 Law regarding the Fiscal Code - Official Gazette no. 112/06.02.2004;
- G.O. 28/26.01.2006 regarding certain financial, tax measures, regarding the credit activity developped by the non-banking financial institutions;
- The Law. 93 from the 8th of April 2009 regarding the non-banking financial institutions;
- The National Bank of Romania Regulation no. 20/2009 on financial non-banking institutions;
- The Regulation no. 2 of 2010 for amending the National Bank of Romania Regulation No. 20/2009 over the non-banking financial institutions;
- The Regulation no. 5 of 2010 amending and supplementing NBR Regulation no. 20/2009 regarding the non-banking financial institutions;
- The 53/2010 Law.

The evolution of the financial economic activity of the company, strong relationships with business environment, customers, banks and non-banking companies, providers, local and central government represent strengths in the development of leasing activity at the firm level.

The main problems that arise in the development and leasing activity are also general: legal framework not sufficiently structured, lack of information of potential customers about leasing (which includes psychological preference of the proprety on the damaged good of a leasing contract), the current stage of the national economy and weak efficiency of economic agents, the unstable political environment and high country risk, low foreign investment, inflation, reduced purchasing power, etc..

The publication of the G.O. no. 28/26.01.2006, regulated the minimum conditions of access for non-bank financial institutions to lending activity, in order to ensure and maintain the financial stability, led to the possibility of identifying critical points that limit the development of this work regarding organizing and reorganizing the trading company, the identification of permitted activities, the achievement of financial statements, the use of contractual documents, books and records, etc..

We can summarize a series of measures necessary for the initiation and development of leasing, such as:

- measures regarding the current regulations;
- measures regarding attracting major funding sources available for leasing companies, respectively banks, shareholders, investment funds.

For instance, using the capital market can become an excellent financing source for leasing companies. Their bond emission have a lower risk compared to emissions of companies from other industries: the funds obtained from the issuance of bonds are used to complete the lease contracts whose rates cover loan interest rates and provide a constant cash flow (unlike other sectors where cash flow and rate of profitability are difficult to estimate).

Moreover, lease contracts are usually provided, and bonds can be, in their turn insured by a policy of financial risk.

- measures regarding promoting the company business, financial mechanisms among potential customers.
- measures regarding the enterprise specializing in the leasing on different segments (property leasing).

Bibliography

[1] M. V. Achim, *Leasing - o afacere de succes: concept, derulare, contabilitate, eficienta*, Editura Economica, Bucuresti, 2005

[2] http://www.alb-leasing.ro/

[3] A. Alexe, *Reglementări privind operațiunile de leasing*, Centrul de Informare şi Documentare Economică, Bucureşti, 2006.

[4] D. Clocotici, *Operatiunile de Leasing*, Editura: Lumina Lex , Bucuresti, 2000

Aspects Concerning Production Costs Analysis

Spătariu Elena Cerasela
Lazăr Cristina Mihaela
Asaloş Nicoleta
"Ovidius" University of Constanta, Faculty of Economic Sciences
ebarbu2001@yahoo.com
cgrozea@*yahoo.com*
nicoleta_asalos@yahoo.com

Abstract

Production cost represents one of the most significant indicators by which it can be appreciated the activity of an industrial enterprise. Its content includes a serial of information necessary to any manager, which by their calculation make it an indispensable tool for diagnosis, for stimulating the probable effects to one or other option, taking decision, controlling the realizations efficiency.

Key words: cost, production, enterprise, calculation
J.E.L. classification: D00, M11

1. Defining production cost

Cost is the monetary expression of the expenses that an enterprise performs in order to achieve and sale its production over a due period of time and is in direct correlation with the quantity of material goods, works or services that compose this production, expressed in certain units of measure.

Production cost is the monetary expression of all the expenses (consumptions) with materialized labour and living labour performed by the enterprise (costs rise from the enterprise and that's why they never must be seen isolated, but correlated with the other processes and phenomenon that develop inside of it) to produce and sale material goods and providing services.

On IASC view, expenses are those that occur during the current business activities, namely: cost of sales, wages and liquidation.

The definition also includes expenses and losses that may occur or not during the current deployment of the company. Losses are considered as decreases in economic benefits and, therefore, they're not different from other types of expenses.

They result either from disasters, either out of long term assets and include unrealized losses arise from the increasing of exchange rate for loans that the company has contracted into foreign currency. Those are distinctively marked in the profit and losses.

The cost of production is considered a qualitative economic indicator whose central position in the firm's indicators system can not be challenged. Also, the cost of production is integrated into the economic indicators system for measuring and assessing the economic efficiency.

Its position of central indicator can be revealed also by the way how the production cost influence the process of decision making at the firm level through various links had with other economic indicators: cost - price, cost - production (volume) - profit, cost - productivity.

The cost-price relationship approach, in our view, can be made from different angles:

- producer / consumer;
- centralized economy / market economy;
- types of market;
- correlation cost - production (volume) - profit has a very large applications. It serves to:
- setting the price products;

- select the mix of products manufactured and intended for sale;
- choosing the firm's strategy;
- analysis the effects of costs increasing or decreasing on company profitability.

The cost – productivity relation can be seen in both the short and long term. In the short term, the production growth may occur through a combination of variable inputs with fixed inputs, the marginal cost being the principal criterion for making the decision of production.

In the long run, all inputs are considered variable, which may induce the producer to increase production by changing the volume of all production factors, resulting the reduction of average total cost, and thus obtain an income that exceeds the cost of production. This type of income is called income growth and is, in fact, savings resulting from obtaining bigger production at lower cost.

2. Cost calculations methods

Allocating the cost of production among the most significant indicators by which it can be appreciated the work of an industrial company whose content is represented by a group of information necessary to any management staff, make from its calculation an indispensable tool for diagnosis, to stimulation of the likely effects on one or other of the options, decision making, the control of achievements efficiency.

The economic Determining of costs emerges from calculations performed by using specific methods. The sequence of calculations is known by the name of costing.

Systems and cost calculation methods, also known as systems and methods management through costs include all the processes which determine the correlation between production and sale costs of the company and the production that it has occasioned.

We classify the cost management systems after a series of criteria.

Depending on the goals, methods of calculation are classified as:

1) Calculation methods aimed to determine the cost of goods, works or services;
2) Calculation methods aimed to obtain other necessary information to the company's management;
3) After the calculation methods and their occurrence in time, systems and management methods by costs can be grouped into the following categories:

✓ *cost management through traditional methods*
- Global Approach
- The method of manufacturing phase
- Method on orders

✓ *systems and advanced methods of management through costs:*
- standard method
- Standard-cost Method
- THM method
- direct-costing method
- PERT-COST method
- Method G.P.
- Value analysis

Depending on the entities which it calculates costs, we distinguish:

- Methods of calculation on cost carriers;
- Methods of calculation on sector expenditures;
- Methods of calculation with mixed character.

In terms of scope, are:

- limiting calculation methods (partial methods);
- Absorption costing methods (global, full-costing).

After the integration of calculation in the programming system and the value tracking of productive economic activity, we distinguish the following methods of calculation:

- Forecasting calculation methods;
- Historical calculation methods (postdate character).

To be useful, especially in the last two phases of management process (operative and commensurate and interpretation of results), information derived from the economic substance of the costs requires crossing several steps:

1) Organization of production costs tracking by using accounting methods on the object of calculation (phase, orders, products), on the types of activities and, especially, on the types of expenses;
2) Separation of costs regarding production by its degree of finishing;
3) The calculation of unit costs;
4) Establishing the cost post calculate deviations.

Each system or management method by costs presents different phases and their application in the economic entities depends on several factors:

✓ Profile and size of economic unit determines, in general, the way of organization and operation of the accounting work and cost calculation. In small firms, accounting and costing is done centrally. In large firms is applying the principle of decentralization;

✓ Firm's organizational structure involves dividing the productive activity in branches and workshops. As the organizational structure is larger, the boundaries of expenditure on factory, branch, workshop will be greater and, therefore, it will increase the number of cost calculations;

✓ The complexity of manufactured products. Taking into account this factor, companies are characterized by either a simple production (production of beer), or enter into complex production category, in addition to specific production processes, there is also the assembling activity (production cars).

✓ In a simple production company the number of calculations regarding the cost of the product is much lower than in the case of complex production.

✓ The degree of concentration, division, specialization. For specialized enterprises costing is much more simplified and less costly;

✓ The degree of integration of the unit. For non-integrated firms is most often used the option of semi-products free, unlike the integrated companies, where it is used the of semi-products option.

✓ The technological specific process and the way of organising the production. Depending on the type of production, enterprises are divided in: enterprises with mass production with mass production, serial production and individual production.

✓ In the mass production is used the phase method, in the companies that have an individual production it is used the method on the product or groups of products and even on orders, and for the production of series it can be used any of the above methods;

✓ The level of mechanization and automation of production processes. Automating the production process has the effect of reducing the number of primary documents, reducing the amount of work required in processing and accounting information from these documents and, of course, the number of intermediate calculations used to determine the cost of the product;

✓ Frequency and time of calculation;

✓ Way of developing, classification and costing;

✓ Nature of the production process (continuous or seasonal).

Whatever the criterion used in the classification methods of calculation, is about the same methods of calculation, but viewed from different perspectives.

3. Ways to cut costs

Cost of production is an economic category specific to production of goods, which expresses in money the consumption of outputs and labour used in the production process from economic units.

Making the value of the sum of living work and materialized labour for obtaining the production, production cost is also a synthetic indicator of characterising the economic performances of the enterprise.

He expressed indirectly but suggestively and specifically, the concerns of the enterprise for saving the raw materials and materials for increasing labour productivity, introduce new techniques and, in general, management's concerns of the production line of scientific organization of labour.

While the value of a manufactured product in various enterprises is the same in all cases, being determined on the basis of socially necessary labour, cost of production of the same type of good made in different enterprises vary and, therefore, is individually and expresses the concerns and results of the enterprise on the organization and management of the production line.

To highlight the concerns of the enterprise on the production organising, in the production costs are included also some non-economic costs such as: scrap, the locations, some interest, etc., that aren't socially necessary and do not add value to production.

Given the complexity of creating goods and services, cost reduction can be achieved on the following groups of factors:

– technical factors
– financial-economic factors
– managerial-factors

The savings obtained due to technical factors of production are dependent on:

- technical-functional performances of fixed capital in operation;
- characteristics of capital assets, subject to production processes;
- The taking-over degree of the goods that make the subject of productive activities.

The savings from the financial and economic factors contribution is done by:

- ✓ purchasing inputs on small prices or from closer supplying sources
- ✓ quantitative and price-bonus given by suppliers for special orders made by economic agents;
- ✓ guarantees provided by the companies providing inputs in case of goods with outstanding performances;
- ✓ favourable conditions for granting credit or financing.

Companies that certify the managers' skills can be translated into:

- ✓ a more efficient use of money capital of the firms that display an activity that respects the legal rules in force, regarding the economic activity, pollution and other actions arising from the production or marketing of commodities;
- ✓ establishment of marketing departments and directorates at the companies' level that could make an appropriate promotion policy, identification and customization of products of the companies in the area of present markets;
- ✓ a more efficient combination of inputs, choosing technological options that offer maximum choice to win and attract meaningful productive activity, contingent from labour force temporarily unavailable.

4. Bibliography

[1] S. Briciu, V Burja, *Contabilitate de gestiune. Calculatia si analiza costurilor*, Editura Ulise, Alba Iulia, 2004;

[3] S. Briciu, A. Szoras Tamas, I. B. Dobra, F. Sas, *Contabilitatea managerială a firmelor din comert*, Editura Risoprint, Cluj-Napoca, 2005;

[4] M. Dumitrana, C. Caraiani, *Contabilitate de gestiune si control de gestiune*, Editura Universitara , Bucuresti, 2008

[5] C. G. Dumitru, C. Ioanas, *Contabilitatea de gestiune si evaluarea performantelor*, Editura Universitara, Bucuresti, 2005

The Crisis Development and Human Respiritualization

Stanciu Miltiade
„Spiru Haret" University, Faculty of Marketing and International Business
miltiade_stanciu@yahoo.com

Abstract

As human species, we are currently facing up a turning point of humanity. It is generated by the economic crisis, which we entitled, like other authors, the global crisis of development. It is caused by humans in their race for competition with no limits and responsibility towards the future, both for them and Earth. The continuation and perpetuation of human behavior will mark irremediably and irreparably our future, as well as the one of the next generations. The global crisis due mostly to the human excesses which can be summarized in a few relatively simple keywords, such as greed, uncontrolled consumption, unlimited growth, reckless exploitation of resources etc., is actually a human crisis. Therefore, a possible solution to the global crisis is human and institutional respiritualization.

Key words: crisis, development, human excess, responsibility, respiritualization
J.E.L. classification: A13, O10, Q01, Q50

1. Introduction

A word very often used lately, sometimes abusively, is crisis. We hear it at least once a day. Either it is used with obstinacy by mass media representatives or by the political people, patronages and trade unions, representatives of civil society, economists or people from everywhere, this word tends to lose its true meaning. As a result of it or better, in the name of it, series of different measures "against crisis" are adopted, lots of "unprofitable" companies are closed, budgetary expenses are significantly reduced, new sources to finance debts are identified and dealt with, and, on the other hand, new debts are rescheduled, "vows" are made to solve urgently the existing situations with more or less efficient results. But finally, what does this crisis imply?

Macmillan Dictionary of Modern Economics [1] defines crisis as being a phase of severe decline or recession in the economic cycle.

Bremond and Geledan [2] sustain that there are few words that suggest so many negative images as *crisis* does... The same authors goes on saying that: the Brazilian coffee burning in the locomotive, Americans standing in the queue to get a "popular soup" […]. Words less loaded by connotations full of anxiety- stagnation, recession, unrest, stands for economic realities less stunning than crisis itself ...or are used to hide the gravity of difficulties.

According to the Romanian Language Dictionary, the definition of crisis sends to more meanings. Thus, *crisis* represents a manifestation of some difficulties (economic, political, social etc). At the same time, *crisis* implies a period of tension, trouble and trials (often decisive) with significantly results at the level of society. However, *crisis* may represent an acute lack of commodities, time, labor force etc. Furthermore, it might stand for a critic moment related to the evolution preceding or aggravating some disease [3].

In other words, crisis implies the occurrence of a moment (in economic, social and political fields) generating all kinds of more or less serious consequences affecting people when solutions may decide the future context of the crisis which means that the crisis itself either becomes deeper or simply fades away.

2. From global crisis to crisis development

The humankind confronts with a crisis, maybe without precedent, mainly characterized by a series of contrasts between the profits, and reported only in financial terms and the social-human one, people's

actions and the environmental requirements. From this point of view, and not only, we appreciate as other authors as well, that we are in a full crisis of development.

Characterizing the causes of crisis, the Noble Laureate for Economics in 2008, Paul Krugman, makes references to a history of excess which means that these have been accumulated in time and have determined what people see today.

Fritjof Capra, referring to the crisis affecting humans, states that it is a complex, multidimensional crisis. Its aspects influence negatively any part of our life- health and means of living, environment quality and social relations, technology and politics. It is a crisis of intellectual, moral and spiritual dimensions, an ample crisis without precedent in the history of humanity. For the first time, with no escape, we confront with the real threat of human race extinction as well as the one of all livings of Terra [4].

At the same time, it is quite easy to remark that globalization of economic activities, under the command and control of large corporations and financial- monetary institutions in the world generates the natural and human crisis of development. The analysis of the causes bringing about the natural and human crisis of development helps us understand that an economic system remains viable only as long as society has strong mechanisms to fight against abuse either from the part of the democratic state or from the competitive market.

Not doubt that human societies, even when they are assigned with metaphysical existence, special and independent from that of the individuals who are part of it, cannot own, however, as empirical realities, a particular development and independent of the biological units of which the former ones are composed. One cannot conceive a state consisting of poor people rich, powerful state composed of a weak people, a civilized state composed of people steeped in barbarism. Such contrasts between social appearances and personal realities could be seen sometimes in the history of older or newer mankind. But they always made part of the country life where they occurred, abnormal conditions, which could not last and cost dearly, as sick people pay for paid flourishing appearances that can deceive and prevent them to take care for themselves [5].

However, the crisis must be considered in the socio-economic-political world reality, that of the consumption civilization that divides society into two groups of countries: some rich, highly developed and others being poor or under poverty.

Pope John Paul II refers to the relationships within these companies saying that while some abuses in a certain way of freedom, which is directly related to an uncontrollable desire for moral consumption and this type of abuse limits even the others' freedom, namely of those who suffer significant hardship and misery and who are dragged into poverty and even higher. The financial, monetary and productive structures and mechanisms sustained by different political pressures, lead economy to the impossibility of correcting the past injustices, but also meeting the ethical and present challenges [6].

Individuals, through the tensions created by himself, dependent on the resources they wasted on an accelerated basis threaten environment continuously expanding all areas that they have exploited and left leaving behind despair, frustration, bitterness and violence. The rich - poor duality leaves behind flagrant injustice. The cause of these problems often is represented by the rich and privileged classes that accumulate excessively supplies.

Jeremy Rifkin on the premise that the Earth functions as a living organism that undermines the claim that human activity biochemistry of the body can have serious consequences both for human life and the biosphere as a whole. The fact that our planet functions as an indivisible living organism requires a rethinking of our notions about the risks, vulnerability and global security. If every human being, every species as a whole and other living beings are twinned with each other and with Earth geochemistry in a rich and complex choreography to maintain life, then we are, each and all together, dependent on (and responsible for) health of whole nature being [7].

Maturity, responsibility and care to ensure healthy living generations succeeding us should constitute an ongoing concern for the inhabitants of Planet Earth.

In this spirit, we agree with the words of the famous biologist Richard Dawkins who argues that intelligent life on a planet reaches

its phase of maturity when it succeeds for the first time in understanding its own existential cause [8].

Unfortunately, human developments of recent decades show that we are closer to the brink due largely to human excesses. In this way, Pope John Paul II claimed that human greed has found new forms, less violent, expressing the philosophy and strategy of the capitalist economy, focusing on GDP growth, "unlimited growth" reckless exploitation of exhaustible natural resources, conspicuous consumption and "planned aging". In the past, violence and greed had tragic consequences for those involved in destructive conflicts and their families.

However they did not threaten in any way the evolution of the entire human species and were not a danger to the ecosystem and biosphere of the planet. Even after the most violent wars, nature was able to "recycle" all their consequences and to recover fully over decades. The situation changed radically in the twentieth century. Rapid technological developments and exponential growth of industrial production on the one hand, and population explosion and especially the discovery of atomic energy for all data, on the other hand, changed the equation. These amazing intellectual achievements have brought modern mankind on the brink of global catastrophe, as they were not accompanied comparably by emotional development and moral maturity. We have the doubtful privilege of being the first species of natural history that has acquired the capacity to eradicate itself and destroy life on the planet at the same time [9].

Pope John Paul II adds that the solidarity principle should inspire the search for effective institutions and appropriate mechanisms: it is about the change order, where people must let themselves led according to the laws of a healthy competition, as well as the order of an ample and rapid redistribution of riches and immediate control over their wealth so that the economically developing peoples could not only satisfy their basic needs, but also develop progressively and effectively [10].

The difference of acceleration between the way in which the developed countries, on one hand, and the poor countries, on the other hand, have evolved and maintained the distance between them. There have occurred other issues that contributed to the discrepancies: the peoples' culture and values of the two categories of countries.

Problems blocking these changes are not economic or technological; their roots are related to human personality. Because of them, vast resources were wasted for the absurdity of the arms race, the struggle for power and "unlimited growth". They still prevent from a more appropriate distribution of wealth among people and nations, and a reorientation from purely economic and political concerns to ecological priorities that have acquired much more importance for survival [11].

In modern societies, where access to almost all the essential elements for survival depends on money, money became the ticket of life itself. Through a sort of psychological transfer, people instinctual love for life turns into love of money. Money becomes the object of adoration. This gives an almost absolute power to those who have the proper means to create and allocate money, patronizing us and mastering everything in silence from their temples over those who should serve them for money indispensable to their lives [12].

For many, but at the same time, for few of as, nowadays, it is becoming increasingly obvious that prosperity should be measured only by goods and services that are purchased. A healthy lifestyle incorporating water and fresh air, happy families, safe communities, mutual trust in others, safety and security and more jobs do not represent values or standards but, on the contrary, things that are ignored or even undermined.

Climate changes, air and water contamination on Earth, the rapid spread of deadly viruses, the consequences of oil crisis, growing trade deficits are often abandoned as particular problems with which Earth is confronting, besides so many others about which we are said to be more dangerous, such as terrorism.

The efforts the developed countries made to remove this enemy that seems to appear from a prestidigitator's sleeve, are beyond imagination. For example, U.S. Department of State Security has spent during 2001-2006, only for private providers, an amount over 230 billion dollars to win the battle against the number one enemy: terrorism. This *nota*

bene amount represents the gross national product of Chile or the Czech Republic [13].

And all this while "hundreds of people in sub-Saharan Africa are infected every hour of every day, when 15 million children have become orphans and many have to be raised by other children, when a single disease threatens everything from economic power to maintain peace." Not to mention the international trading system that often discourages raw material producers in developing countries, instead of encouraging the sale of cheap goods to countries that have high permeability and bring huge profits to companies specialized in such production without borders.

Not to mention that Alexander King and Bertrand Schneider recorded in one of the Club of Rome reports the current state of humanity: never before have human species gone through many trials and dangers: unprepared and catapulted into a world where time and distance were abolished, man is absorbed by a cyclone planetary mixing it with factors apparently scattered, whose causes and consequences form an intricate maze. At the end of this century, humanity is overwhelmed by the multitude of phenomena coming from everywhere: unethical economic development; low governing capacity; environment pollution; population growth etc. [14].

The picture is completed by George Soros who states: current world order confronts with some problems that have not been solved yet. Some of them, such as proliferation of nuclear arms and global warmth, threaten our planet. Others are less dangerous. Our civilization has known many tyrants and many financial crises, which have survived. Yet the world would be a much better place if we make progress in solving these problems, which would require greater international cooperation than is currently possible [15].

3. Instead of conclusion

The earlier stages of development put into light the fact that people have always lived under the empire of necessity according to humans' requirements and needs, the economic activity satisfying entirely them.

Today, the issue of quantity of goods and services is matched by that of their quality, quality that can be extrapolated on environment and human's life. There also appear new responsibilities arising from satisfying these needs.

But when defining new needs and new ways to satisfy them, there is the duality of legitimate consumption habits and lifestyles versus illegitimate consumption expectations habits and lifestyles that generates another physical and spiritual duality versus its absence. The economic system does not contain own criteria distinguishing correctly between the new forms induced that prevents personality from getting mature. Therefore, one may notice the need and the urgency of certain comprehensive educational and cultural activities including consumer's education concerning the responsible use of their power to choose, the formation of an acute sense of responsibility to producers, especially, to the social media professionals, and also the required intervention of authority [16].

This requires a rapid and profound change of consciousness, which raises the question of our entire world order and all optical and conscious and unconscious assumptions on which this global vision is based [17].

Assuming that we entered the 21st century that should be the century of responsibilities, we believe that development must equally consider the realities and the needs, the interests of all those involved in this process, so that development should be based on win-win principle for all parties included and not just on the win-loss one, in which unfortunately, only one side wins, usually the strongest one.

The current complexity of life bears with it direct interdependencies and uncertainties as well as the opposite effect that put their mark on development process. By the assumed institutional freedoms, it must contribute to the growth but only in respect for the identity of meaning.

This requires a rapid and profound change of consciousness, which raises the question of our entire world order and all optical and conscious and unconscious assumptions on which this global vision is based [18].

It depends on us how we manage to use democracy and power of understanding amiably each other in terms of our future, as

well as understanding what it is correct, in order to change the world politics and customs that, in case of persistence, would bring about a powerless and hostile planet, the victims of which our children, grand children and, generally, humanity, might be. Instead of it, we should make the decision of turning the 21st century into a flourishing recovery. Taking the advantage hiding behind this crisis, we could free our imagination, creativity and invention with which we are endowed equally as we are in terms of greed and meanness. It is our responsibility. The future belongs to us [19], states the ex vice-president of the U.S.A. Al Gore.

For this purpose, Thomas Berry [20] suggests four directions of action to achieve the final objective, that of human and institutional respiritualization implying responsibilities, as follows:

- To put our material and collective consumption in balance with Earth in order to help with the cure and the recovery of biosphere which implies:
- To reorder economic properties, from making money for the rich up to the warranty that all individuals may access adequate and significant means of earning their life and running their family. As equity becomes an essential condition of a healthy and cooperative society, in a wealthy world, people must:
- Democratize human institutions, inclusively our economic institutions to thrust the roots of power in people and community so that we may replace the dominant culture of rapacity, competition, materialism and love for money. As the recognition of the essential spiritual unity of Creation is an essential foundation of profound respect for rights and necessities of all livings on whom this agenda depends, it is necessary at both individual and collective level:
- To become aware of the complete relation existing between the material and spiritual aspects of our being to become fully human.

All these measures cannot be achieved from one day to another, but only by changing the educational paradigm at the global level and adopting a new one based on new spiritual and moral values of which people have disposed in search for financial profit.

4. References

[1] *Dicționarul Macmillan de Economie Modernă*, Ed. Codecs, București, 1999, p.101.
[2] Bremond J.,Geledan A., *Dicționar economic și social*, Ed. Expert, București, 1995, p.119.
[3] Dicționarul Explicativ al Limbii Române, Ed. Universul Enciclopedic, ediția a doua, București, 1998, p.241.
[4] Capra, Fritjof, *Momentul adevărului. Știință societate și cultură. O viziune fascinantă asupra unei noi realități înconjurătoare. O reconciliere a științei cu spiritul uman, pentru un viitor durabil*, Ed. Tehnică, București, 2004, p.3.
[5] Negulescu, P.P., *Conflictul generațiilor și factorii progresului*, Ed. Garamond, București, 2004, pp.208-209.
[6] Papa Ioan Paul al II-lea, *Redemptor Hominis*, scrisoare enciclică în *Enciclice*, Ed. ARCB, București, 2008, p.36.
[7] Rifkin Jeremy, *Visul European. Despre cum pe tăcute Europa va pune în umbră „visul american"*, Ed. Polirom, Iași, 2006p. 277.
[8] Dawkins, Richard, *Gena egoistă,* Editura Tehnica, București, 2006, p.2
[9] Papa Ioan Paul al II-lea, Scrisoarea enciclică *Redemptor Hominis*, 1979, p.33 în *Enciclice*, Ed. ARCB, București, 2008.
[10] *Ibid.*, p.37.
[11] Grof, Stanislav, *Psihologia viitorului. Lecții din cercetarea modernă asupra conștiinței*, Ed. Elena Francisc, București, 2007, pp.318-320.
[12] Korten, D.C., *Marea cotitură. De la imperiu la comunitatea terestră,* Editura Antet, București, 2007, p. 119.
[13] Klein, Naomi, *Doctrina șocului. Nașterea capitalismului dezastrelor*, Ed. Vellant, București, 2008, p.325.
[14] Alexander King și Bertrand Schneider, Raport pentru Clubul de la Roma apud. Weber, Renate (coord.), *Un concept românesc privind viitorul Uniunii Europene*, Ed. Polirom, Iași, 2001, p.280.
[15] Soros, George, *Epoca fiabilității*, Ed. Polirom, Iași, 2007, p.156.
[16] Papa Ioan Paul al II-lea, Scrisoarea Enciclică *Centesimus annus*, 1991, pp.471-472 în *Enciclice*, Ed. ARCB, București, 2008.
[17] Bryant, Herman, Maynard Jr. Susan, Mehrtens, E., *Al patrulea val. Afacerile secolului XXI***,** Editura Antet, București, 1996.p.36.
[18] *Idem.*
[19] Gore, Al, *Un adevăr incomod*, Ed. Rao, București, 2007, p.296.
[20] Thomas Berry apud. Korten, David C., *Marea cotitură. De la imperiu la comunitatea terestră*, Ed. Antet, București, 2007, p.67.

Are Confidence and Sentiment Indicators Crucial in Forecasting the Economic Growth of Romania during the Current Crisis?

Stoica Tiberiu
The Bucharest Academy of Economic Studies
tiberiusstoica@yahoo.com

Abstract

This paper outlines the importance of confidence and sentiment indicators in forecasting short-term economic growth. I used an econometric model similar to the one used by Kitchen and Monaco (2003), and I made forecasts regarding the economic growth of Romania. The model is combining different individual forecasts of GDP in order to supply a final result regarding the economic growth. I found out that confidence and sentiment indicators have a higher explanatory power as compared to other frequently used variables. Although I was not the first economist that used confidence and sentiment indicators for making projections regarding the economic growth, I consider that future research regarding forecasts of GDP should rely more on these types of indicators.

Key words: forecasts, economic growth, ARIMA, business surveys
J.E.L. classification: C10, C22, E0, O40, O47

1. Introduction

The institutes of statistics and the national banks provide a wide range of indicators about specific industries and markets. Those indicators are used by analysts and policymakers to assess the current performance of the economy and to make judgements regarding its future evolution. Sometimes, different indicators of the economy provide conflicting signals about the course of the economy. The indicator that quantifies in a single value the overall performance of the economy is the Gross Domestic Product (GDP).

GDP growth is a key variable in many policies. For example government tax receipts are forecasted taking into consideration the projections of nominal GDP, inflation and foreign exchange.

Monetary policy decisions affect the economy with a certain important lag, so the central bank has to adopt a forward looking approach in order to take timely measures. Private companies are also interested about the future path of the overall economy as they have to forecast their future cash flows.

GDP has several important disadvantages. It is an indicator that is available only quarterly. In Romania, the National Institute of Statistics (NIS) publishes the first estimates about GDP one month and a half after the quarter ends and the detailed results after two months. For policymakers as well as business planners this is a big problem, as they are informed after an important lag if there was an acceleration or slowdown of the economy. In conclusion, policymakers and business planners have to rely on GDP forecasts in order to take timely decisions.

Forecasting economic growth has two important steps. At first, economists have to choose the variables that have high explanatory power for revealing the future path of GDP. Economists could also try new variables and test if they provide reliable results. The second important step is choosing the right approach or model in forecasting the economic growth. GDP can be forecasted using different approaches like expert judgement, econometric models and complex mathematical models. The easiest method for making short-term forecasts is to study the monthly indicators that are provided by the institutes of staistics before to the release of the official figures concerning GDP. Indicators like the industrial production index, the construction index and retail trade could provide

important information regarding the overall performance of the economy.

Econometric models are widely used in forecasting GDP. Kitchen and Monaco (2003) forecasted GDP for the U.S. Treasury combining certain predictions. Barhoumi, Brunhes-Lesage, Ferrara, Pluyaud and Rouvreau (2008) forecasted the GDP of France using an autoregressive-distributed-lag (ADL) bridge model. Zheng and Rossiter (2006) forecasted the economic growth of Canada using an ADL bridge model. Dynamic Factor Models (DFM) are widely used in forecasting. James Stock and Mark Watson (2002) used a static approach of DFM to make forecasts. Jakaitiene and Dees (2009) tried to predict world economic growth using different methods and found that factor models are the best for this task. Angelini, Camba-Mendez, Giannone, Reichlin and Runstler (2008) showed different ways of predicting euro area real GDP growth. Barhoumi, Benk, Jakaitiene, Rua, Runstler, Ruth and Van Nieuwenhuyze (2008) found that econometric models that use monthly data are better in forecasting GDP than models that use quarterly data. Ajeskis and Davidsons (2008) made projections of Latvia's real GDP growth using a DFM.

This paper presents forecasts of Romania's economic growth using the method applied by Kitchen and Monaco (2003). During this exercise of forecasting, I found out that confidence and sentiment indicators have a high explanatory power in revealing the future path of GDP.

2. Business and consumer surveys

Eurostat provides the following description for the supplied data regarding business and consumer surveys. Six qualitative surveys are conducted on a monthly basis in the areas described bellow:

- Industry monthly questions for: production, employment expectations, order-book levels, stocks of finished products and selling price
- Construction monthly questions for: trend of activity, order books, employment expectations, price expectations and factors limiting building activity
- Retail sale monthly questions for: business situation, stocks of goods, orders placed with suppliers and firm's employment
- Services monthly questions for: business climate, evolution of demand, evolution of employment and selling prices
- Consumer monthly questions for: financial situation, general economic situation, price trends, unemployment, major purchases and savings.

An Economic Sentiment Indicator (ESI) is calculated based on a selection of questions from industry, services, construction, retail trade and consumers at country level and aggregate level (EU and euro area) according to Eurostat. A monthly Euro-zone Business Climate Indicator is also available for the industry.

The data are published as following:

- Balance, representing the difference between positive and negative answers (in percentage points of total answers)
- Index
- Confidence indicators (arithmetic average of balances)

3. Data description

The database was taken from Eurostat, the official statistical office of the European Union. GDP is available only quarterly, while all other variables are available on a monthly basis. I transformed the monthly variables into quarterly ones, by making an average of the values available for the three months specific to a quarter. All of the variables were transformed in order to become stationary. Some of the variables like the current account were first logarithm and then differenced. The variables used are presented in table no. 1. I estimate the model using the data on a quarterly frequency from 2000Q1:2010Q1.

Table no. 1. Variables used in forecasting the economic growth

1. Bucharest Stock Market Capitalization (b_stock)
2. Capacity Utilization in the Manufacturing Industry (cap)
3. Retail Trade Cars (r_cars)
4. Construction Confidence Indicator (c_conf)
5. Construction Production Index (cp)
6. Consumer Confidence Indicator (consu_conf)
7. Current Account (ca)
8. Economic Sentiment Indicator (esi)
9. Euro area 12 GDP (eu12)
10. Industry Confidence Indicator (ind_conf)
11. Industry Production Index (ip)
12. Retail Trade (rt)
13. Retail Confidence Indicator (r_conf)
14. Services Confidence Indicator (serv_conf)
15. Unemployment (u)

Source: Eurostat

4. The model

The econometric model used in forecasting Romania's GDP is similar to the one used by Kitchen and Monaco (2003) at the Treasury Department of the United States. I selected the variables that I considered important and then I obtained individual forecasts of GDP growth. I combined the individual forecasts of GDP growth to obtain the final forecast. The process could be described as following:

$$\hat{y}_{1,t} = \hat{\alpha}_1 + \hat{\beta}_1(L)x_{1,t} + \hat{\lambda}_1 y_{t-1}$$

$$\hat{y}_{2,t} = \hat{\alpha}_2 + \hat{\beta}_2(L)x_{2,t} + \hat{\lambda}_2 y_{t-1}$$

.....

$$\hat{y}_{n,t} = \hat{\alpha}_n + \hat{\beta}_n(L)x_{n,t} + \hat{\lambda}_n y_{t-1}$$

where $\hat{y}_{1,t}, \hat{y}_{2,t}, ..., \hat{y}_{n,t}$ are individual economic growth forecasts and $x_{1,t}, x_{2,t}, ..., x_{n,t}$ are the explanatory variables (those presented in table no. 1 and table no. 2). GDP growth final forecast is obtained as a weighted arithmetic mean taking into consideration the coefficients of determination as following:

$$\hat{y}_{final} = \sum \omega_{1,t} \hat{y}_{1,t}$$

$$\omega_{1,t} = \frac{R^2_{1,t}}{\sum R^2_{j,t}}$$

I also needed the individual forecasts for $x_{1,t}, x_{2,t}, ..., x_{n,t}$ and I obtained them using the Box-Jenkins methodology specific to ARIMA models (table no.2). The final results of the model are presented in the following tables.

Table no. 2. Methods used for individual forecasts

Indicator	Method used for individual forecasts
1. b_stock	ARIMA(0,1,1)
2. cap	ARIMA(2,1,2)
3. r_cars	ARIMA(0,1,4)
4. c_conf	ARIMA(4,1,2)
5. cp	ARIMA(1,1,1)
6. consu_conf	ARIMA(0,1,1)
7. ca	ARIMA(3,1,2)
8. esi	ARIMA(0,1,1)
9. eu12	Eurostat
10. ind_conf	ARIMA(0,1,1)
11. ip	ARIMA(1,1,3)
12. rt	ARIMA(2,1,1)
13. r_conf	ARIMA(1,1,0)
14. serv_conf	ARIMA(0,1,1)
15. u	ARIMA(2,1,0)

Source: STATA calculations

Table no.3. GDP individual forecasts

Indicator	GDP individual forecasts y/y (%)		
1. b_stock	4.75	4.79	4.84
2. cap	3.30	3.33	3.36
3. r_cars	2.91	2.80	2.69
4. c_conf	-4.55	-4.63	-4.70
5. cp	-1.23	-1.27	-1.31
6. consu_conf	-5.08	-5.44	-5.80
7. ca	4.39	4.44	4.49
8. esi	-5.38	-5.51	-5.64
9. eu12	2.20	1.00	1.00
10. ind_conf	-2.35	-2.37	-2.39
11. ip	4.04	4.07	4.12
12. rt	-3.96	-4.23	-4.50
13. r_conf	-5.90	-6.07	-6.24
14. serv_conf	-4.92	-5.32	-5.71
15. u	3.43	3.48	3.53

Source: STATA calculations

Table no. 4. Coefficients of determination of the regressions

Indicator	Coefficient of determination (R^2)
1. b_stock	0.0669
2. cap	0.2351
3. r_cars	0.6068
4. c_conf	0.6351
5. cp	0.3942
6. consu_conf	0.7938
7. ca	0.0378
8. esi	0.6873
9. eu12	0.4195
10. ind_conf	0.5792
11. ip	0.2371
12. rt	0.8222
13. r_conf	0.7180
14. serv_conf	0.7854
15. u	0.1251

Source: STATA calculations

Table no. 5. Final forecasts regarding the economic growth in Romania y/y (%)

2010Q2	2010Q3	2010Q4
-2.59	-2.82	-2.98

Source: STATA calculations

5. Disadvantages of the model

The model presented has several important disadvantages. Forecasting the variables using simple ARIMA models could not always provide adequate results. The model has only 15 variables while Kitchen and Monaco (2003) used 30 variables. The timeframe for each variable is quite short, which could affect negatively the results of the estimation. The difference is that there are more statistical variables available for longer periods in U.S. as compared to Romania.

6. Results

This paper outlines the importance of confidence and sentiment indicators in forecasting short-term economic growth. But why should anybody rely on surveys when other precise variables are available? The answer is simple. The economic growth depends on the individual decisions taken by millions of households and hundreds of thousands of SMEs, large companies and public authorities. In fact, those surveys rely a lot on psychology. The current financial crisis demonstrated again how important is psychology when investors and private individuals take decisions. I was not the first person that used those indicators in forecasting the economic growth. But I have noticed that the number of confidence and sentiment indicators in total selected variables is quite low in the papers published. In the model presented there are 6 indicators regarding business and consumer surveys from a total of 15 used variables. I decided to introduce more indicators regarding confidence and sentiment indicators when I noticed that they have high explanatory power in revealing GDP's future evolution. I want ot mention the fact that forecasts should not rely only on those surveys. Another important problem regards the appropriate weight of confidence and sentiment indicators in the total number of variables used. Combining different economic variables means obtaining different final results.

There is no criterion for selecting the optimal number of confidence and sentiment indicators in a certain model, so I chose this randmoly after different attempts. Another problem is how to measure those survey indicators. As it can be seen in table no. 2 some of the indicators are white noise processes, while others are ARIMA. I think it is still debatable what econometric models should be used in order to quantify better their evolution.

The forecasts obtained also depend on the econometric model chosen. The appropriate model that should be chosen in forecasting the economic growth generated many debates. The volatility of the economic variables increased during the current crisis, making more difficult the forecasting process, as there is high uncertainty regarding the future path of the economy. When do I know that a certain model provides adequate results? In-sample forecasting represents the best way to test an econometric model. In-sample forecasting means making projections for a certain period that I know exactly the real values. After that, I decide if the model provides adequate results or not. If I decide that the model provides reliable results I pass to the out-of-sample forecasting. The in-sample forecasts have one major disadvantage. There could be some important exogenous shocks that could affect the future path of the economy that were not taken into consideration in the current model. For

example military conflicts, social riots and natural disasters. Those types of events have a negative impact for the countries' economic growth. Military conflicts, social riots and natural disasters are impossible to predict and consequently, I cannot take them into consideration before they begin.

As regarding a possible future crisis that could affect a certain country, this event could be predicted to a certain extent. The subprime crisis began in the summer of 2007 in U.S. and extended quickly in the developed countries. Although Romania posted an important economic growth at year-end 2008, in autumn there were clear signals that our country was facing major problems and that the next year it will be very difficult. In econometric models, this should be taken into consideration by adding dummy variables. Although the analysis forecasted a slowdown of Romania's economic growth in 2009, they did not expect such an important slump.

The model presented show that the Romanian economy will continue to post a downward trend in 2010. The tax increases in July 2010 worsened the expectations regarding the revival of the economy in the current year, as all analysts changed their forecasts regarding the economic growth. I noticed the fact that the persistance of the recession in 2010 could have been forecasted even before the annoucement of tax increases in 2010. Confidence and sentiment indicators continued to post negative results. This means that the majority of households and companies didn't expect an improvement of the economic conditions for the second part of 2010.

7. Conclusion

Forecasting the economic growth is a very difficult task during the current crisis as there is an increased volatility of the macroeconomic variables. After years of overheated economic growth, Romania's GDP slumped by 7.1 % in 2009 and posted a negative performance in the first quarter of 2010. This method is similar to the one used by Kitchen and Monaco (2003), but some of the variables proposed by them were not used as they were not available for Romania. The model model forecasted an economic growth of -2.59 % for the second quarter, -2.82 for Q3 and -2.98 for the last quarter of 2010.

The main finding of this paper is that confidence and sentiment indicators have high explanatory power in revealing the future path of the economy. Those indicators are calculated taking into consideration business and consumer surveys. Confidence and sentiment indicators have higher explanatory power in revealing the future path of GDP as compared to some frequently-used variables. The use of confidence and sentiment indicators does not imply that we should drop the use of other variables that quantify in a different manner the economic activity. Further research could include other business and consumer survey indicators and the use of other econometric models.

Surveys that try to reveal the perception of households and companies regarding the state of the economy could represent important variables in revealing the future trends of the economy.

8. Bibliography

[1] A. Jakaitiene, S. Dees, "Forecasting the world economy in the short-run", ECB Working Paper, no. 1059, 2009.

[2] E. Angelini, G. Camba-Mendez, D. Giannone, G. Runstler, K. Ruth, C. Van Nieuwenhuyze, "Short-term forecasts of euro area GDP growth", ECB Working Paper, no. 949, 2008.

[3] I. Y. Zheng, J. Rossiter, "Using Monthly Indicators to Predict Quarterly GDP", Bank of Canada Working Paper, no. 26, 2006.

[4] J. Kitchen, R. Monaco, "Real-time forecasting in practice: The U.S. Treasury staff's real-time GDP forecast system", Business Economics 38 (4), 2003.

[5] J. H. Stock, M. W. Watson, "Macroeconomic Forecasting Using Diffusion Indexes", Journal of Business Economics and Statistics, 2002, 147-162.

[6] K. Barhoumi, S. Benk, A. Jakaitiene, P. Jelonek, A. Rua, G. Runstler, K. Ruth, C. Van Nieuwenhuyze, "Short-term forecasting of GDP using large monthly datasets. A pseudo real-time forecast evaluation exercise", ECB Occasional Paper series, no. 84, 2008.

[7] K. Barhoumi, V. Brunhes-Lesage, O. Darne, L. Ferrara, B. Pluyaud, B. Rouvreau, "Monthly Forecasting of French GDP: A revised version of the Optim Model", Banque de France Notes d'Etudes et de Recherche, 2008

Human Resources Management in a Navigation Company in the Globalized Context

Surugiu Felicia
Maritime University of Constanta
surugiu_felicia@yahoo.com
Utureanu Simona
"Ovidius" University of Constanta, Faculty of Economic Sciences
simona_utureanu@yahoo.com
Dragomir Cristina
Maritime University of Constanta
economie.umc@gmail.com

Abstract

The main factor in seafarer management is the human factor. Seafarer management represents HR management as it has characteristics specific to maritime transport. It is a very difficult domain especially when we are talking about crewing, due to specific working conditions, environment, certification requirements, national (Naval Authority) and international (IMO) certification, due to various types of ships and navigation areas.

One of the institutions that highly influence management of human relations on board ship is represented by the Navigation Company. It is essential whether the company has a well-known name on maritime transport market, whether it is regarded as a reliable company, level of wages adopted and type of operated vessels. A company famous for its professionalism and for the activity developed in good conditions has a management that motivates seafarers through various methods: good contracts, refund or pay for all courses and certifications, professional working conditions, a wage system that influence stability. Each navigation company strives to evolve in order to have a leading place on seafarers' market and thus to facilitate the personnel management process.

Key words: maritime human resources, navigation company, seafarer
J.E.L. classification: J24, M54.

1. Seafarers as the Main Strategic Resource for Navigation Company

In the globalized context, where interconnectivity and interdependency are key factors, sea transport remains a reliable and cost-effective way to move goods and raw materials in large quantity on long distances around our planet and. The vast majority of world trade is carried by ships ruled by seafarers. In the managerial applications of organizations before the Second World War, the employees were considered "labor force" or "labor hand" and their ability and capacity to value the organization material and financial resources was very important. In the last 50 years, especially in the informational society, in this globalized context, human resources (personnel) represent the organization and they have the leading role in its development. Labor force was regarded as being "productive" or "unproductive". The intellectual work was a long time disregarded and low paid in all societies, mainly in the totalitarian societies. Labor force was regarded as an entity that lacked individualities; wages were calculated according to the volume and quality of the work performed. This approach completely lacked employees' initiative stimulation.

Today, the human factor is regarded as being more important than the economic and financial factors. Crewing is a domain which depends exclusively on the individual, on his or her capacities and abilities in every aspect. Both the staff working on shore, for the company, or for owner, broker, charterer or

crewing agency and seafarers working at sea, represents the main factor for development and also for maritime business globalization. There must exist a continuous informational and action cycle between all elements and departments in a navigation company. There is no ship operator that can work without an owner, or an operator that can record performances without the help of a crewing agency. All these elements contribute to establish a performance management system of human resources.

The navigation company, from rational economic and performance reasons, adheres to the idea of using a broker to deal with seafarers' management. Contracting a specialized Agency represents the best solution for manning ships according to the rapport quality – price. The crewing agency is in fact a management department for seafarers according to company's requirements and it cannot exist without its main object of activity– the seafarers. The company/ crewing agency join two main components: the on-shore personnel and the one on board. Thus, personnel management should take into account the characteristics of human resources.

2. Characteristics of Seafarers

In the last half century, until the period of the financial crisis, the shipping industry has experienced a massive expansion in demand reflecting the growth in volume of seaborne trade, There have also been changes in the organizational structure with the appearance of management companies, and the extension of 'flagging out' and 'second registers' [1]. Movements combined with changes in regions where the recruitment of seafarers took place from their home nation to be put onto an international recruiting basis, with the development of the Asian labor market. Despite all these comparatively rapid and profound changes in the industry, labor is the primary factor of production and is still organized on board ship on the basis of a steep hierarchical structure of officers and ratings- a construction that developed from the changeover from sail to steam propulsion half a century or more earlier [1].

1. Seafarers represent the main resource in the maritime field.
2. Human resources represent the most expensive, but the safest investment a navigation company may take.
3. Human resources represent a continuous, ever-lasting growing and evolution potential; they are unique; they cannot be replaced, as they are the only one capable to produce goods and services, to innovate, to transform and organize.

Nowadays, most of people's responsibilities have been taken over by efficient computerized systems in all economic domains. For certain, such tendencies are felt in the maritime sector. Ships are becoming more and more efficient and computerized. New innovations and inventions facilitate seafarers' work environment, but at the same time, these machines can partially replace people's activity.

4. The seafarer is the creator and the consumer of resources.
5. In society, seafarer is subject, object and purpose for various activities.
6. Regarding human resources management, managerial decisions are the most difficult ones to be made as they have to be moral, ethic and legal. Employment, promotion, professional development, motivation, dismissal, etc. represent complex managerial acts, as they involve people with specific needs, characterized by their own personality, who have their own objectives to achieve and personal problems to deal with. The adoption of certain managerial decisions in a Company can affect individuals' health, career, professional development and even their life. Within human resources department, managerial decisions should be responsible (towards society), undiscriminating and flexible (towards individuals); these should not lead to the appearance of social conflicts, misinterpretation or reading between lines should be avoided.
7. Managerial decisions in human resources department should be adapted to applicants' type of personality and educational and professional background.
8. Managerial decisions in this domain should take into account the fact that personnel do not represent a heterogeneous group; they should be regarded as a group of distinct personalities, with individual targets, hopes and objectives.

9. Human potential is not the same for each individual; it differs genetically, biologically, it depends on social, cultural, educational, family influences.

Psychological analysis element represents the most important selection factor. The manager or the person designated to employ seafarers should have general knowledge regarding individual's psychology in order to successfully fulfill his/her tasks.

10. People are conservative, and from this very reason they oppose changes; on the other hand, people can easily adapt to changes.

This is a characteristic feature of maritime industry because, generally speaking, seafarers' labor market is an extremely vast and varied one. There is a huge number of competing navigation companies and seafarers have the possibility to choose the company that best suits them. But this aspect requires a whole selection process. The working conditions for a seafarer generally differ from one voyage to another according to the main factors which are: crew members, the type of vessel, the navigation area and the duration of the contract.

First of all, seafarers must be able to easily adapt to various conditions. They tend to look for a reliable company to integrate in.

11. People must be helped to face changes and encouraged in their efforts to creatively participate in the process.

Crew members change all the time, new members need a period to adapt to and integrate in the new conditions and requirements. The Master plays the most important role in this process, but crewing is also an important factor.

12. Referring to mentalities, customs, individual and group behavior, people are relatively conservative; economic and social values are differently perceived by different individuals. The Company is the one that has to have the capability to positively direct individuals, to underline their own values.

13. People are autonomous and free; any manipulative management methods have negative effect on the company.

14. Managerial decisions in seafarers' management should be adopted respecting human dignity, irrespective of the position an individual holds within the company; people should be treated decently and fairly. This approach is the only one that can contribute to individuals' positive motivation to participate together with the others in fulfilling the strategic objectives of the Company [3].

In conclusion, we are underlining the fact that the good use of material and financial resources depends on the degree of human resources use.

Maritime industry is a difficult domain from this point of view as the stimulating element is represented by the financial factor.

Analyzing the above mentioned ideas, it becomes obvious that seafarers' management differs from general management, as it serves not only the Company but the individual, too; now, it is the moment to point the fact that "human resources" term replaced the "personnel" one, in order to stress the importance of the contribution brought by the individuals for the development of the Company and the society, in general.

Human resources department represent one of the most important structures capable to value all the other resources a navigation company has in order to achieve its strategic and immediate objectives.

3. Development of Human Resources Sub-System

The development of human resources sub-system represents a permanent activity of the company, market dynamics; changes regarding legislation, changes in the training norms, buying new technologies make systematic evaluation of positions in a Company and of employees' performances necessary. As a result, the structural and functional scheme of the Company should be analyzed and, if necessary, changed, modified, re-planned, re-considered etc. Human resources sub-system is a living body. The structural, quantitative and qualitative changes brought to human resources sub-system does not represent a goal in itself, but it is the consequence of the political, economic, cultural (technology included) and social system dynamism which characterizes the environment exterior to the Company.

Powerful companies manage to anticipate market evolution and subsequently adopt, in advance, politics and strategies that would help them maintain their status.

The responsibility of human resources management belongs to the general manager's, the other executive managers and the specialized department of the Company. We believe that, in order to avoid overlapping of competencies, the general manager and senior managers are responsible for elaboration of prognosis, planning and adoption of a long-term personnel policy, on the basis of the analyses made by the specialized department and the heads of the other departments. On the other hand, the human resources department specialists organize and manage all current personnel activities.

Human resources department activities are the following:

- adoption of the tactics for applying the personnel policy established by senior managers respecting the Company policy;
- adoption of the quality standards and indicators for recruiting the personnel
- job definition and description;
- analyses and jobs redesign;
- personnel recruitment;
- human resources selection;
- employment of personnel;
- personnel training;
- personnel integration;
- personnel upgrading;
- evaluation of human resources activities;
- application of regulations regarding labor legislation;
- application of a system that stimulates morally, materially and financially the whole personnel;
- organization of professional counseling and career development system;
- application of the policies for cooperation with the unions (if they exist);
- elaboration of human resources prognosis and planning studies.

Investing in the development of a multinational skilled and competent workforce is essential for development of Human Resources sub-system in every maritime sector: merchant navy, inland shipping, sea and inland oil and chemical tanker trade, maritime transport linked business, fishing, passenger-vessels, storage and distribution. More often, the functions of this sub-system are being relocated to recruitment offices and crewing agencies in order to pass to specialists the activity of qualified seafarers' recruitment.

4. Conclusions

In conclusion, the main domains characteristic to human resources management in a navigation company are current administration, multinational human resources management, training, social development, administration of personnel costs, information and communication, environment and work conditions, social relationships, counseling and personnel administration, external relationships.

5. References

[1] McConville, J. , "Editorial: Maritime Manpower" *Maritime Policy and Management*, Vol.26, No.3, p.207- 208, 1999.

[2] S. C. Kundu, D. Malhan, P. Kumar, *Human Resource Management Practices in Shipping Companies*, Delhi Business Review X Vol. 8, No. 1, 2007.

[3] B. Blagovest, R. Hanzu Pazara, C. Nistor *Strategic Human Resources Management in the Maritime Knowledge-Based Organization,* The Knowledge-Based Organization 15th International Conference Proceedings, 26-28 November 2009, "Nicolae Bălcescu" Land Forces Academy Publishing House, ISI Web of Knowledge

The Role and Importance of the Modern Comerce in Organizations

Susanu Irina Olimpia
Cristache Nicoleta
Micu Angela-Eliza
„Dunarea de Jos" University of Galati
susanui@gmail.com
mkdradrianmicu@yahoo.com
cristache.nicoleta@yahoo.de

Abstract

Pressure from the competition existent on the market, as well as the current conjuncture, determine organizations to use and respect merchandising techniques in order to ensure a successful image.

Merchandising is a notion which refers both to adapting the prior and post sales services system to the customer's needs and to presenting the products in an attractive way and launching them on the market when demand is at its peak.

The purpose of this marketing research is that of gathering sufficient information on the subject to be analyzed, to quantify and interpret the results and to highlight the role of merchandising in retail organizations.

Key words: modern commerce, merchandising, retail, strategy, client satisfaction
J.E.L. classification: M 310

1. Introduction

The modern commerce comes off through the agency of the stores with considerable commercial surfaces and more and more bigger as in the case of the stores of the type hypermarket, supermarket, discount and cash and carry that are the places where the population prefer to do the shopping at the present time.

The hypermarket is a type of store invented in France, in 1963, by the firm Carrefour, being a of sale point that individualizes itself, essentially, through:

- the surface for sale is of over 2.500 mp;
- the size of the assortment of merchandise : between 25 and 50 thousands references, of which 4000 from the food sector;
- the public food sector present with three rooms of consumption : restaurant, home town buffet (cafeteria), snack bar;
- the presence of all departments, even of those that practice the sale through the agency of salesmen (meat, salami and sausages, cheese, vegetables-fruit), in the help-yourselves flux;
- a cash register (at the exit from the help-yourselves flux) for every 200 mp of sale surface;
- the construction on a single level;
- the settlement, usually, at the periphery of the town;
- the availability of a large parking area (1200 parking places on an average).

In the last few years, the hypermarkets consolidated their "locomotive" role in the commercial centers where there are specialized dealers and service bidders. Thus, for example, in a period of 30 years, in France the hypermarket became the most dynamic form of commerce, getting to represent almost 21% of the total sales through en detail commerce. This spectacular dynamic of the hypermarkets was also sustained through the opening, outside France, of numerous of sale unities of French origin. Other European countries know, sometimes under other forms, the " hypermarket " phenomenon, starting from 1000 mp, like for example, "Verbraucher Market " in Germany.

The increase of the market rate of the hypermarkets is accompanied by a mutation of the concept, characterized through two evolutions:

- a pronounced bipolarization of the typodimensions of the store: big hypermarkets of over 8000 mp (Carrefour, Auchan), considered the most profitable, but with a less rapid evolution because of the lack of the settlement availabilities; small hypermarkets, of up to 5000 mp (Leclerc, Intermarche); the last ones are often obtained through the transformation of the supermarkets and have a weight of the nonfood sector sufficiently reduced;
- a qualitative amelioration of the offer : in order to satisfy the consumers' needs, that are more and more hard to please, the hypermarkets have the tendency to extend their offers with new products, with services set in the very vicinity, multiplying its efforts in order to make the purchase cadre agreeable. Anyway, the discount prices remain the major axis of the commercial politic of the hypermarket.

2. Analysis on the impact of the modern commerce in retail organizations based on a questionnaire

Retail organizations are preoccupied with surveys on clients' satisfaction. The purpose of marketing research is that of gathering enough information about the components of the sample to be analyzed so that interpreting the results is relevant.

In carrying out the questionnaire we used:

- closed questions with a single choice of answer;
- open questions offering the possibility to answer freely;
- one control question, which affected to a certain degree the size of the sample;
  - questions with choice answers which offer multiple alternative answers, the questioned person being able to choose the answer that is the closest to his/her opinion;
  - questions with answers grouped on evaluation scales: they are the ones through which the questioned persons express their opinion by registering them on a scale;
  - questions evaluated by means of a nominal scale, which allows identifying a unique answer to multiple options that can be put up through names;
  - questions with an algebraic scale in which intervals are dispersed gradually from total disagreement to total agreement;
  - questions related to the importance of the chosen answer;
  - direct questions: used to obtain information (e.g. age, gender)

The questionnaire applies to a quota of the total number of Galati county inhabitants, on an established size called sample. According to Amerein, the sample represents a part of the population chosen to represent the population on the whole [1]. The sample must be representative, so that the researcher can make a just appreciation of the opinion of the population, based on the results.

In the case of random sampling, in order to establish the size of the sample, we took into consideration the following aspects: an admitted error level of 5% and a trust level of 95%, which corresponds to a 1,98 value. Because we have no information on p – the percentage of those who answered affirmatively, we will consider it to be 50%.

The size of the sample (n) is calculated this way [2]:

$$n=\frac{t^2 * p(1-p)}{E^2} \rightarrow n=\frac{1{,}98^2 * 50 * 50}{5^2}=100 persoan$$

t – the coefficient of the probability which ensures obtaining the result (from the statistical tables)

p – the proportion of the sample components that have the examined characteristic

e – the acceptable error limit

We have chosen a number of 100 persons to answer the questionnaire and they were interviewed in the 9-16 December 2008 period, between 10-12 am and 16-18 pm in Galati.

Question 1: How did you find out about the BILLA supermarket?

Note that most of the questioned persons (41%) were informed about the supermarket through the company's folders, followed by friends with 23%, and then TV (17%), press (14%) and Internet (5%).

Question 2: Have you ever bought products from BILLA? (If the answer is negative, we skip to question 15. If not, the possible answers are: once, more than once, I only shop from BILLA)

The questionnaire revealed that 56% of the persons shopped several times from the supermarket, 22% buy from BILLA supermarket only, 12% of the inquired persons claimed they have only shopped once from the organization and a number of 10 persons have never bought from this shop.

Because a number of 10 persons answered negatively to this question, the questionnaire will rely on a number of 90 persons.

Question 3: Where else do you shop from?

The percentages related to other options of the customers are: 29% opted for Penny Market, followed by Real with 26%, Kaufland with 22%, Metro with 14%, Selgros with 7% and another shop (Flamingo and Viva supermarkets) with 2%.

Question 4: How often do you do your shopping from BILLA?

We determined that 33% of the questioned persons go to the supermarket once every two weeks, 23% once per week, 20% cannot give a precise answer, 16% of the persons choose to do the shopping from the BILLA supermarket once a month, and 8% represents the people that go 2-3 times a week to the supermarket.

Question 5: What is the element that determines you to buy from the BILLA supermarket?

As the defining element in their decision to shop from BILLA supermarket, 27% of them went for the prices, 21% for the shop's location, 18% for the quality and diversity of the products offer, 17% for promotional offers and only 10% for the shop's ambience.

Question 6: What is the main criterion for choosing the products?

Chart 1. The main criterion for choosing the products

Possible answers	Max grade 1	2	3	4	Min grade 5	Total
Lowest price (A)	38	32	11	9	0	90
Products from known brands (B)	34	29	7	19	1	90
Optimum quality-price ratio (C)	21	36	18	12	3	90
Promotional offer (D)	35	24	10	21	0	90
New product (E)	16	25	21	20	8	90

The average score for each criterion is calculated this way:

$$S_A = \frac{1 \cdot 38 + 2 \cdot 32 + 3 \cdot 11 + 4 \cdot 9 + 5 \cdot 0}{90} = 1{,}90$$

$$S_B = \frac{1 \cdot 34 + 2 \cdot 29 + 3 \cdot 7 + 4 \cdot 19 + 5 \cdot 1}{90} = 2{,}16$$

$$S_C = \frac{1 \cdot 21 + 2 \cdot 36 + 3 \cdot 18 + 4 \cdot 12 + 5 \cdot 3}{90} = 2{,}33$$

$$S_D = \frac{1 \cdot 35 + 2 \cdot 24 + 3 \cdot 10 + 4 \cdot 21 + 5 \cdot 0}{90} = 2{,}19$$

$$S_E = \frac{1 \cdot 16 + 2 \cdot 25 + 3 \cdot 21 + 4 \cdot 20 + 5 \cdot 8}{90} = 2{,}77$$

Following the analysis of the answers from the 90 persons, we noticed that "lowest price" is the main criterion for choosing products, thus obtaining the most maximum grades, followed by "products from known brands", "promotional offer", "optimum quality-price ratio" and "new product".

It is relevant that the lowest score represents the element having the greatest importance in the product purchase decision process of the questioned persons.

Question 7: Do you think that the products presented in the BILLA folder influence your purchase intentions?

Based on the answers, 43% of the questioned persons are influenced by promotional offers, 31% are not influenced

by them, and 26% of the persons that answered were not sure.

Question 8: Did you benefit from features, promotions or free products?

According to the gathered data, 58% of the persons benefited from promotions and product features, 23% did not have the chance yet, and 19% cannot remember.

Question 9: Please express your opinion on the following matters:

a. The way products are placed on the shelves is suitable

b. The shopping ambience is pleasant

Chart 2. Opinion on the way products are placed on the shelves is suitable and the shopping ambience

	Total agreement 2	Agreement 1	So-so 0	Disagreement -1	Total disagreement -2
a	32	39	11	8	0
b	19	20	39	12	10

We calculate the average score for each statement separately:

$$S_1 = \frac{32 \cdot 2 + 39 \cdot 1 + 11 \cdot 0 + 8 \cdot (-1) + 0 \cdot (-2)}{90} = \frac{95}{90} = 1{,}06$$

$$S_2 = \frac{19 \cdot 2 + 20 \cdot 1 + 39 \cdot 0 + 12 \cdot (-1) + 10 \cdot (-2)}{90} = \frac{26}{90} = 0{,}29$$

For the first statement, "The way products are placed on the shelves" we obtained a score of 1,06 which places it between "Agreement" (1) and "Total agreement" (2) levels. Being significantly closer to 1, the score shows that people generally consider the way products are placed on the shelves as being adequate.

For the second statement, "The shopping ambience is pleasant", the score obtained is 0,29 which is between "Agreement" (1) and "So-so" (0) levels. This score indicates that ambience is less important for the questioned people.

Question 10: To what degree does the information on the product labels satisfy you?

Chart 3. Information on the product labels

Answers	Very S 5	S 4	So-so 3	D 2	Very D 1
Results	10	32	26	16	6

For the analysis of the answers to these questions, we used a semantic scale with 5 levels of evaluation, to which we attached numerical values: 5, 4, 3, 2, 1. Based on the answers we worked out the score, calculating the weighted average of the answers the persons opted for.

The average is:

$$x = \frac{5 \cdot 10 + 4 \cdot 32 + 3 \cdot 26 + 2 \cdot 16 + 1 \cdot 6}{90} = 3{,}27$$

After calculating the average, its value being between level 3 and 4 – closer to 3 – we can say that the questioned people consider that the information provided by the products' labels neither satisfy nor dissatisfy their need to know more about the products.

Question 11: How do you find the quality-price ratio of the BILLA supermarket products ?

Chart 4. The quality-price ratio of the BILLA supermarket products

Exceptional **5**	Very good **4**	Good **3**	Satisfying **2**	Dissatisfying **1**
19	22	25	15	9

The score is the following:

$$x = \frac{19 \cdot 5 + 22 \cdot 4 + 25 \cdot 3 + 15 \cdot 2 + 9 \cdot 1}{90} = 3{,}3$$

Its value is between levels 3 and 4, closer to 3, so we can say that the questioned persons appreciate the quality-price ratio as being good.

Question 12: How do you find the employees' behavior?

Based on the gathered data, 47 persons out of 90 appreciated the employees' behavior as being suitable, 23 opted for "friendly", 10 of the questioned people claimed the personnel

is careless, 2 persons thought that they "don't have the patience to listen to what the customers have to say", and 8 persons opted for "something else", going for other answers.

Question 13: Are you satisfied with the personnel's behavior?

The questionnaire shows that 43% of the persons are content with the personnel's behavior, 32% are not sure if they're content with their behavior and the dissatisfied ones cover a 25% percentage.

Question 14: How do you find the wait time at the pay desk?

Out of 90 persons, 26 of them think the wait time at the pay desk is small, followed by those who consider that the wait time is neither small nor big (24 of them).

Question 15: What do you do for a living?

The answers are better seen in the following picture 6 (administrator/entrepreneur, employee with higher education, employee, laborer, retired, student, unemployed)

Question 16: How old are you?

The biggest percentage (34%) is that of people aged 31-45, followed with 30% by those aged 46-60, 24% are under 30 years old and lastly, 12% are over 60 years old.

Question 17: Gender

We noticed that the majority is represented by women, who form 58% of the questioned people and 42% of the questioned persons are male.

Question 18: What is your family's net income? The questionnaire revealed that 32 persons have an income of 10-14 million lei, followed by 21 persons with 5-9 millions, 18 of the questioned persons with under 5 millions, 15 people have over 20 millions income and 14 persons have between 15-18 millions.

3. Conclusions

It is obvious that organizations cannot exist without customers. It is not enough, however, for the organization to have clients without knowing the degree to which they are (dis)satisfied and what their expectations are.

From this point of view, retail organizations place the customer in the center of their activities. The information received from the client is monitored, taking into account his/her perception on the way the organization satisfied his/her needs. We can say that measuring customers' satisfaction is one of the methods used for determining the management system performance of the retail organizations.

No matter what the organization does, it is necessary for it to fulfill the customer's requirements, as long as they were established and accepted by both sides. It is important for the organization to know how well it performed for the customer, how satisfied is the client, using the initial agreement as a reference point. Studies like this one help organization managers improve the organization-customer relationship in two ways: reducing the operating costs and increasing the customer satisfaction. Improving the client satisfaction brings a direct benefit: the partnership between the organization and the client [3].

Thus, retail organizations are concerned with surveys related to the customer satisfaction and, even more, whether their satisfaction is determined [4].

The results obtained from such surveys represent entry data and elements to be used in order to establish the future global strategy of the organization.

4. Bibliography

[1]. P. Amerein, D. Barczyk, R. Evrard, F. Rohard, B. Sibaud and P. Weber, „Manual Marketing strategic şi operațional", Teora Publishing, Bucharest, 2002, pg. 221

[2]. I. Susanu and N. Cristache, „Marketing direct", Didactica si pedagogica Publishing, Bucharest, 2009, pg. 100-200

[3]. I. Susanu, „Marketingul serviciilor", Didactica si pedagogica Publising, Bucharest, 2009, pg. 60-80

[4]. A. Micu, „Marketing strategic", Didactica si Pedagogica Publishing, Bucharest, 2004, pg. 20

Reduce Volume of Hotel Investments in Context with World Economic Crisis

Sztruten (Lefter) Gina Gilet
The Academy of Economic Studies and Romanian-American University of Bucharest
lefter_gina@yahoo.com

Abstract

Hospitality industry as part of travel and tourism industry recorded reductions in tourist flows, which entail dramatic reductions in the global crisis and the collapse of the optimal level of investment indicators. Based on the decrease of interest in new real estate investments to the decrease of the specific investment property for a hotel room, all indicators of investment, and not only, mutated evolutionary developments closely correlated with the overall downward contribution of global investment. The investment decision in a new hotel product must take into account today (in context of an unprecedented global economic crisis) if there is an unsatisfied customer segment and such goodwill will cover, with margins of recovery (due to the crisis), investment volume in a satisfactory manner.

Key words: indicators, sustainable, hotel, resources, ecological investments.
J.E.L. classification: L83

1. Introduction

In the category of hotel management indicators with profitability indicators, indicators of expenditure and workload indicators, also enter the hotel investment indicators, indicators that best reflect in the current economic crisis, hospitality industry development trend.

In present and future conditions of the world economy development, the superior exploitation of tourism resources is necessary, with poignancy, as in any economic field. This involves a complex and efficient operation in an intensive tourism, a protection and a conservation of the tourism value.

Like any other markets, the tourist market has its own competition rules and its own hierarchy of factors that contribute more or less to the competitive position and to the competitive advantage.

On the world level the hierarchy of the countries on the tourist market is accomplished according to the following factors of competitiveness: economic performance, goverment efficiency, infrastructure and business efficiency.

2. Stakeholders and the importance of measuring the economic, social and sustainable indicators from hotel business.

Sustainable development objectives are broad and, in order to deliver them, organizations must focus on specific issues. One way to do this is through indicators, which quantify and illustrate the important issues. Return on equity, profit before taxation and cost/income ratios are widely recognized as key financial indicators of business performance. They are broad-brush, highly aggregated statistics, which summarize the overall picture. Organizations use indicators to determine business strategy and stakeholders use them to judge how well a business is performing. The hotels intend that the indicators should be used in the same way; that is, to inform strategic decisions within the business and to help Partners assess whether, when judged against the benchmarks, the hotels are achieving the broader objectives of sustainable development. Of course, conflicts of interest will arise; for example, situations where progressing one indicator will mean hindering development of another. Judgments, therefore, need to be made by Partners about how to reconcile the benefits

of delivering value, social responsibility and ecological sustainability.According to conventional business wisdom, indicators should meet a number of criteria referred to as SMART: Specific, Measurable, Achievable, Realistic and Timely. Whilst endorsing these general characteristics, the hotels also believe that:

- „delivering value" indicators should be based on focused consultation with those Partners most affected
- ethical/social indicators should be informed by the widest possible dialogue
- ecological indicators should be grounded in sound science
- in addition, there are 'leadership' indicators which are integral to the hotel's business strategy.

The hotels have done their best to find out and to measure performance accordingly.

Theme	Indicator
FINANCIAL PERFORMANCE	Profit before taxation (£m)
	Cost/income ratio (%)
	Return on equity after tax (%) [ii]
PERSONAL CUSTOMERS	Satisfaction with relationship (% rated as excellent, good or average)
CORPORATE CUSTOMERS	Satisfaction with relationship (% rated as excellent, good or average)
STAFF	Staff agreeing that benefits (e.g. holidays, pension) are good (%)
	Staff agreeing that the hotel maintains job security to the best of its ability (%)
	Staff agreeing that there are sufficient opportunities for career progression (%)
SUPPLIERS	Supplier satisfaction with relationship with the hotel (% satisfied)
	Suppliers agreeing that the bank pays invoices promptly (% agree)
COOPERATIONS	Time spent by hotel managers working with other managers in horizontal and vertical cooperation (days)

The hotels know that Partners want it to conduct its business in a socially responsible manner, along the lines set down in the Ethical Policy. How far has it succeeded?

Theme	Indicator
FINANCIAL SCREENING	Full implementation of the Ethical Policy, as confirmed by ***ethics etc...***
	Screening of finance along ethical and ecological lines (number of businesses declined)
SUPPLIER SCREENING	Suppliers believing that the hotel is fully committed to ethical and ecological issues (%)
	Suppliers stating that the ethical stance has made an impact on the way they operate (%)
EQUAL OPPORTUNITIES	Employees identifying themselves as of Ethnic Minority origin (%)
	Percentage of 'middle management' and above who are women (%)
COMMUNITY	Community investment (% pre-tax profit)

The hotels recognize that the world has a limited capacity to provide resources and absorb wastes. The hotels assesses the impact of its activities in the light of this recognition.

Theme	Indicator
ENERGY	Net carbon dioxide emissions per customer account (kilograms)
WATER	Water consumption per customer account (cubic centimeters)
TRANSPORT	Net carbon dioxide emissions per customer account (kilograms)
WASTE	Waste to landfill/incineration generated per customer account (cubic centimeters)
PAPER	Paper purchased per customer account (kilograms)
LAND AND BIODIVERSITY	Land with significantly enhanced biodiversity resulting from hotel donations (hectares)

Thus being said, the three categories of indicators directly help in medium and long term decision making.

3. Hotel investment indicators reduced by the decrees of hotel volume indicators.

As an expected effect, hotel investment can be:

- global expansion investments (entering new markets);
- local expansion investments (by building new facilities and/or new rooms);
- modernization investments (offer adjustment to new customer needs);
- replacement investments (replacing used equipment).

And if they can be analyzed in the current global economic context each of these investments will be able to be seen as a pyramid decrease directly proportional to the volume of investment:

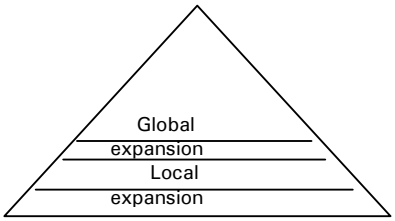


Fig.1 prepared by the author

Why the size of investments in global development is at the top of the pyramid, is understandable, given the reluctance of the new investment in hotel business considering the volume decreases or remains constant at best. Expanding locally can be seen contextual, of course influenced by local factors such as the tourist potential, the average length of stay, the weather, distance from natural and manmade tourism resources. Investments in tourism infrastructure modernization converge to the base of the pyramid, thanks to the close link between their volume and the desire to preserve the hotel product for a longer period of time in the mature phase of the life cilcle (stage that provide investor with the highest incomes). Replacement investment is seen as a necessity to run a good business hotel, with so binding, and the volume is inversely proportional to the degree of novelty of the hotel.

Investment indicators can be considered the following:

- investment cost structure (budget);
- need for working capital;
- specific investment;
- average room size;
- ratio between dining capacity and rooms capacity.

In the budget structure investment of land purchase accounts for 10-15% of the total investment and real estate investment budget 70-80%. Two structural elements seem to be favorably affected by lower market value of land and lower construction materials prices, deflation is putting its imprint on the evolution of prices.

Regarding the working capital, which accounts for a relatively small percentage, it is reduced to the maximum, hoteliers are not willing to cease large stocks (especially in hotels without restaurants), increase the period of payment of suppliers as long as possible and no longer accept delays in receipt of benefits.

Specific investment level per room is the affected by the global crisis from two perspectives: the loss of liquidity at their disposal at the start of investment projects (before the crisis) and secondly the reduction of bank credit facilities for a further investment required for equipping rooms. Reducing the adjoining spaces for meal planning and even waiver of restaurants within the hotel, restaurants aimed at attracting other customers are measures taken by investors to reduce the total investment budget.

And the budget for hotels that require capital repairs (budget which amounts to 50-70% of the level of a new construction, excluding land), appears to be diminished due to the economic crisis by:

- lowering star category (from a 4* hotel to a 3* or 3*+);
- reducing the number of accessories offered in hotel rooms;
- minimal new technology.

The decrease in hostelling investments directly attracts the reduce in volume of ecological investment in old hotels and volume growth of this investment in new hotel concepts. New hotel investors worldwide are no longer willing to invest in polluting technology, consuming technology and water consuming etc. Everyone is aware that a hotel with high and very high costs for energy and water, a hotel that pays substantial taxes to pollution, a hotel that does not provide clients with psychological comfort to directly save natural resources in the world, will not have a long life cycle. Recovery of investment in such a tourist reception structure, a structure not connected to requirements to reduce resource consumption, may be jeopardized.

4. Conclusions

Whatever is the base customer segment and complementary target segment, the investment must be carefully in conjunction with the needs, desires, tastes and expectations of clients. And the premise of this conjunction is represented by the very definition (design) of the hotel product in the market. The level of global hotel investment

is stalling, but investors do not wait for the end of the economic crisis, and are investing in activities aimed at the richest social class in a small number of hotel units, or low class and very low-budget (social class is still needed to travel, and thus to accommodate) in a large number of tourist reception facilities.

5. Acknowledgements

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

6. References

[1] B.A.Bujosa, N.J.Rosselo, „*Moddelling environmental attitudes toward tourism"*, Tourism Management 28, Elsevier Ltd, London (ISI Journal), 2007

[2] Lupu Nicolae, *The Hotel, Economy and management*, Publishing by All Beck, Fifth Edition, Bucharest, 2005, pp 12 .

[3] Firoiu Daniela (coord), Tourism an travel industry, Publishing by Pro Universitaria, Bucharest, 2006.

[4] Jaloni Pansiri, „*The effects of characteristics of partners on strategic alliance performance in the SME dominated travel sector"*, International Journal of Tourism Management, vol.29, Elsevier, 2008

[5] Tribe John, *The economics of recreation, leisure and tourism*, Third edition, Elsevier, Great Britain, 2005

Europe and Future Growth

Şerban Dan
"Alexandru Ioan Cuza" University of Iasi
sherban_dan@yahoo.com

Abstract

The paper try to examine the sustainable long term growth problem in Europe. Economic growth is fragile in many countries members of U.E. In the context of public austerity, the ageing populations, the lagging productivity in the service sectors (in line with the United States) and the relatively inflexible labour market constitute serious challenges. Europe can obtain more sustainable growth if made reforms in three areas : reforming labour markets, unlocking the full growth potential of service sectors and aligning policies to growth and innovation. If European leaders act boldly, just as Sweden did in the 1990s, they can lead European economies to a sustainable path of growth.

Key words: economic growth, productivity, Europe .
J.E.L. classification: F43, O41, O47

1. The growth problem in Europe

In Europe the economic growth is still aneamic. In the first quarter of 2010, the eurozone and the EU-27 each posted GDP growth of only 0.2 per cent. Despite this marginal growth many European governments have embarked on budget cuts and austerity in order tu put their public finances in order. Alongside with household deleveranging in some countries, and secular trends (ageing), will bear down on growth. The continent faces severe and simultaneus pressures on growth. These challenges varies big from country to country as European economies have experienced widely divergent trend in per capita GDP as well as its key components – labour productivity and labour utilisation – in recent years. Like other developed regions around the world, Europe has built up very substantial levels of private and public debt. Government debt has grow as a direct result of substantial public spending designed to stimulate economic recovery. In many European countries, gross public debt has soared way above the 60 per cent upper limit fixed in the EU's Maastricht Treaty. After at least two years of substantial publicly financed economic stimulus, it appears now that policy makers across Europe are committed to a period of austerity to restore public finances to sustainability.

On top of a potentially prologed period of public and private deleveraging, European GDP faces a challenging demographic environment. Europe's population is ageing, due to a combination of increasinf longevity, lower fertility rates, and the ageing od the large baby boom generation. From 1970 to 2010, the population of the EU grew at a annual rate of only 0.4 per cent, compared with 1.1 per cent in the United States, and this trend will continue.

A shift in Europe's age mix will have profound economic implications, bearing down on purchasing power, consumption, and per capita GDP and GDP growth. In EU-27, old-age ratios will rise. Whereas each retiree today is supported by 2.6 employed persons, in 2050 there will be one retiree for every 1.5 employed persons. Ageing will place increasing strain on the public financing of pension, and goverments are responding by increasing the average retimerent age and reducing pension generosity. Even a combination of higher labour market participation and longer working hours will not be sufficient to overcome demographic headwinds.

In the past, the age mix – i.e., the share of population that falls into the working-age category – made a positive contribution to per capita GDP growth. Demographics added 0.3 percentage points to per capita GDP

growth in the 1980s. But as the population ages, the mix impose a 0.4 percentage point drag on per capita GDP growth by 2030 [1]

Ageing will impose an increasing fiscal burden on European governments. Even after taking into account reduced public expenditure on education or unemployment benefits (reflecting the declining population in the relevant age bands) the European Commission projects that spending on pension, health care, and long-term care expenditures will impose an additional „off-balance-sheet commitment" for governments of 3 per cent of GDP as erarly as 2035 and 4.8 per cent of GDP by 2060. [2]

2. Imbalaces developed in the eurozone

There are widening gaps in competitiveness between Europe;s economies broadly, and in the eurozone more specifically. Since the inception of the euro in 1999, unit labour cost trends in the eurozone economies have been very different. As example, Germany experienced no increase in the cost of labour per unit of output between 2000 and 2008. In contrast, Ireland's unit labour costs rose by 35 per cent and Spain's by 33 per cent during the same period.[3]

Current account balances, too, have diverged widely. While Germany boasted a current account surplus af 6.7 per cent of GDP in 2008, Greece's deficit on the current account had swelled to 14.6 per cent and Spain's to 9.7 per cent.[4] The crisis reduced current account deficits in Southern Europe, but imbalances remain.

Europe made progess on structural reform in the decade before the global economic crisis. EU countries abide by the principle of mutual recognition of national rules so that any product legally manufactured and sold in one member state must be allowed to be sold on the market in all others. This system of mutual recognition has also made possible the liberalisation of services, including access to, or practice of, professions such as law, medicine, and banking. Such liberalisation has led to greater competition across Europe, for instance greatly reducing the price of national telephone calls and air travel. Europe has not iet achieved sufficient mobility of labour, but it si working to ensure that educational and vocational qualifications obtained in one EU country are recognised across Europe. Representing 28 per cent of the world GDP in nominal terms, the EU-27 is today the largest integrated economy worldwide, ahead of the United States.

Per capita GDP is not the only way to measure national success. Europe scores well on non growth indicators that measure sustainability and quality of life dimensions such as health, education, social inclusion, security, and the environment.

From 1970 to 2008, life expectancy increased by more in France and Germany than in United States despite lower per capita GDP growth in the European economies.[5]

In education, the United States has a higher proportion of annual graduates in higher education (tertiary and advanced research programmes) at 9.1 per 1,000 inhabitants, compared with 7.5 in Europe. However, Europe has 1.8 per 1,000 in science and engineering, compared with 1.4 in the United States.

European society tends to be egalitarian, with a significantly lower concentration of income than we see in the United States.

Europe could be considered the world leader in sustainability. The Enviromental Performance Index [6] ranks the EU-15 on average higher than the United States, Canada, and Japan. The EU has committed itself to reducing greenhouse gas emissions to 20 per cent below their level in 1990. Europe already generates more than 12 per cent of it-s electricity through renewable resources, compared with about 9 per cent in the United States and Japan. Also, Europe needs only half as much energy per unit of economic output as the United States and 20 per cent less than Japan.

Over the past 15 years have been major labour market reforms across Europe. These have suported large increases in paticipation and employment, even while Europe has maintained its continous trajectory of declining working hours per employee. From 1990 to 2009, the EU boosted participation in the labour market by six points. The participation of male workers remained stable, while that of female workers rose by 11 percentage points. Many European countries have used a range of tools to increase women's participation, including enhanced women's education provisions, child care subsidies twinned with improved

provision of day care, income support at birth, and, in some countries, more part-time employment opportunities.

At the same time as broadly increasing labour market participation, several European countries have achived much larger cuts in unemployment prior to the crisis than average. From 2004 to 2008, average unemployment in the Netherlands was 4.1 percentage points lower than in 1984 to 1988, and the country had a 24 percentage point rise in participation in the period from 1990 to 2008. With substantial differences in country specific implementation of policy, the Netherlands followed a set of reform levers broadly comparable with those Denmark adopted. Germany has also pursued important labour market reforms since 2003 that have contributed to a continuous decline in unemployment.

Europe has made significant progress in smart regulation of product markets. On a 0 to 6 scale defined by OECD (reflecting state control, regulatory and administrative opacity, administrative burdens on start-up companies, barriers to competition, and hurdles to trade and investment), the gap between the EU-15 average and other major OECD countries decreased from 0.3 in 1998 to 0.05 in 2008. This was due largely to decreased government control and relaxed barriers to competition in network sectors (e.g. utilities), and lighter administrative burdens. However, several countries – including Greece, France, Luxembourg, and Austria – still have more restrictive product market regulations than the average. The regulatory state of play varies enormously from sector to sector, too. So while Europe is at par with OECD best practices in some sectors such as post and electricity, the continent lags in other sectors, notably service sectors. In retail, rail, and gas, the regulatory gap ranges from 1.7 to 2.2, still mostly driven by public ownership for network industries and by operational restriction for retail.

3. Potential to improve

Despite the progress in labour and product market reform made in Europe in the past ten years, the continent's per capita GDP still lags behind that of the United States by around 24 per cent. On an aggregate European level, lower productivity and labour utilisation contribute almost equally to that gap, but the componets of that gap vary markedly from country to country. In north the issue is mostly one of productivity; continental Europe faces a gap in hours per employee; southern Europe faces simultaneous chalanges on productivity, participation, and unemployment. At the level of individual economies, the differences are even larger. In the United Kingdom, lagging productivity explains 86 per cent of the gap. In Germany, 96 per cent of the gap is due to low hours worked per employee. In Italy, low participation accounts for one third of the gap and relatively sluggish productivity for the rest.

Given declining populations, European economies need to achieve even higher rates of productivity growth to maintain historical rates of growth in per capita GDP. To achiev the 2.9 per cent rate of growth observed in the United States, Europe would need incremental productivity growth of 1.3 per cent. Such growth in productivity would take Europe close to the oricinal target of 3 per cent set out in the Lisbon agenda and would represent an acceleration of two-thirds from historic rates of productivity growth.

Europe still lags behind the United States and other major OECD countries in its rates of paticipation by seniors in the labour market, in levels of structural unemployment, and in working hours – the latter reflecting a societal choice in Europe for more leisure time.

Europe still has low levels of paticipation in the labour force compared with other developed economies. The participation of older workers aged 55 to 64 is markedly lower in Europe than in other developed economies. In spite of the abandonment of a number of early retirement schemes over recent years, participation by Europe's seniors stands at only 51 per cent, compared with 65 per cent in the United States and 69 per cent in Japan. Older workers participation accounts for more than half of Europe's total participation gap with the United States.

Over the past five years, average unemployment has also been higher in the EU-15 than in other OECD economies – 2.5 percentage points higher on average than in the United States with a particular penalty for younger workers (4.2 percentange points)

between 2004 and 2008. In the EU-15, 22 per cent of unemployment in the 15 to 24 age group is long term (longer than one year), compared with 7 per cent in the United States and only 2 per cent in Canada.

European employees work today on average 11 per cent fewer hours per year than do their US counterparts and also significantly less than in other major OECD economies. Many European countries favour longer holidays and periods of leave that account for five weeks less of works per year, or more than 70 per cent of the working time gap between Europe and United States. Lower weekly hours, and in particular a higher share of part-time work, are responsible for the rest of the gap.

From the 1960s to 1995, Europe steadily closed its productivity gap with the United States. But since the mid-1990s, the gap has started widening again. While productivity is not an end in itself, it is a critical means to an end – higher growth and competitiveness. Per capita GDP, competitiveness, and productivity move in lockstep with each other. So if Europe is to maintain past GDP growth rates or even close its per capita GDP with the United States, it will have to boost productivity. Today, productivity varies widely in Europe and therefore the challenge facing individual European economies differs, too. Continental Europe's productivity has been largely on a par with the United States but has lost steam recently. Southern Europe not only started from lower levels (especially in Portugal, Greece, and Spain), but also (in the case of Italy an Spain) has lost ground since the end of the 1990s. Greece, for instance, would have to boost productivity by 65 per cent to match the performance of the United States, Spain would have to boost productivity by 28 per cent and Italy by 31 per cent.[7]

Several sectors contribute to the EU-15's productivity gap with the United States. The productivity of primary resources and manufacturing sectors lags behind that of those sectors in the United States, but the main cause is the lower productivity in Europe's service sector. There is a strong reason to believe that there is a major potential to improve the productivity in health, education, and public services in Europe, too. Looking at groups of sectors, we find that primary resources had the largest productivity gap with the United States at 66 per cent in 2005. This gap was driven to some extent bu the higher share in the United States of extractive industries such as oil and other natural resources with the high productivity typical of these sectors; however, large subsidies on Europe's low productivity agricultural sector may have also made a contribution to this gap. Although the productivity of agriculture is relatively low worlwide, the US agriculture sector, for instance, is almost twice as productive the EU-15's. The second largest productivity gap eas in business services at 43 per cent, followed by transport infrastucture, financial services, and local services.

Service sectors are the cey contributors to the productivity growth gap between Europe and the United States. From 1995 to 2005 the services make a much smaller contribution to growth in Europe than in the United States. US productivity increased by 22 per cent in that period. Local (retail and whosale, prvate domestic services, rental, hotels, and restaurants), business (computer and related activities, software and IT services, R&D), and professional and financial services together contributed 11 percentage point, or around half, to this total this total growth. In Europe, productivity grew by 15 per cent during this period, of whici four percentage points – or only one quarter – came from these three types od service industries. Local services alone explain five percentage points, or two third, of the overall productivity growth gap in that decade. The productivity growth from 1995 to 2000 in the US was mostly driven by five services sectors (retail, wholesale trade, securities, retail banking and hotels). In wholesale, productivity growth has been driven by operational drivers such as autmation, a shift to higher value products, and the improved organisation of functions and tasks, as well as by industry dynamics including consolidation at the wholesale and retail levels. In retail, the main driver of higher productivity has been the emergence of a clear productivity leader in Wal-Mart as well as a shift to higher value products as incomes have risen.

Across the European economy, the productivity growth gap in local services stems form subpar increases in multifactor productivity rather than a lack of capital investment. [8]

Elements that contribute to lagging multifactor productivity growth in local service sectors in Europe include the scale of operations, product, land and labour market barriers; amd a weaker entreprenoirial mind set and talent gaps. Furthermore, from 1995 to 2005, Europe invested in R&D on average only 0.1 per cent of the value added in local services, compared with 1.2 percent in the United States.

Service sectors have been growing at a slower rate in Europe than in the United States, are smaller in volume terms, and make a smaller contibution to added value. Local, business, and professional and financial services make up 38 per cent of the US economy, compared with 31 per cent in Europem and delivered a 18 percentage point contribution to added value growth in the US economy in 1995 to 2005, compared with only 10 percentage points in the EU-15. Some of the factors constraining growth in European services are land and product market regulations, and infrastructure and talent gaps. The relatively low share of services in the European economy and the lagging productivity of these sectors is an undoubted shortcoming for the region because, as in other developed regions of the world economy, it si these sectors that are solely responsible for employment growth in the EU-15. While manufacturing contributesstrongly – globally – to economy wide productivity growth, manufacturing jobs are declining, and more developed economies typically generate emplyment from services. Services generated all net jobs growth in high – income economies and 85 per cent of net new jobs in middle income countries from 1995 to 2005.

4. Solving the growth challenge

In Europe the outlook of growth looks difficult – as it does in many other economies. But if Europe seizes the moment, using today's pressures as a spur to structural reform, the continent has every potential of achieving a healthy rate of sustained long-term GDP expansion.

A three-pronged strategy need to be pursued in parallel: first a broad reform to labour markets; second, boosting the productivuty across sectors and in particular large serive sectors; third, policies to help the private sector make the major growth and innovation opporunities of the period ahead.

Europe is full with examples of best practice among companies and goverments. In some indicators important to the plan of action, Eu member countries outperform the United States. If all Europe were to emulate such approaches, the continent would have every potential to maintain and accelerate growth, and reduce today's 24 per cent capita income gap with the United States.

Reaching the average or even the top European performers in terms od participation and unemployment alone could lift labour utilisation by 2 to 9 percent without reducing vacation or absence times or changing weekly hours worked.

Boosting service sector productivity to the European average or to European best-practice levels per sector could increase also productivity. This should be the first priority for the new „industrial policy" in many European countries.

If European companies can capture global growth opportunities in manufacturing and beyond, including innovation – with a helping hand from public policy in creating the conditions to enable private sector succes – any remaining per capita GDP gap with the United States coud be closed over the next 10 to 20 years.

The economic crisis in Sweden in the early 1990s offered an opportunity to reform the Swedish welfare state and its institutions as well as to liberalise a wide range of product markets (Erlandsen & Lundgaard 2007). Even before the crisis, Sweden's economy was facing severeal issues: rpibate sector emplyment stagnated since the 1960s; the country had famously generous welfare benefits that reduced incentives to work; slow productivity growth was affecting the country's position relative to other OECD countries in terms of real per capita GDP; and recurring current account deficits at least a decade of inflation rates higher than many other countries led to frequent currency devaluations. By the early 1990s, the Swedish economy was imploding. Financial markets deregulation and a rapid credit expansion had lead the rise and burst of a real estate bubble, with the consequent crisis spreading from the banking sustem to the entire economy. Goverment spending had risen to more than 70 per cent of GDP; the

annual budget deficit was 12 per cent of GDP. Unemployment hit Depression-era levels. This toxic brew could sound familiar to many European countries today. So Sweden's reaction is a useful object lesson.

In a few short years, Sweden slashed public spending and eliminated its budget deficit (in the face of criticism that such action would compromise growth), undertook sweeping reform to tax and pension systems, and initiated broad smart regulation to tax and pension systems, and initiated broad smart regulation of traditional monopolies in aviation, telecommunication, electricity, and post, alongside new competition laws. Asked how such change was possible within a decade, one finance minister referred to „the crisis mood" among the Swedish population. Sweden transformed its economy and its long-term growth prospects in a decade. The rate of productivity growth nearly doubled from 1.2 per cent a year between 1980 and 1990 to 2.2 per cent drom 1991 to 1998, and from 1999 to 2005 it increased further to 2.5 percent. After falling from seventh place in per capita income among OECD countries in 1980 to 14th place by the early 1990's, Sweden managed through structural reforms to climb up again to 8th place in 2007.

During the current crisis, Sweden's GDP initially contracted more sharply (5.1 per cent in 2009) than the eurozone's GDP did (4.1 per cent), but its peak of unemployment was lower than in the eurozone. Moreover, Sweden;s GDP has bounced back strongly and the economy is set, according to the OECD, for faster growth than the eurozone average (at 3.3 per cent in 2011, compared with the eurozone's 1.9 per cent)

Sweden has shown on a national level how to turn a crisis into an opportunity for far-reaching structural reforms as a basis for long-term sustained growth. Political leaders now need to carefully design and rigorously implement reforms on a national scale to lead their countries back to a viable path of growth and renewal.

5. Bibliography

[1] U.N. Population Division
[2] 2009 Ageing Report: Economic and Budgetary Projections for the EU-27 Member States (2008-2060), European Commission, 2009
[3] O.E.C.D.
[4] Internationaly Monetary Fund
[5] McKinsey Global Institute
[6] Enviromental Performance Index 2010
[7] Internationaly Monetary Fund
[8] EU Klems Data

Progresses and Challenges in EU Funds Utilization for Private Sector Support

Şorici Costin Octavian
Dobre Claudia Ioana
„Ovidius" University of Constanta, Faculty of Economic Sciences
costin.sorici@pms.ro
dobre_claudia@yahoo.com

Abstract

The EU funds mirage attracts many Romanian companies but the bureaucratic procedures and lack of real support make the project implementation a very difficult task. This paper analyses the main measures that have been proposed in order to boost the EU funds absorption and the main barriers that private environment face in this respect. The paper is based on a real survey conducted on some of consulting companies from Romania and on the official measures taken by the Romanian government.

Key words: European funds, economic crisis, grant schemes
J.E.L. classification: F15

1. Introduction

The control exerted upon a great number of grant forms and schemes for various economic fields in the EU Member States represents, under this difficult economic and financial conditions, the main instrument that the EU Commission has to fight against the economic crisis.

Specialists believe that, under the circumstances, the private sector representatives, the financial and insurance sector specialists, as well as the lawyers, liberal professions practitioners, competition specialists and consumer rights protectors, have to directly involve in the debate, lobbying and consultancy regarding the rebuilding of Romanian economy, re-launching the investments with the support of state-aids and EU grants.

2. Economic growth re-launching and EU Funds absorption stimulation measures

The Romanian government proposed back in 2008 and 2009, a list of measures to stimulate the attractiveness of EU Funding Programmes for the SME's and to generate increased absorption within the private environment. Notice that, in accordance with the private environment needs and with the unfavourable economic-financial situation, the measures have to be complete and to address the SME's activity in general, so that they can benefit of the conditions to ask for an investment grant.

Because of the slow implementation rhythm during 2009 and 2010 years, the specific recommendations regarding the private sector support measures issued on 28th of January 2009 are still valid. The following aspects are concerned:

1. **Increasing public administration efficiency**, effectiveness and independency, on both central and local level, through the consolidation of control capacity and regulations;
2. **Increasing fiscal policy control (expenses limitations)** and the implementation of a medium term financial framework (multi-annual budget programming):
3. **Revising budgetary expenses structure and their orientation to economic growth fields,** with an overriding commitment to decreasing and redirecting state-aid toward horizontal objectives and increasing wages on productivity base;
4. Urgent implementation of **measures to substantially reduce administrative procedures and delays in authorization procedures**, in order to improve the business environment and to eliminate corruption;

5. Quality assurance and educational and professional training systems correlation with labour market needs, decreasing the school abandon rate and access facilitation for young persons on the labour market, including the workplace training.

Implementing this specific measures and recommendations aim to overrun the effects of the economic crisis and to create the premises for a better absorption of EU funds by the private environment.

Romania's long term development depends entirely on the full implementation of the measures prescribed. The required human and financial resources involved in the program implementation process are very important. The specialists believe that an important contribution to the evolution of the recovery process belongs to structural and cohesion funds (56% out of the total financial resources dedicated to the National Recovery Program) oriented towards the Lisbon Strategy targets. In such a period of crisis, one fifth of the total budget represents the Romanian Government contribution and the rest of four fifths are assured from the EU budget.

The second component of the National Recovery Program is reducing bureaucracy.

Answering the necessity of SME's support and stimulation and recognizing the essential role that private environment has to create wealth and to overcome the crisis in the other social and administrative sectors, the Government allocated 20% of the national to public investments in order to sustain the economic growth and to reduce unemployment. The proposed approach aimed to help the national economy fulfilling the convergence criteria and to adopt Euro by 2014.

The recent evolutions of the economic crisis in Romania, made this aim unlikely to be attended in due time, the new realistic horizon being 2017.

The main progresses made by the Romanian authorities toward the improvement of EU structural funds absorption are:

1. Regarding the **implementation of structural and cohesion funds** some measures have been taken in order to reduce bureaucracy, the most important being VAT reimbursement after each invoice. This will help the VAT non-paying organizations to have positive cash-flows during the implementation of projects;

2. Regarding the support for the investment project with public beneficiaries (local councils and universities), 6 billion lei have been allocated within the state budget in order to grant that projects in front of banks. The pre- financing increased by 5%, from 15 to 20% of the total grant; .

3. The administrative documents asked in the application phase are replaced by the beneficiaries' own trust declarations, the administrative documents being asked only before closing the financing contract. This measure applies to all categories of beneficiaries;

4. Some conferences and events have been organized to promote the financing opportunities, including a caravan, aiming to identify the problems that the public authorities confront with;

5. In order to attend the proposed objectives, the resources allocations will be made through the development of a result oriented management guided by the cost-benefit analyses. This will assure the rational use of resources, including for the public interest through positive externalities generated by the big investment projects.

The financial an economic difficulties and challenges for the business sector have to be considered and analyzed to the extent in which they affect not only the fragile companies but also the solid companies, which lack credits. This situation has a negative impact especially upon the SME's, which generally have higher difficulties in accessing financing comparing to big companies. These difficulties not only affect the short abd medium term economic situation for most of the companies and employees, but coul also have long term impact, as all the planned investment could be delayed or even abandoned. In such a context, a great importance is attributed to the use of both national and European public funds. If they are correctly oriented and dimensioned these funds could be a **major instrument on the way to economic recovery**.

Given being the exceptional circumstances determined by the actual economic crisis, the EU Commission decided **to temporary loosen the conditions for accessing some of**

the European subsidies , for both financial institutions and other economic agents.

Among the additional support measures dedicated to enterprises, which complete the national governments measures, an important role is played by **assuring conformity with the New European Commission Special Regulations on state aid** within the actual economic and financial crisis period. A new state aid guarantees scheme is about to be launched. The scheme is addressed to economic agents which are presently in difficulty due to the economic crisis. The facilities are granted in order to ease the access to banking financing support, and to assure the continuity of the activity. The grant scheme will be in force until 31st of December 2010.

A recent study conducted by the Dutch consulting company P.N.O. shows the **major trends of the European Funds system** in Romania, compared to other European states:

1. The interdiction for the companies to start the works before signing the financing contract, which makes the investment process more difficult.

The main roblem of the EU funds in Romania, from the companies point of view is the delay in starting the projects. The difficulty could be overcome if the companies can start their investments and to be reimbursed after, once the project approved. The fact that all the started investment is not eligible anymore completed by the fact that the evaluation process could last for 14 months, lead to a blockage, taken into consideration the opportunity of such investment fro the applicants.

For example, if a company applies for investment funds of 5 million Euro within the SOP Competitiveness, the company will loose more than 5 million Euros waiting the results for 14 months. From that reason, many companies refuses to sign the contracts even if the projects are approved. Such a condition is no longer applied in any European country. Another difference is that in Romania the launching schedule and the project evaluation process is not clear and the registration procedures are not visible and transparent. In other states the only incertitude is related to the project approval, the rest being extremely clear.

2. **The delays in the evaluation process and the lack of a real support in accessing community programmes**. In other European states, the authorities created measures to support research projects, extremely important for the economic development. Within the technical assistance component for example has been included the possibility of financing the elaboration of a project to be applied on the 7th Framework Research Program of EU. Another possibility offered by many European countries is the support with funds from the state budget for the good projects unable to receive financing from the EU.

3. The lack of implication in other European Programmes as 7th Framework Progarmme or LIFE programme, makes the Romanian market to be inexperienced in this respect and place doubts on recovery possibilities.

If now in Romania the structural and cohesion funds finance effectively the tangible assets, the Western Europe countries this is not possible anymore due to the economic development. In a couple of years this rule will be valid for Romania too. Therefore, besides structural funds, the companies should know the opportunities offered by the community programmes – to be accessed directly from Brussels. In such projects, companies can make partnerships with Universities and research institutes to realize innovative projects, as the western countries companies do,

3. Conclusions

Although some progresses have been made since 2007, Romania is far from being effective in the EU funds absorption. Bureaucratic barriers combined with the specific effects of the financial and economic crisis make almost impossible for Romanian SME;s to attract structural funds.

Urgent measures are required in order to boost the absorption ann to prepare the private environment going to the upper stage: complete European integration on the Single Market, as competitive economic agents.

4. References

[1] Ilie Dragan şi alţi autori, „Elaborarea proiectelor cu finanţare din fondurile structurale pentru IMM-uri (2007-2013) ", Editura ContaPlus, 2008

[2] Costin Octavian Şorici, „Proiecte cu finanţare Internaţională", Editura Universitaria Craiova, 2008

[3] „Cartea Albă a IMM-urilor din România 2009", Consiliul Naţional al Întreprinderilor Private Mici şi Mijlocii (CNIPMMR), Sursa: http://www.cnipmmr.ro/

[4] Discurs Gheorghe OPRESCU, Preşedinte Consiliul Concurenţei, în cadrul Conferinţei "Criza economică din perspectiva ajutorului de stat" – 24 februarie 2009

[5] ACRAFE, „Propuneri pentru absorbţia eficientă a fondurilor comunitare", 2010

Changes in Consumer Behaviour During an Economic Crisis

Ştefura Gabriela
"Alexandru Ioan Cuza" University of Iaşi
gabi.stefura@gmail.com

Abstract

In times of recession, consumers have a pronounced tendency to modify their current buying behaviour, due to the financial problems which come along with an economic crisis. They become more selective and focus only on what they think it is essential in order to survive.

This paper aims to create a theoretical framework around the changes made by consumers in their behaviour during or after a economic crisis. The information gathered may be useful for theoreticians in the marketing field, but also to companies who want to adapt to the new market.

Key words: consumer, behaviour, recession, changes
J.E.L. classification: M39

1. Introduction

Economic crises have been o point of instability for many times and caused important changes in entrepreneurs and consumers lives.

Consumers have reported different behavioural modifications regarding their shopping behaviour, a very important field of study, especially in the last few years, when the economic situation had suffered dramatic changes all around the world.

This paper is built around the theoretical considerations found in the speciality literature regarding the subject of consumer behaviour during and after times of recession.

In the second part of the paper the phenomenon of economic crisis is described, along with some practical implications. The third part regards some influences of the behavioural change among consumers and the fourth gives some insight about the types of behaviour adopted during or after an economic crisis.

2. What is an economic crisis?

An economic crisis refers to the situation in which the economy of a country suffers a fall caused by several financial factors: a decrease in the GDP, increased inflation etc. The economic literature also reminds about the term "financial crisis" which describes "the situation in which the supply of money is outpaced by the demand for money [10, p. 100].

Hemming, Kell and Schimmelpfenning remind about the different forms that a financial crisis might take [3, p. 3-4]: currency, debt and banking crises. They also emphasize on the fact that the most recent economic crises have affected al of these domains.

All financial crises had a certain staring point and so has had the latest global crisis and may be the most challenging one in the last 20 years. Specialists place the origin of the global economic crisis in the US financial market, especially in the excess of housing credits [4]. The sudden fall in the US financial market affected soon the economies of the other countries, the labor market, the currency, in short, the stability of the world economy.

The most severe consequences of the financial crisis could be seen in the growth of the unemployment rate, the bankruptcy of many financial institutions and companies from different economic sectors (automotive, commerce, retail etc.), the growth of the external debt of already economically unstable countries. All of these have been the determinants of a decrease in consumption and, consequently, a change in the buying behaviour of all types of consumers.

3. Influences of the behavioural changes

Due to the negative economic environment, the majority of the consumers have cut down on expenses and will continue to do so [1], until they will be able to feel some stability regarding their finances.

During the recession, but mostly after, the purchasing behaviour of all types of consumers suffers some dramatic changes (from the companies' viewpoint) and these changes are determined by a series of important factors.

Pop and Roşca and Perrison et al. think that the most obvious factor is represented by the uncertainty of the future [7; 6]. During the period of recession, many unexpected changes bring to the consumers a feeling of insecurity, they doubt about the nature of the upcoming events and, so, they become much more careful when dealing with certain expenses.

Perriman et al. divide the factors of influences in two categories[6]: internal and external. Internal factors refer to psychological and personal characteristics of consumers. Personality, attitudes, motivation have a great importance in making a purchase. All of these may be affected in a certain way in times of economic distress, maybe more than all the other factors and it can be very difficult to change the psychological effects of the financial crisis.

External factors are related to the changes that consumers are forced to make by the environmental influences. These do not depend on them and are very difficult to control.

The authors also underline, as an influencing factor, the experiences that consumers had during a period of recession. And so, they become more demanding and expect more from the marketing environment, after the recession has passed.

The job insecurity is stressed out as an important factor in determining consumer behaviour during or after recession [11]. The job security variable is negatively correlated to the increase of consumption. As the job market is very unstable, the unemployment rate is very fluctuant (especially rising), the companies have less and less profit, consumers feel unsafe regarding their employment and become cautious when making expenses. In case of the job loss, the income is visibly smaller and consumers must adapt their consumption behaviour.

To better synthesize the influencing factors of behavioural change, during or after a recession, the most important are [1]:

- Housing market depreciation;
- The growth in credit interest rates (and mortgage);
- The decrease in saving funds;
- The increase of prices;
- Job insecurity.

4. How consumers behave in times of recession

The financial crisis has determined consumers to revaluate their own beliefs and attitudes towards buying [6]. They become more rational, more careful with what they purchase [1; 7; 8].

In general, the purchasing behaviour has been significantly different, in all sectors, in proportion of 34%. Only 7% of the consumers hadn't made any special changes [8].

In a study made by Booz&Comp. in 2008, the main conclusion withdrawn was that mostly all of the consumers have significantly reduced their expenses and will continue to do so until the market will be more stable [1]. They underline the fact that the most affected activities are leisure, sopping and driving. Consumers spend and will spend more time at home, will drive less and shop with caution. Many people expect their savings and income to decrease and debts to increase and they become more pragmatic.

Another study [8] brings into discussion the development of a new trend on the market: practical consumerism. Consumers, forced by the economic situation, now choose products or services with more caution, they think twice before buying, giving up on impulsive buying. Now, they are selective and take advantage on promotions, discount coupons and all the methods that help them save money.

Zurawicki and Braidot identify two types of reactions among consumers [12]: reactive and proactive. The reactive reaction comprises the adaptation of the consumption. Consumers give up on or postpone some expenses that are not necessary, they

revaluate their own needs by changing their priorities. Now the basic needs take the lead in most of the consumers' lives.

The proactive reaction refers to temporary measures such as the liquidation of assets, using the savings, different types of credit or finding a second job or, the extreme, taking in account illegal activities.

Consumers now spend more time when searching for information before actually buying an item [8; 7], sustained by the fast development of the technology and communication methods. They evaluate more alternatives and get help especially from the Internet, sometimes a good and very cheap environment for shopping [8.].

Goodell and Martin think that the changes in consumer behaviour happen very fast in times of recession [2]. Also, they state that recessions do not affect people in the same way. The effects can be direct and indirect or financial and psychological. The main reactions of the consumers are described below:

- Consumers defer major purchasing decisions;
- Consumers are more price-sensitive;
- They can be resistant to the attempt of the companies to reinstate pre-crisis prices;
- They can temporary give up on buying from the usual place or person, due to budget constraint.

The financial crisis has determined consumers to pass from an extravagant lifestyle to a restrained one, by minimising expenses and buying only what is absolutely necessary [8; 12].

Latham and Braun discuss about four types of consumers that manifest during a period of recession [5]:

- Substituting (who are looking to replace a product or service with a similar one, but cheaper);
- "Satisficing" (who search for adequate solutions in the absence of ideal ones);
- Reducing (who decrease the consumption of a certain product, because they cannot/will not totally give up on that product);
- Negotiators (who search to renegotiate certain aspect of the existing commercial relationships: a price reduction, extra services etc.).

The specialists from PriceWaterhouse Coopers think that in the near future, consumers will not concentrate on buying premium products, they will start to look for the best deal in matters of quality and price [8]. They also affirm that even though the economies will fully recover, the consumers might not reinstate the pre-recession behaviour.

Zurawicki and Braidot discuss about a change in the lifestyle of the consumers, which can be, in many cases, a permanent one [12]. That is why companies should reassess their marketing strategies in order to be able to conquest the new market.

The recession might be a good opportunity for companies to reinvent themselves [6], to respond to the new needs and expectations. Understanding consumer reactions can be very helpful in predicting the changes related to certain expenses they will make [12].

Reeves and Deimler advance some basic pieces of advice to be taken in consideration by companies [9]:

- Introducing new types of services;
- Adopting new price strategies;
- Entering new markets;
- Searching the best ways to gain competitive advantage.

No one can guarantee that following any specialist advice will bring automatically success and profit for a company, but the safest way is to make appropriate changes.

5. Conclusions

The economic chaos from the last 2 to 3 years was not very different from any other time of recession, but as it acted at a global level, more people were and still are affected by its consequences.

Due to financial problems (job loss, increasing debt, price fluctuation, inflation etc.), consumers were forced to change their priorities regarding purchases and now focus only on what is truly important. This change in consumer behaviour should influence to companies to reassess their strategies on the market, in order to survive these hard economic times.

The speciality literature has very little information on consumer behaviour during economic crises and this is a very important topic of research. Also, a comparison between consumers from different countries could bring more light regarding this subject.

6. Acknowledgements

This work was supported by the European Social Fund in Romania, under the responsibility of the Managing Authority for the Sectoral Operational Programme for Human Resources Development 2007-2013 [grant POSDRU/88/1.5/S/47646].

7. References

[1] Booz&Co., "Consumer Spending in the Economic Dowturn",http://www.booz.com/media/uploads/Consumer-Spending-in-the-Economic-Downturn.pdf, accessed on 15.09.2010.
[2] P.W. Goodell, C.L. Martin, "Marketing strategies for recession survival", *The Journal of Business&Industrial Marketing*, vol. 7, no. 4, 1992, pp. 5-16.
[3] R. Hemming, M. Kell, A. Schimmelpfenning, *Fiscal Vulnerability and Financial Crises in Emerging Market Economies*, International Monetary Fund, Washington D.C., 2003.
[4] R. Kolb (ed.), *Lessons from the Financial Crisis: Causes, Consequences and Our Economic Future*, John Wiley&Sons, Inc., New Jersey, 2010.
[5] S.F. Latham, M.R. Braun, "Jilted? The manager's little book for keeping customers in a recession", *Journal of Business Strategy*, Emerald Group Publishing Ltd., vol. 31, no. 1, 2010, pp. 4-10.
[6] H.E. Perriman, R.R. Ramsaran-Fowdar, P. Baguant, "The impact of the global financial crisis on consumer behaviour", Proceedings of the 2010 Annual London Business Research Conference, published by World Business Institute Australia, Melbourne, 2010.
[7] D. Pop, D. Rosca, "Impact of economic and financial crisis on individual consumer behaviour", Annals of Oradea University, Faculty of Engineering and Technology Management, vol. 8, 2009.
[8] PriceWaterhouse Coopers, "The New Consumer Behavior Paradigm: Permanent or Fleeting?", http://www.pwc.com/en_US/us/retail-consumer/assets/the-new-consumer-behavior-paradigm.pdf, accessed on 14.09.2010.
[9] M. Reeves, M.S. Deimler, "Strategies for winning in the current and post-recession environment", *Strategy&Leadership*, Emerald Group Publishing Ltd., vol. 37, no. 6, 2009, pp. 10-17.
[10] Ghe. Săvoiu, "Could be the International Financial Crisis a Sinonim to a Profound Recession of the Romanian Economy? A Theory of Weak Statistical Signs", *The Romanian Economic Journal*, no. 31, 2009, pp. 99-114.
[11] S.C. Wolter, "The costs of job-insecurity – resultsfrom Switzerland", *International Journal of Man Power*, MCB University Press, vol. 19, no. 6, 1998, pp. 396-409.
[12] L. Zurawicki , N. Braidot, "Consumers during crisis: responses from the middle class in Argentina", *Journal of Business Research*, Elsevier, vol. 58, 2005, pp. 1100-1109

China and the U.S. face the Global Economic Crisis

Tălmaciu Iuliana
Voicu Ioana-Iulica
"Constantin Brâncoveanu" University of Pitesti
iuliana_talmaciu@yahoo.com
ii_voicucb@yahoo.com

Abstract

The year 2009 remains in the history of world economy as being, for all the countries in the world, the year of fight against the global economic crisis. After 2008, when the effects of the financial, banking and stock market crisis have spread throughout the American economy, 2009 has not started under more favorable auspices, so that the U.S. seems to lose rapidly before China in the fight for the best business environment. Given the dramatic economic situation on the U.S. market, new opportunities seem to be seen in Asian business.

China no doubt defies the crisis and grows faster than any other economy of another nation, representing one of the biggest opportunities to open a business. It seems that this country bets, in any context, that it can keep the balance indefinitely. [1] Economists see in China the best-positioned area for concentrating the global economy. Imports and growing auto sales are signs which indicate that the Chinese population shows propensity towards consumption.

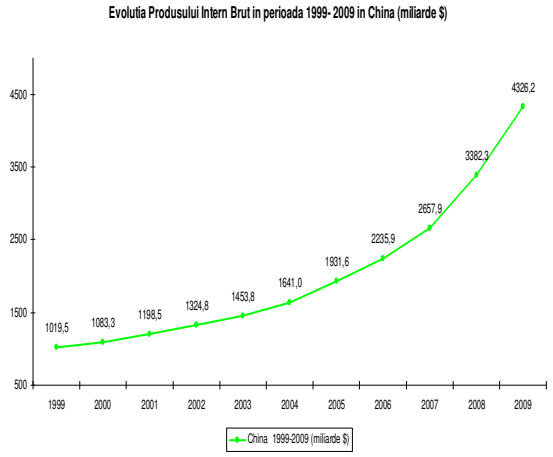
Key words: imports, exports, industrial production, unemployment rate, economic crisis
J.E.L. classification: F17, G01

1. Introduction to the economic reality of the U.S. and China.

If until now it was said about China that it would become the world's first economic power in 2025, 2040 or maybe in 2050, the British experts at the University of Nottingham position China, starting mid-2010, on the second place in the world, after the USA. For the next 20 years, however, it is expected that the U.S. economic and political domination will diminish, the world will become more dangerous, the water, food and energy resources will diminish, and weapons will be far more numerous [2]. Although the scenario looks grim, it hides a great truth regarding the need to redefine the values and the balance of forces worldwide.

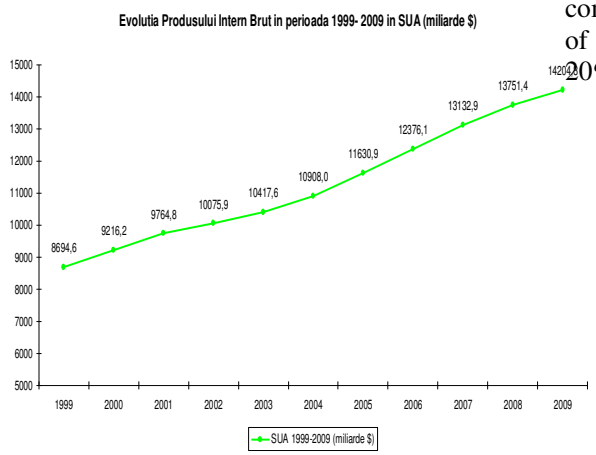
For a true image about China one can emphasize the importance of the 1.3 billion people entering the global capitalist system, but also its economic growth, unprecedented, on average of 9% per year [3]., which allowed to double the GDP once every seven years, a phenomenon unprecedented before. Moreover, at the end of 2009, China's foreign currency reserves, the largest in the world, reached a new historic maximum of 2,400 billion dollars, 23% higher than in 2008.

Figure 1. The evolution of China's GDP during 1999-2009 ($ billion)



Source: The World Bank Group – www.tradingeconomics.com

Figure 2. The evolution of U.S.'s GDP in the period 1999-2009 ($ billion)



Source: The World Bank Group – www.tradingeconomics.com

Comparing China and the U.S. regarding the GDP growth, there is a significant difference of the growth rate in the period 1999-2009. If the U.S. recorded positive values in the period analyzed, up to a value of $ 14204,3 billion in January 2009, China has also recorded positive values, with a significant growth, managing in January 2009 to triple the value recorded in 1999, from $ 1019,5 billion to $ 4326,2 billion [4], approximately four times higher.

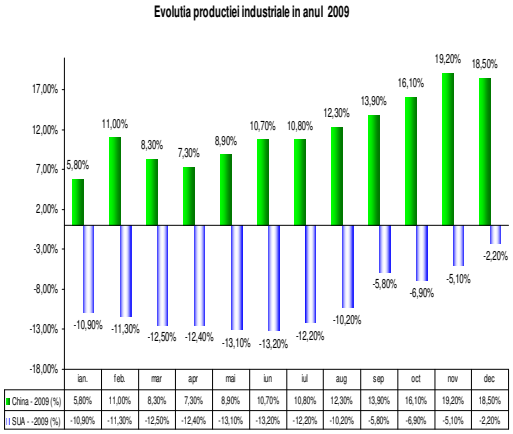
2. The U.S. and China – comparative analysis of the main economic indicators

2.1. Industrial production

Analyzing the evolution of the industrial production in the two states during 2009, there is an absolutely opposite evolution, with negative values for the U.S. and positive values for China. If at the beginning of the analyzed year, China's industrial production recorded the value of approximately +5,8%, at the end of this year it registered a value of about +18.5%. The U.S. recorded significant negative values from January to August 2009, of over -10,0%, but the highest value was recorded in June, when the maximum of -13,2% was reached.

In December 2009, the U.S. industrial production reached the value of -2,2%, compared with China which recorded a value of 18,5%, which means an increase of over 20% as compared to the U.S.

Figure 3. The evolution of industrial production in 2009



	ian.	feb.	mar	apr	mai	iun	iul	aug	sep	oct	nov	dec
China - 2009 (%)	5,80%	11,00%	8,30%	7,30%	8,90%	10,70%	10,80%	12,30%	13,90%	16,10%	19,20%	18,50%
SUA - -2009 (%)	-10,90%	-11,30%	-12,50%	-12,40%	-13,10%	-13,20%	-12,20%	-10,20%	-5,80%	-6,90%	-5,10%	-2,20%

Source: National Bureau of Statistics China and Federal Reserve USA – www.tradingeconomics.com

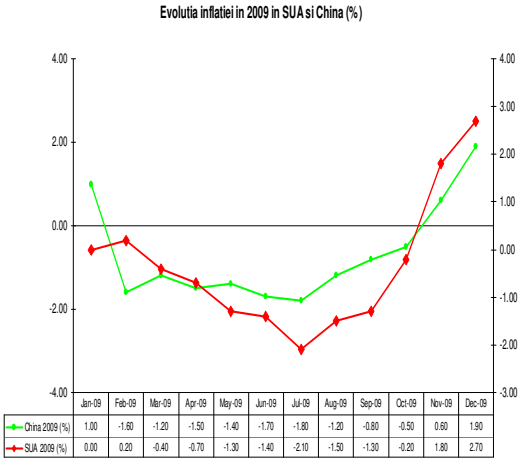
However, the evolution from the second half of 2009 in the U.S. shows that industrial production is in the process of revival reaching -2,20% at the end of 2009, compared to -13,20% as it was in June the same year.

2.2. Inflation

Inflation, nevertheless, has known values higher in China than in the U.S. in 2009, with an average of -1,0%, while in the U.S., it has recorded an average of about -0,7%. The peak was reached in July when it exceeded the -2,10% threshold.

The deepening of the economic crisis and the lowering of the purchasing power has led, during 2009, to a sinusoidal trend of the inflation rate in the U.S., starting from 0,0%, at the beginning of the year and reaching to -2,10% in July. In December 2009 value of 2,7% was recorded in the U.S., compared to 1,9% in China.

Figure 4. The evolution of inflation in the U.S. and China in 2009 (%)



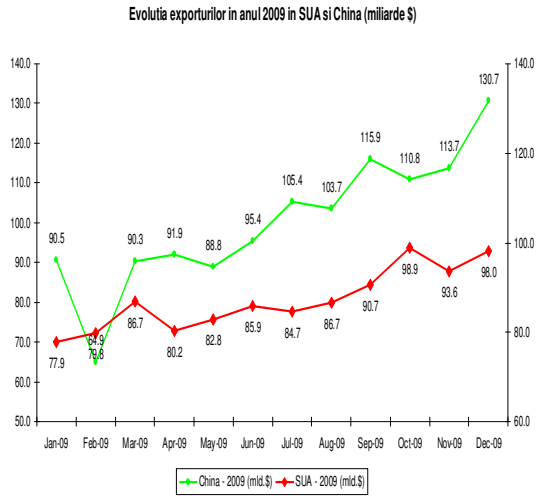
Source: China Economic Information Network and Bureau of Labor Statistics SUA– www.Tradingeconomics.com

The economic relationship between China and the United States, called G2, through the influence they have on the global economy, has become far too complex for finding simple solutions, some analysts believe, because the Chinese currency is too cheap against the U.S. dollar.

2.3. Exports

To support its exports, China, which does not use flexible currency rate, maintains the yuan at low values, a strategy considered protectionist by the United States, which have seen unemployment rising and many companies closed their doors, not being able to face the competition of the cheap products from Asia. Moreover, many economists, among whom Paul Krugman is the first, a Nobel Prize holder, asked the U.S. President Barack Obama to discuss with his Chinese counterpart, Hu Jintao, about a change of the exchange rate. According to Krugman, China deliberately keeps its currency low in order to increase its economy through export and to create jobs, while the U.S. suffer from bad to worse because of unemployment.

Figure 5. The evolution of exports in 2009 in the U.S. and China ($ billion)



Source: China Economic Information Network and US Census Bureau SUA– www.tradingeconomics.com

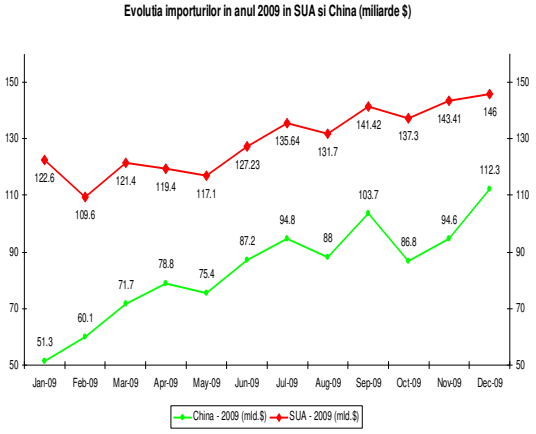
Concerning the evolution of exports, one can notice significantly higher values of China to the detriment of the U.S. throughout 2009. February was the only month when China's exports growth was lower$ 14,9 billion than the American one, which means $ 64,9 billion compared to $ 79,8 billion. But the biggest difference in exports was recorded in December 2009 when the U.S. have been exceeded by over $ 32,7 billion by China. As an overview, during 2009, the exports of both countries had an upward trend, however, China totally detached itself, managing to surpass Germany (the first world exporter in 2008) and to occupy the first position in the world. Moreover, while the U.S., Japan and Europe have deepened in the worst recession in the last 30 years, China's response to the global crisis was brought promptly and applied without hesitation, through the investment and tax incentives program, worth approximately $ 586 billion, equivalent to 14% of GDP. [5] It was launched by the Chinese government since November 2008, for a period of two years to support the continuation of the economic growth.

The main products exported by China are textile, footwear and leather related products, electronics and appliances, IT, chemical industry products, exports of capital etc.

2.4. Imports

The Chinese have continued during 2009 to consume quite enough, leading to the increase of the industrial production and of imports simultaneously. In April, car sales reached a record level, due to scrapping premiums offered for small cars. Compared with the U.S., the Chinese imports in 2009 were substantially lower, but they still had an upward trend starting from the $ 51,3 billion in January 2009 and reaching $ 112,3 billion in December, compared with the $ 122,6 billion the U.S. recorded in early 2009 and $ 146,0 billion at the end of the year.

Figure 6. The evolution of imports in 2009 in the U.S. and China ($ billion)



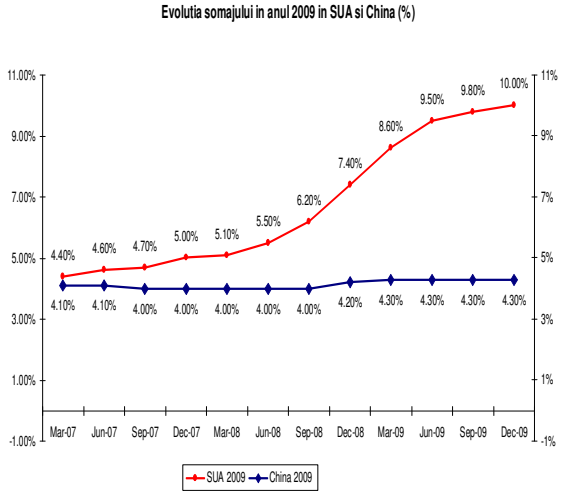
Source: China Economic Information Network and US Census Bureau SUA– www.Tradingeconomics.com

Currently China is the second largest oil consumer in the world, although the annual per capita consumption is one and a half barrel, much lower than the 12 barrels that an American consumes.

2.5. Unemployment

The evolution of the unemployment rate in the two countries is diametrically opposite. If in China it has an approximately equal constant during 2009, starting from a minimum value of 4,1% and reaching a peak of 4,3% in December 2009, it doubled in the U.S. at the end of the year compared to early 2009, that is from the value of 4,4% it reached 10,0%, increasing by approximately 5,6%. The most significant increase in unemployment began in mid 2009 and continued until the end of the year, which made the poverty rate in the U.S. become disturbing, that is of approximately 17%, the third after Turkey and Mexico. [6]

Figure 7. The evolution of unemployment in 2009 in the U.S. and China (%)



Source: National Bureau of Statistics China and Bureau of Labor Statistics SUA– www.Tradingeconomics.com

In late 2009, unemployment rate represented 10% of the total active labor, almost double as compared with the level recorded in December 2008. This figure is lower than in some European countries but higher than in Canada and much higher than in Asia or Scandinavia. Therefore, the U.S. unemployment rate was much above the average of countries with advanced economies, a fact which made the U.S. Senate to approve the program developed by the Democratic Party the end of February 2010, worth $ 15 billion, which seeks to revive the U.S. labor market.

3. Conclusions

Analyzing the GDP growth rate, starting 1999, one can notice spectacular growth in China, where growth, compared to the previous year, was even over 20% above the U.S., which, in the same period did not have an average higher than 6% over the previous year.

The economic crisis and the way the governments of the two states examined acted to combat the negative effects generated by it, show that vulnerabilities

come in direct confrontation with the force of economic enhancement that each state has.

The U.S. economic recovery will be gradual and aided by the existing differences of functionality compared with other states. But China remains the focus of all analysts, and the Chinese government's plans and measures are tracked and analyzed and they generate controversy and debate. The certainty that this country reaffirms its position of world economic power seems to bothers the West, but China's reaction may strongly influence the entire global economy.

Therefore, can China continue to pursue a sustainable development policy that goes beyond the U.S. economy, or was the period of early 21st century one of the darkest periods of history for the U.S., after which it will return unprecedented?

4. References

[1] George Friedman, *The Next 100 Years, A Forecast for the Twenty-first Century*, Publishers Weekly, 2009, pp. 93.
[2] Farndon John – *China – ascensiunea unei superputeri mondiale (China - the rising of a global superpower)*, Ed. Litera Internațional, Bucureşti, 2007, pp. 112.
[3] *China – Facts and Figures 2009*, Foreign Languages Press, pp. 54.
[4] http://www.tradingeconomics.com
[5] *Global economic situation*, the Institute of World Economy, Bucharest 2010, pp. 145.
[6] Economic Survey of the United States 2010, OECD, www.oecd.org

Establishment and Development of Business Incubators

Teliceanu Claudiu Daniel
"Dunarea de Jos" University of Galati
teliceanu_claudiu@yahoo.com

Abstract

Business incubators are established in order to help new businesses to consolidate and, consequently, to lead to creation of new jobs as part of a strategic framework - territorial oriented, or on a particular policy priority or a combination of these factors. The business incubator supports its customers to overcome the legislative, administrative barriers and thus to start much easier a business, by facilitating the business establishment process and their access to community support network.

Key words: business incubator, small and medium size enterprises, business incubator location, development space of business incubation
J.E.L. classification: M13

1. Introduction

Business incubators provide an environment where private and public resources together answer the needs of SMEs in their critical development stages. Community development depends on small businesses; they generate more jobs than larger businesses and more than half of the major innovations. In addition, small businesses are more efficient in terms of research and development costs.

2. Methods of business incubators establishment and operation. Incubation advantages

Ideally, the business incubators should be established through partnerships between private and public sector because the possibilities of attracting private funds and obtaining their own income to cover operational costs are lower in the early years of the incubators; partnership structure should reflect the regional strategies and support for technology and business. Thus, public authorities, universities, companies and financial institutions from public and private sectors play an important role as catalysts for launching incubators.

There was also an exception in this process, namely the period 1999 – 2000, when Internet related explosion created more than 300 incubators in the U.S. and Europe, based on the infusion of private equity and venture capital or corporate funding. Along with market regulation, business incubators created in this period have experienced a sharp drop of activity and income, many incubators have closed, others incubators have returned to traditional activities, like consultancy.

In Europe, public support for the establishment stage is still low compared with the U.S.A. An analysis performed by the Centre for Strategy and Evaluation Services (CSES), Great Britain, for the European Commission – DG Enterprise in 2002, showed that a business incubator in Europe requires an investment of approximately EUR 4.000.000 of which 37% are operating costs, public funds are needed for at least the early stages of business incubators development. According to that study, subsequent operational costs for a business incubator are approximately 500.000 Euro/year, most of them are related to personnel costs (41%), 24% of operational costs are incubated companies costs, 22% are building and equipment maintenance costs and approximately 13% of the total costs are represented by the utilities.

But there are also strong positions supporting further reduction of dependence on public funding sources. Currently 77% of European business incubators operate on a nonprofit basis.

3. Location of an incubator – where, how and why?

Generally, the location, structure and size of incubator reflect the purposes for which the incubator was created, the type and number of firms concerned.

Mark P. Rice and Jana B. Matthews, in *Growing New ventures, Creating New Jobs* (1995) stresses: "the suitable building provides the basis for financial sustainability right from its own sources and a supportive environment, in which entrepreneurs and incubator's managers can work together on developing innovative new business. Inappropriate choice of the space/building will lead to failure – and this is one of the main reasons for which business incubators have not achieved their own objectives".

If it was created in order to promote technology-based companies, the business incubator may be located in a Greenfield area, such as a scientific and technological park adjacent to a university, while other incubators can be placed in the middle of industrial sites or in a central area of a city.

Incubators focused on new economic sectors tend to be concentrated in metropolitan areas, cities or regions that combine technology, creative talent, entrepreneurship and financial and professional services; incubators are located in places where investors can work and be in contact with each other and where they can promote themselves.

Most incubators are located in covered buildings, sometimes built specifically for that purpose, but which lead to higher establishment costs. However, most established European incubators are very closely related to launch costs, so in many European cities, the managers of business incubators prefer to locate them in buildings with lower rental costs, former warehouses or abandoned offices.

Once identified the type of target companies for the incubator it is recommended that business incubator managers to visit other incubators with similar characteristics, giving them the opportunity to learn from the experience of others and to avoid any problems that may arise concerning: determining the optimal size of the incubator, designing the architecture of the premises, determining the number and size of work spaces needed, development of basic infrastructure (water supply network, electricity, telephone and Internet connection).

European studies have shown that an incubator should have sufficient space to simultaneously incubate 20 businesses to be a successful business incubator. But it should not be overstated because a low rate of space occupancy can be seen as a sign of business incubator failure. Thus, the space provided by an incubator varies between 90 square meters and 41.000 square meters with an average around 5.800 square meters. A smaller capacity than the previously mentioned generates business development difficulty. Another practice is to maintain simultaneous operation of at least 85% of sites (units of housing).

But there are business incubators that have fewer businesses (4-5) and they are not so attentive to establishment costs (massive infusion of capital funds provides by venture capital investment).

In choosing the location where the incubator will operate it is also important what are the facilities offered such as: transport infrastructure and transportation facilities, parking space, banking and courier services and even medical services.

After finding the adequate space for business incubator activities to be carried out, it must be made, if necessary, the connection to utilities (water, electricity telephone, parking spaces, etc) and properly rehabilitate areas to allow flexibility for companies and securing their products. The space must be able to provide the location of an information and consultancy point, rooms for meetings. Ideally there should be enough space to expand the area for production and for their proper sizing.

Besides the traditional business incubators there are incubators that appeared on the new economy model; it does not require a dedicated space and it can run on a virtual basis for disseminating information and know-how needed to make a particular business.

4. Development space of business incubation

Incubator premises must be located in an appropriate building, a new or existing building, after an eventual rehabilitation,

which will include spaces for a reception area, canteen, exhibitions and offices for protocol meetings, training and conference rooms and offices for staff incubator.

It is desirable that the incubation unit to be located in the industrial zone of the city for reasons related to possible collaboration, attracting interested companies and publicity. It will also be connected to all utilities and it must have its own parking space.

Retail area. Location of some businesses on the ground floor, like a mall, can also attract customers' interest and increase customer flow. The road followed by customers is important, this traffic can generate future possibilities of employment for the incubator. It can help diversify the business model and increase revenue.

Image and brand. The appearance, feel and flow followed by customers are essential elements of how services are perceived. The building must be self-contained and easy to recognize. The building should be modern and clean, the logo should be inspirational and evocative.

Parking. Space for parking is an essential element but often disregarded. Parking is important for both incubated firms and their customers and visitors.

Entrances. In some cases it is preferable that the offices have their own entries.

Interaction. All business incubators should encourage social interaction: there should be common space and social services such as restaurants, bars, cafes, etc., a patio can have a positive influence on the interaction within the community and increase visibility.

Working area. It is recommended that the newly formed companies to be placed among the mature companies and not separate. It is preferred buildings with long corridors and few, for an easier access.

Storage. Often forgotten storage space should be strategically placed especially for companies that own stocks.

Meeting rooms. It is very important to have spaces for conferences and meeting rooms. Companies will need space for meetings with clients and trainings. These rooms should be on every floor.

Public facilities. It can be taken into account the possibility of providing to public and the rest of the community spaces for rent and access to building facilities (e.g. conference rooms)

5. Conclusions

Business incubators provide an environment where private and public resources together answer the needs of SMEs in their critical development stages.

Ideally, the business incubators should be established through partnerships between private and public sector; thus, public authorities, universities, companies and financial institutions from public and private sectors play an important role as catalysts for launching incubators.

The location, structure and size of incubator reflect the purposes for which the incubator was created, the type and number of firms concerned. Most incubators are located in covered buildings, sometimes built specifically for that purpose, but which lead to higher establishment costs. European studies have shown that an incubator should have sufficient space to simultaneously incubate 20 businesses to be a successful business incubator. In choosing the location where the incubator will operate it is also important what are the facilities offered such as: transport infrastructure and transportation facilities, parking space, banking and courier services and even medical services.

It is desirable that the incubation unit to be located in the industrial zone of the city for reasons related to possible collaboration, attracting interested companies and publicity. It will also be connected to all utilities and it must have its own parking space.

6. Bibliography

[1] Mark D., *Mixed – use Incubator HandBook: A Start-up Guide for Incubator Developers*, 2009

[2]Haugen, T. M. „Getting a head start: the rise of business incubators" Business Forum, 1990

[3]Kilgannon C., „White noise in the huddle room: A day in an incubator", New York Times Online, 2000

[4]Lichtenstein G. A. „The state of the business incubation industry 1991". Athens, Ohio: National Business Incubation Association, 1992

[5]Kmetz, John L. Business Incubators For Central And Eastern Europe, 2000
Lumpkin, J. R., & Ireland, R. D. „Screening practices of new business incubators: the evaluation of critical success factors", American Journal of Small Business, 1988
[6]Udell, G. G., „Are business incubators really creating new jobs by creating new business and new products?", Journal of Product Innovation Management, 1990
[7] The Implementation Procedure Establishment and Development of Business Incubators Project in Romania
[8] www.portalincubatorimm.ro
[9] http://ec.europa.eu/enterprise/index_en.html
[10]http://www.undp.ro

The Impact of Fiscal Competition about International Double Taxation in a Nash Equilibrium Point of View

Trandafir Adina
„Spiru Haret" University
atrandafir04@yahoo.com

Abstract

This paper examines international tax rules, with respect to both corporate income tax rates and tax rules for double taxation. This article assumes that governments set non-discriminatory tax rates on domestic- and foreign-sourced corporate income and can choose no tax allowance as the tax rule. Consequently, the Nash equilibrium outcomes contradict the intuition underlying previous studies: no tax allowance is chosen as the tax rule where world economic welfare can be maximized. The purpose of this paper is to examine the strategic impact of the tax policies of capital-importing and capital-exporting countries on international investment income.

Key words: fiscal rules, double taxation, tax rate, capital-exporting/importing country
J.E.L. classification: H, H2, H21.

1. Introduction

Economic policy for international investment is an issue of great importance to both capital importing and capital-exporting countries. In particular, the tax treatment of income originating from international investment is one of the more significant policy issues, especially since tax policy is often used to attract business, to create jobs, and to increase domestic economic welfare.

Accordingly, in recent years the topic of tax competition for international capital movements has arisen on the political and research agenda. Problems of monitoring are particularly relevant when foreign investment takes the form of portfolio investment. Some studies discuss the importance of information sharing among governments in relation to the income generated from foreign investment (see, for example, Bacchetta and Espinosa, 1995; Makris, 2003). However, the taxation of income originating from foreign direct investment is different from the case of portfolio investment. That is, both capital-importing and capital-exporting countries can effectively levy corporate tax on the income generated from foreign direct investment because the firm is well monitored, and is usually interested in documenting such investment.

However, this presents the issue of overlapping taxation on income generated from foreign direct investment by capital-importing and capital-exporting countries; international double taxation. In the classical approach (see, for instance, Musgrave and Musgrave, 1989), this causes a heavier tax burden on foreign than on domestic direct investment, even if both types of investment yield the same profit. The classical approach then generally calls for tax treaties to deal with this deficiency.

International double taxation treaties may then involve three possible provisions, or tax rules. First, governments can credit the tax paid in the foreign country, up to the amount that would have been incurred under purely domestic taxation. This credit method (CRE) leads to taxation at the higher of the two rates. Second, governments can allow the foreign tax to be deducted from income before the domestic corporate tax is applied. This is titled the deduction method (DED). Finally, foreign investment income can be completely exempted from domestic taxation, such that only the foreign tax is relevant. This is called the exemption method (EXE).

The comparison of these three tax rules usually indicates that CRE and EXE can achieve horizontal equity in the tax burden by full allowance for international double taxation, which DED cannot. For the proper examination of tax competition, it is therefore

necessary to consider not only the corporate tax rate, but also the form of double taxation relief as government policy instruments

Contrary to the findings of previous studies, the following three conclusions are drawn from the Nash equilibrium under non-discriminatory taxation on income originating from foreign direct investment. First, no tax allowance is chosen as a tax rule for international double taxation.

Second, the allocation of capital can be efficient from the viewpoint of the world economy. Third, the capital-exporting country gains whereas the capital-importing country loses, as compared with the case where there is any tax allowance. This suggests the following policy implication: from the viewpoint of both the global and the home economies, the capital-exporting country ought not to allow for international double taxation with real non-discriminatory corporate income tax rates.

2. Capital market equilibrium

Given a pair of tax systems chosen by both governments, each country's capital owners invest abroad until the marginal product of domestic capital corresponds to the rental rates of capital in the other country. Consequently, we can derive the representative capital market equilibrium conditions:

$$(1 - t) \cdot F_K [\text{Ꝁ} - Z] = (1 - \Phi^*) \cdot F^*_K [\text{Ꝁ}^* + Z] \text{ as } Z \geq 0, \quad (1a)$$

$$(1 - t^*) \cdot F^*_K [\text{Ꝁ}^* + Z] = (1 - \Phi) \cdot F_K [\text{Ꝁ} - Z] \text{ as } Z < 0, \quad (1b)$$

where:

$$\Phi^* = \begin{cases} t^* + (t - \min[t, t^*]), & \text{CRE} \\ t^* + t(1 - t^*), & \text{DED} \\ t^*, & \text{EXE} \\ t^* + t, & \text{NON} \end{cases}$$

and

$$\Phi^* = \begin{cases} t + (t - \min[t, t^*]), & \text{CRE} \\ t + t^*(1 - t), & \text{DED} \\ t & \text{EXE} \\ t^* + t, & \text{NON} \end{cases}$$

As discussed, for instance, by Davies (2003) and Chisik and Davies (2004), this model does not explicitly represent two-way capital flows. However, not all capital mobility arises only through the investment decisions of one country's agents. Let us define capital flows as $Z = S - S^*$, where $S \geq 0$ ($S^* \geq 0$) denotes the level of foreign direct investment undertaken by the home capital owner (the foreign capital owner) into the foreign country (the home country). Regarding Z, we may have to consider six types of equilibrium: (1) $Z > 0$ with $S > S^* = 0$, (2) $Z = 0$ with $S = S^* = 0$, (3) $Z < 0$ with $S^* > S = 0$, (4) $Z > 0$ with $S > S^* > 0$, (5) $Z = 0$ with $S = S^* > 0$, (6) $Z < 0$ with $S < S^* < 0$.

In this model, however, capital owners invest abroad only when the return on investment in the other country exceeds that in their own country, because they are assumed to have no country-specific capital. Therefore, S and/or S^* would be zero, since the capital owner in either country (on occasion, in both countries) has no incentive to invest abroad.

Accordingly, the cases (4)-(6) would be impossible. Hence this paper focuses on the case (1)-(3). Furthermore, the above argument suggests that capital owners in a capital-importing country have no income generated from investment abroad and therefore are indifferent to any tax rules.

The tax factors for a home capital owner investing in the foreign country, Φ^*, are the sum of the foreign taxation and the home taxation that foreign taxation allowed under each tax rule: under CRE, the home government credits the foreign tax that was paid up to the amount that would have been incurred under purely domestic taxation; under DED, the home government allows the foreign tax to be deducted from income before the domestic corporate tax is applied; under EXE, foreign investment income is completely exempted from domestic taxation, such that only the foreign tax is relevant; and under NON, the home government gives no tax allowance for the foreign tax. The tax factors for a foreign capital owner investing in the home country, Φ, are written analogously.

Foreign direct investment is carried out until the net returns on investment in both countries are the same. However, the case where $Z < 0$ can exist, as the following lemma shows:

Lemma 1: The home country imports capital ($Z<0$) if, and only if, the foreign government applies EXE and $t^* > 1-(1-t)c$.

Proof: Before proceeding to a more detailed discussion, we must derive some preliminary outcomes. Assuming that Z is negative, the representative capital market

equilibrium must hold Equation (1b). Since $F_{KK}[\bullet]<0$, $F^*_{KK}[\bullet]<0$ and taking into consideration the Equation $F_K[K] \equiv c \cdot F^*_K[K^*]$, where $0 < c < 1$, we can have two relations:

$$(1 - t^*) \cdot F^*_K[K^* + Z] > (1 - t^*) \cdot F^*_K[K^*], \quad (2a)$$

$$(1 - \Phi) \cdot F_K[K - Z] < (1 - \Phi) \cdot F_K[K] = (1 - \Phi) \cdot cF^*_K[K^*]. \quad (2b)$$

Consequently, Equation (1b) and Equation (2) imply that $Z<0$ requires

$$(1 - t^*)<(1-\Phi)c. \quad (3)$$

Now we will prove by reductio ad absurdum that Z can never be negative if the foreign government applies CRE, DED or NON. Firstly, assume that the foreign government chooses CRE as tax rule. As $t \leq t^*$, Equation (3) would be $1<c$, which is a contradiction. Similarly, for $t > t^*$, we need $(1-t^*)<(1-t)c$ or at least $(1-t^*)<(1-t)$, which contradicts $t > t^*$.

Second, assuming that the foreign tax rule is DED, Equation (3) indicates $1<(1-t)c$, which is impossible. Third, we assume that the foreign government applies NON as tax rules. In this case, Equation (3) implies $(1-t^*)(1-c)+tc<0$, which contradicts our assumption. Next, let us turn to the discussion of EXE. In this case, Equation (3) would be $(1-t^*)<(1-t)c$. This condition is possible by assumption. To prove the other direction, it follows immediately from this argument that for $t^* \leq 1-(1-t)c$, the foreign country will not invest abroad under EXE. The above lemma thus can be derived. This is based on Janeba's lemma. The following explanation of Janeba (1995) may then help to provide an intuitive interpretation. If the home country imports capital, the return on investment in the home country must exceed that in the foreign country. However, without capital movement, the former is below the latter. Therefore, the home capital inflows require that this difference in the marginal product of capital is compensated by foreign taxation. However, under CRE, if the foreign tax rate t^* matters, only when it is below that in the home country, and under DED, t^* does not matter; then under NON, t^* lowers the net marginal product of capital in both countries. For this reason, the home country imports capital independent of c and the tax rates by adhering to either CRE, DED or NON. On the contrary, under EXE, t^* lowers only net return on investment in the foreign country. In this case, only a sufficiently high foreign tax rate discriminates against investment in the foreign country and leads to $Z<0$. Based on these results for the third stage, let us examine the Nash equilibrium tax rates in the next stage.

3. Nash equilibrium tax rate

To begin with, the Nash equilibrium tax rates at the second stage can be defined as follows:

Definition 1: Nash equilibrium tax rates in the subgame for each tax rule combination are a pair of $(\hat{t}, \hat{t}^*)$ that, for a given corresponding tax rule combination, solve

$$\hat{t} \in \arg\max_{t} Y(t, \hat{t}^*),$$

$$\hat{t}^* \in \arg\max_{t^*} Y^*(\hat{t}, t^*).$$

In this stage, we analyze Nash equilibrium tax rates for sixteen pairs of given tax rules, since each government chooses one of the four alternative tax rules in the first stage. However, such a lengthy discussion can be reduced by half as follows. An inspection of follow Equations:

$Y(t, t^*) = F[K - Z(t, t^*)] + (1 - t^*) \cdot F^*_K[K^* + Z(t, t^*)] \cdot Z(t, t^*)$, the home national income

$Y^*(t, t^*) = F^*[K^* + Z(t, t^*)] - (1 - t^*) \cdot F^*_K[K^* + Z(t, t^*)] \cdot Z(t, t^*)$. net income from abroad,

implies that the national incomes of the home and the foreign countries depend on capital flows, which are determined by both tax rates. Hence, each government can indirectly increase its national income by manipulating its tax rate. However, the effects of tax rates on capital flows depend on the pairs of given tax rules. Then we must basically allow for sixteen pairs of the effects, in order to discuss the strategic behavior of governments. Nevertheless, the capital owner in either country (or both) has no income generated from investment abroad and hence is indifferent to any tax rules. That is, only the tax rules in either country affect that effect of tax rates upon national incomes. Hence, as $Z \geq 0$, we only have to discuss the Nash equilibrium tax rates for the four alternative tax rules of the home country: (i) NON, (ii) CRE, (iii) EXE, and (iv) DED. As $Z<0$, on the other hand, all we must consider are four types of Nash equilibrium tax rates when the foreign government offers alternative tax

rules: (v) EXE, (vi) DED, (vii) NON, and (viii) CRE. According to Lemma 1, however, a negative capital flow cannot occur when the foreign government offers either CRE, DED or NON. That is, cases (vi)–(viii) are not compatible with the equilibrium. We then focus on cases (i)–(v). First, let us analyze the Nash equilibrium tax rates for case (i). From Equation (1a), the capital market equilibrium condition is as follows:

$$(1 - t) \cdot F_K[\bar{K} - Z] = (1 - t - t^{*}) \cdot F^{*}_K [\bar{K}^{*} + Z]. \quad (4)$$

Totally differentiating the capital market equilibrium conditions (4) yields:

$$\frac{dZ}{Z} = -\frac{\varepsilon\varepsilon^{*}}{\varepsilon+\varepsilon^{*}} \frac{1 - t^{*}}{1-t-t^{*}} \left[\frac{t^{*}}{1-t^{*}} \frac{dt}{1-t} + \frac{dt^{*}}{1-t^{*}}\right], \quad (5)$$

where the elasticity of supply of exported capital for the home country is $\varepsilon \equiv -F_K / F_{KK} Z$, and the elasticity of demand for imported capital for the foreign country is $\varepsilon^{*} \equiv -F^{*}_K / F^{*}_{KK} Z$.

Equation (5) indicates that Z is always negatively related to each country's tax rate.

Totally differentiating the follow Equation yields the following:

$$dY = [(1 - t^{*})F^{*}_K - F_K - (1 - t^{*})F^{*}_K / \varepsilon^{*}]dZ - F^{*}_K Z dt^{*}, \quad (6a)$$

$$dY^{*} = [t^{*}F^{*}_K + (1 - t^{*})F^{*}_K / \varepsilon^{*}]dZ + F^{*}_K Z dt^{*}. \quad (6b)$$

Equation (6) indicates that home national income is decreasing in the foreign tax rate, while the foreign one is increasing in its tax rate.

Substituting Equation (4) and Equation (5) into Equation (6) yields:

$tt^{*}/(1 - t)(1 - t^{*}) = 1/\varepsilon^{*}$ for the home government, (6'a)

$t(\varepsilon + \varepsilon^{*}) + t^{*}\varepsilon^{*}(1 + \varepsilon) = \varepsilon^{*}$ for the foreign government. (6'b)

That is, Nash equilibrium tax rates in this sub-game are then characterized by Equation (6').

This equation indicates that the foreign government can increase its national income by lowering its tax rate. In other words, it is shown that autarky (Z =0) is not optimal, at least for the foreign government. As shown in Equation (4), capital flows are decreasing in t^{*}. Hence, the above result can be obtained.

For this case, we can also state the following proposition:

Proposition 1: At sub-games with non-discrimination, the absence of a tax allowance in the home country leads to $\hat{t}^{*} = 0$ and $\hat{t}^{*}[\tilde{t}, t\max]$ as at least one of the Nash equilibrium tax rates, where $\tilde{t}$ denotes the home tax rate to satisfy $t = \varepsilon^{*}/(\varepsilon + \varepsilon^{*})$, and that tax rates thereby can provide free-trade capital flows, Z^{0}, and the highest level of world income.

Proof: First, we will analyze Nash equilibrium tax rates. Assuming that the foreign tax rate is zero in equilibrium, Equation (6b) reduces to:

$$\frac{\partial Y^{*}}{\partial t^{*}} = -A\left[t\left(\frac{1}{\varepsilon} + \frac{1}{\varepsilon^{*}}\right) - \frac{1}{\varepsilon}\right] \quad (7)$$

Only if the sign of Equation (7) is non-positive, is the assumption not contradicted. Therefore, in equilibrium, the foreign optimal choice of tax rate is zero, if the home tax rate exceeds $\tilde{t}$ satisfying $t = \varepsilon^{*}/(\varepsilon + \varepsilon^{*})$.With a zero foreign tax rate, on the other hand, the national incomes depend only on capital flows. When the foreign government sets a zero tax rate in equilibrium, therefore, the home optimal choice of tax rate is any tax rate on the feasible interval, which includes $[\tilde{t}, t\max]$, as capital flows are out of the government's control, as shown in Equation (4). As a result, the above pair of tax rates are Nash equilibrium tax rates. If the foreign equilibrium tax rate is zero, the capital market conditions are identical under both free trade and NON as shown in Equation (4). Accordingly, the equilibrium capital flows can be free-trade equilibrium capital flows, Z^{0} in this sub-game.

Third, let us consider the economic welfare provided by the pair of Nash equilibrium tax rates in the sub-game. From Lemma 1, free-trade equilibrium capital flows, Z^{0}, provide the highest level of world income. On the other hand, at the sub-game Nash Equilibrium with nondiscrimination, the absence of a tax allowance in the home country can lead to Z^{0}. Accordingly, we have demonstrated the above result for world income. Q.E.D. The intuition behind this proposition is as follows. First, let us consider the foreign government's behavior. As shown, one country's national income is decreasing in another country's tax rate. If the home tax rate exceeds a critical level, $\tilde{t}$, the foreign national income is below its level in free-trade equilibrium. In this case, then, the foreign government sets a zero tax rate that yields free-trade equilibrium. Second, let us consider the home government's behavior. So long as the foreign equilibrium tax rate is

zero, the home tax rate does not affect the location of capital. The home tax rate simply redistributes income from capital owners to the government and cannot alter the home national income. Therefore, any feasible tax that includes [$\tilde{t}$, $t$max] is also optimal for the home country, when the foreign equilibrium tax rate is zero.

Since an increase of the home tax rate, t, lowers the return on the existing capital exported, zero tax rate would be optimal for the home country under CRE and EXE.

Third, let us consider capital flows and national incomes. The above argument suggests that only the foreign tax rate determines the capital market equilibrium. As the capital flow and the foreign tax rate are the same under all tax rules, we have the same level of national income, the foreign country improves upon the free-trade equilibrium as its tax rate is positive but $\hat{t} = 0$.

As free trade is equivalent to joint output maximization, the home country must be worse off.

Taking these outcomes into account, the next section analyzes the Nash equilibrium tax rule in the first stage.

4. Nash equilibrium tax rules

First, the Nash equilibrium tax rules can be defined as follows:

Definition 2: Nash equilibrium tax rules are a pair of $(\hat{T}, \hat{T}^{\square})$ that solves

$$\hat{T}^{\square} \underset{T}{\operatorname{argmax}}\, Y[\hat{t}(T, \hat{T}^{\square}), \hat{t}^{\square}(T, \hat{T}^{*})],$$

$$\hat{T}^{*\square} \underset{T^{*}}{\operatorname{argmax}}\, Y^{*}[\hat{t}(\hat{T}, T^{*}), \hat{t}^{*}(\hat{T}, T^{*})].$$

From the analysis of Nash equilibrium tax rule, this study can state the following proposition:

Proposition 2: With non-discrimination in the Nash equilibrium, the home tax rule is the absence of a tax allowance, where a home country gains whereas a foreign country loses, compared with the case where there is any tax allowance.

Proof : To prove this, let us present the following two results for the sub-game Nash equilibrium under a tax regime of non-discrimination and NON. First, the home government sets a positive tax rate if the foreign government sets a positive one. Second, the foreign equilibrium tax rate is smaller than $t^{\square}opt$.

Let us begin with the proof of the first result. This result will be proved by contradiction.

Assuming that $\hat{t} = 0$ is a Nash equilibrium in the sub-game, Equation (6a) can be rewritten as

$$\frac{\partial Y}{\partial t} = A\frac{t^{*}}{\varepsilon^{*}} > 0 \qquad (8)$$

Equation (8) indicates that the home national income is increasing in its tax rate. However, this contradicts the assumption if the foreign government sets a positive tax rate.

From Lemma 2, at the sub-game Nash equilibrium with any tax allowance, the home equilibrium tax rate is zero or irrelevant under non-discrimination. In this case, the capital market equilibrium conditions (1a) are identical for all tax rules. Hence, the sub-game Nash equilibriums with tax allowance can be considered as a special case of NON, and hence all tax rules are comparable.

According to the first and second result and to Lemma 2, the absence of a tax allowance raises the home equilibrium tax rate, but lowers the foreign rate, compared with the case where there is any tax allowance. On the other hand, an inspection of Equation (12) indicates that one country's national income is decreasing in another country's tax rate. As a result, in Nash equilibrium, the home government chooses NON as its tax rule. From Lemma 1, this implies that the foreign country imports capital and thereby is indifferent to any tax rules. There is an intuitive explanation for this proposition. First, let consider the behavior of the home government. With the home tax allowance, the foreign government can decide its investment income tax rate so as to maximize its national income, as the home equilibrium tax rate is zero or irrelevant to capital flows. In other words, the home government would be confronted with the disadvantage offered by a foreign tax monopoly. Without any tax allowance, however, the home government can move out of such a circumstance, and then at least can increase its national income with it. Second, think of the foreign government's behavior. If the home government adopts NON, capital flows will be positive. In this case, the capital

owners in the foreign country have no income generated from investment abroad, and thereby are indifferent to any pair of tax rules. They then can accept the situation where the home government chooses NON.

5. Conclusions

This article has examined tax competition with respect to both the corporate income tax rate and the domestic treatment of foreign taxes. The analysis implies the following three outcomes based on the Nash equilibrium.

First, no tax allowance is chosen as the tax rule for international double taxation.

Second, world economic welfare could be maximized by a zero equilibrium tax rate in the foreign country. Third, the capital-exporting country gains, whereas the capital-importing country loses, compared with the case where there is any tax allowance.

The result of this analysis extends the earlier findings of Janeba (1995), who showed that in the equilibrium of the non-cooperative game with non-discrimination, the capital flows and economic welfare of both countries are independent of tax rules.

Finally, according to these results, this article draws the following policy implication: a capital-exporting country ought not to allow for international double taxation under nondiscriminatory corporate income tax rates, from the viewpoint of both global and domestic economies. As shown by Musgrave (1969), the domestic allowance for international double taxation gives the most efficient allocation of world capital if various nations' tax rates are set independent of one another. However, in the context of actual non-discriminatory corporate income tax rates competition, it only provides a tax monopoly for a foreign government.

6. References

[1] Bacchetta, P. and Espinosa, M.P. Information Sharing and Tax Competition among Governments. *Journal of International Economics* 39, 103–21.1995

[2] Bond, E.W.. Optimal Tax and Tariff Policies with Tax Credits. *Journal of International Economics* 30, 317–29, 1991

[3] Chisik, R. and Davies, R.B.. Gradualism in Tax Treaties with Irreversible Foreign Direct Investment. *International Economic Review* 45, 113–39, 2004

[4] Davies, R.B. and John Wiley. The OECD Model Tax Treaty: Tax Competition and Two-Way Capital Flows. *International Economic Review* 44, 725–53. 2003

[5] Janeba, E. Corporate Income Tax Competition, Double Taxation Treaties, and Foreign Direct Investment. *Journal of Public Economics* 56, 311–25, 1995

[6] Makris,M. International Tax Competition: There isNo Need for Cooperation in Information Sharing. *Review of International Economics* 11, 555–67, 2003.

Musgrave, R.A. and Musgrave, P.B. *Public Finance in Theory and Practice*. New York: McGraw-Hill Company, 1989

Structure of Organization, Diversity and Values in the Context of Globalization

Trofin Maria Irina
"Anghel Saligny" Tehnical College of Bacău
dromereschi_irina@yahoo.com

Abstract

In order to prepare to meet future challenges, all organizations must be proactive nowadays. They must recognize the trends that are shaping the work force of tomorrow. As organizational operations become less effective and as organizations position themselves for an improved competitive advantage, they need to explore new organizational structures to respond to challenges of the business world. Many external changes have had a substantial impact on the organizational structures. Diversity often requires restructuring organizational cultures to include more opportunities for everyone. The competitive advantages, then, are balanced by the management challenges of diversity. Diversity is concerned with the creation of an inclusive environment in which all organizational members contribute with their unique talents. This environment requires a genuine acceptance of the people just as they are and without trying to fit them into a mold of how they should be. The basic foundation to managing diversity is respecting the differences among all people.

Key words: organizational structures, diversity, competitive advantages, values, valuing diversity.
J.E.L. classification : M 12, M 14

1. Introduction

Real world contexts is definitely open and dedicated crops with variable geometry. This land constitutes a social context for expresion of several trends of development seemingly opposite but simultaneous action, combined in a continuous balance: national–global, private–generally.

Consequently, the harmonic complexity of modern systems development, is a unique blend of two trends go hand in hand with seemingly opposite meanings: on the one hand, trend to globalizations, crystallization and transculturale border entities, and on the other hand, trends of atomization, fragmentation communities, groups, regions (Nedelcu, 2008). The first concerns the effects of globalization:"Over a planet collecting the traps are thrown as if they defend it from desintegration. One is instant communication, unlimited information across other financial-banking and the global economy, a network refers to the ecology, another is the political and security institutions, the common issues, all superimposed on the old network of scientists and on ancient universal ideal. We call collect in herkerchief and nets planet, globalization" (Malița, 1998).

Under the "fabric" expanding communities, groups claiming recognition of their cultural values and claim compliance (Pomian, 1990). It outlines a world of balance between near and far, between private, national and universal. The condition is precisely the success of recovery efforts of individual differences in a world that intertwines but symbiotic, living even in praise of the specificity of each of its parts.

To prepare to meet future challenges, all organizations today must recognize the trends that are shaping the work force of tomorrow: address downsizing, layoffs, restructuring, and new organizational structures; increase awarness of safety, health, and privacy issues in and around the workplace; examine the benefits and challenges of diverse demographics in today's workplace.

A strategy focused on people is successful as long as the leaders keep off the tentation to see their employees only as costs, technology as salvation, and customer services as a burden.

A strategy based on people facilitates higher levels of services for customers and allows companies to enter the competition relying on knowledge, relations and service, not only on price.

Diversity has become a critical management and human resource management challenge for every organizations. Those organizations that fail to respond to increased diversity with more flexible human resource policies and approaches to managing people will find themselves missing valuable opportunities for competitive advantage.

2. New Organizational Structures

Prior to 1985, downsizing was perceived as "an aberration from normal organizational functioning" and "a last ditch effort to thwart organizational demise or to temporarily adjust to a cyclical downturn in sales (Cameron, Freeman, & Mishra, 1993). The term did not necessarily appear in older business dictionaries prior to the 1980s. Over the past two decades, downsizing has become one of the most popular strategy. As firms have downsized successfully and have experienced positive reaction from their share holders and business press, other companies have adopted the strategy. But, the popularity of this strategy has caused a major problem: some organizations have downsized unnecessarily. Since to be effective, corporate strategies must be aligned with the unique strenghts and weaknesses of the individual organzations. Downsizing has been the organizational response to changes in economy (especially slower growth rates), the increase in international competition, and changes in work force composition.

Instead of running the risk of downsizing, some organizations have opted to use temporary workers. This option avoids a cycle of layoffs, hires, and more layoffs. The use of temporary workers is a hedge against the highs and lows of the bussiness cycle. This strategy has been especially popular in the banking industry.

Since the late 2007, the global finance industry has been severely impacted by the global credit squeeze and the U.S. subprime mortgage crisis with many firms been forced to make deep personnel cuts (Rampell, 2009). For instance, U.S.-based banks were forced to cut in excess of 65,000 employees during the June 2007–2008 time period (Story &Dash, 2008). At present, employee cutbacks are occurring in all industries (Rampell, 2009).

Organizations must carefully, craft a restructuring plan that capitalizes on their unique set of strengths and weaknesses, regardless of what their competitors are doing. Some solution could be possible: increasing the part-time workers, early retirement buyouts, to reduce work weeks and reduced schifts (employees per schift or number of hours pre shift). Any restructuring effort will impact human resources in a variety of ways. All of these changes have human consequences that must be dealt with. Most restructuring results in a loss of jobs, and the organizations has to decide how the job losses will be handled. An organization must make several decisions about their human resource policies when restructurating. These alternatives include the following: no-layoff policy, method of termination, temporary layoffs versus permanent layoffs, wage cuts (Figure 1).

Figure 1. The downward spiral of performance

Source: Pfeffer, J. 2009:45

Some of the new organizational structures that have become more common include the electronic corporation, the shamrock organization, the upsaid-down pyramid, and strategic alliances. More firms are now considered e-corps; that is, electronic corporations that are conducting business over the internet. The shamrock organizations depicts the firm as a three-leaf clover with each leaf representing a different

type of worker: the traditional permanent employees holding full-time positions, the contract employee group and those employees who are workers who help out temporarily when needed. Not surprisingly, more growth will be experienced in the last two leaves of the shamrock.

Some organizations have literally turned their pyramid structures upside down to reflect the importance of their customers. Rather than depicting top management at the bottom and customers at the top.

More firms are identifying their corecompetence and then focusing on it. All other nonessential functions-those that do not directly contribute to the core competence-are outsourced. The organization then develops strategic alliances with other firms to deliver these nonessential services. These relationships are fluid. As the needs of the organization change over time, the strategic partners will also change.

3. Diversity defined. A look at the demographics

Diversity reflects all the differences in the work force, including age, gender, ethnicity, and disability.

The impact of the aging of the work force has been felt in every organization. Older workers are generally viewed as more stable and having high levels of experience. They also tend to be more loyal and to belive that organizational rewards should be provided for this loyalty and hard work. The cost, however, of more medical benefits has risen as the workers age. Older workers are more concerned with job security and preparation for their retirement.

The proportion of women in the work force has also been steadily increasing. Since 2006 women were make up nearly half of the work force. John Naisbitt identified women in leadership as a megatrend in the twenty-first century. The glass ceiling in some larger organizations caused women to start record numbers of businesses during the 1990s. The hope is that these new organizations will be more responsive to the diversity found in today's workplace.

The number of women in the work force has also caused human resource departments to re-evaluate the benefits offered.Working mothers require different benefits than working fathers whose wives are homemakers. Child and elder care are subjects of great concern.

The variety of ethnic groups represented in the work force today has also increased dramatically. The percentage of whites in the work force is declining. In American work force in 2006, 73 percent of the work force was white. The Hispanic portion of the work force rise to almost 12 per cent and the Asian portion increase to 5 percent.

A wide range of disabilities, both physical and mental, is represented in the work force today. As organization education themselves, they find it easier to accommodate workers with disabilities and discover an untapped pool of talented individuals who can make valuable contributions.

The percentage of workers with diverse national origins has also increased. The human resource department is responsible for helping employees understand this diversity and uniqueness of each individual.

The increasing disparity in the quality of education has also impacted the diversity of the work force. The work force is becoming more bipolar, with larger numbers of highly educated people and functionally illiterate workers.

4. Diversity: a source of competitive advantage

Managing a diverse work force prepares a manager for dealing with diversity outside the organization. When a company manages diversity well, its reputation spreads and it is more successful in attracting more talented individuals from these diverse groups. The result is better overall talent in the organization if the firm is attracting employees from all the available talent pools.

A commitment to diversity can also have a positive impact on customers. Diverse consumer groups are often mere comfortable buying products and services from an organizations that values diversity. On the other hand, a reputation that suggests the firm does not value diversity often results in customers deciding not to support the organization – or perhaps, at the extreme, deciding to boycott the products.

Greater levels of diversity usually lead to greater creativity. The firm avoids one single way of thinking. Instead, a variety of

perspectives are presented. More ideas lead to better solutions. The firm can be more flexible in responding to the environment and changing customer preferences.

5. Between values and globalization

Values are preferred and standardized expected modes of apperception and behavior in culture. Terpstra and David (1991) state: „Values are priorities for sorting out the options and, when one has the will and the resources to do so, for implementing one code of behavior rather than others.[...] Values direct society's people to selectively attend to some goals and to subordinate others." They are the ways an individual expects all people to think and behave when they face a given situations.

Values are rationally pre-set priorities for sociability, for an individual to be accepted in a society. A human being without cultural values is assumed to be a savage. Values usually manifest underlying assumptions by bringing to the surface certain behaviors of people regarding faith, beliefs, trust, and confidence in self or others. Norms are expectations of the ways people should ideally act, not anticipations of the ways people really will act. Values are expectations of proper behavior, not requirements for that behavior. There is the difference between cultural and legal values. Cultural values are not published, may not even be obeyed, and cannot be enforced – but they are expected. Legal values are published and should be enforced. (Hosmer, 1987)

Our need to feel valued and capable human beings means we crave positive feedback and often react with anger even to implied criticism. Social status carries the strongest messages of superiority and inferiority, and social mobility is widely seen as a process by which people are sorted by ability. In job applications and promotions, where discrimination by age, sex, race or religion is prohibited, it is the task of the interview panel to discriminate between individuals exclusively by ability – just as long as they don't make inferences from gender or skin colour, etc.

We come to see social position as a more important feature of a person's identity. Between strangers it may often be the dominant feature. As R. W. Emerson (2007), the nineteenth-century American philosopher, said, „Tis very certain that each man carries in his eye the exact indication of his rank in the immense scale of men, and we are always learning to read it." Greater inequality is likely to be accompanied by increased status competition and increased status anxiety.

Modern societies will depend increasingly on being creative, adaptable, inventive, well-informed and flexible communities, able to respond generously to each other and to needs wherever they arise. Those are characteristics not of societies in hock to the rich, in which people are driven by status insecurities, but of populations used to working together and respecting each other as equals. And, because we are trying to grow the new society within the old, our values and the way we work must be part of how we bring a new society into being. We must also try to bring about a shift in public values.

Martin Luther King said, „The moral arc of the universe is long, but it bends towards justice". It is perhaps right to think of it as an arc, curving back to very basic human principles of fairness and equality which we still regard as good manners in any normal social interaction. (Wilkinson & Pickett, 2009)

6. Managing diversity means valuing diversity

Managing diversity means providing choices. Just as many benefits are gained from a diverse work force, some problems occur as well. Diversity presents an increased opportunity for conflict. Questions of unfairness in hiring must be combated, addressing both affirmative action issues and reverse discrimination. Feelings of fear and distrust and misunderstandings often result from increased diversity.

To deal more effectively with diversity on an individual level, everyone must understand that people are not the same and „fair treatment" means understanding these differences. Treating everyone in the same manner disregards diversity. Employees must understand the cultures represented in the workplace. Human resources can take the lead by providing insight into ten aspects of culture: beliefs, dress, food, language,

learning, relationships, time consciousness, use of space, values and work practices (Nieto, 1992). Beyond understanding that differences exist, they must be tolerated. To find out what employees really want, organizations should conduct employee surveys, hold staff meetings to discuss needs, and conduct focus groups. And people must be willing to communicate their concerns and issues. This communication, must be honest and two-way.

For multinational business operations within multicultural organizational civic cultures, multinational corporations must play three roles to succeed: organizer, interpreter and multicultural mediator in these roles should be kept separate and should be assigned to different departments to avoid conflicts of interest (Heskin and Heffner, 1987).

Diversity in the top management ranks reflects the organization's commitment to diversity. Organizational policies must communicate what behaviors are appropiate and what behaviors are not appropriate. These policies should focus on behavior guidelines as well as on how employees should be treated. Some policies, such as the commitment to equal employment opportunity, impact the diversity of the firm itself. The consequences of violating these policies also communicate the importance placed on the commitment diversity.

Procedures should reflect flexible practices to accommodate diversity and the inherent differences among organizational members. Inclusive and flexible policies (such as flexible benefit plans) communicate a greater commitment to diversity. An organization's mission statement usually reflects its commitment to diversity. If there is no mention of diversity, it is generally not a high priority.

Diversity training can communicate a company's commitment to diversity and assist in better meeting the challenges that arise. A diversity audit is an assessment tool to provide insight into how effectively your organization is managing diversity. Questionnaires, interviews, or focus groups can be used to conduct an audit. Providing formal mentors to minority employees has also been an effective tool.

We cannot just offer training to manage diversity effectively. We must also change organizational processes to support this new environment. These processes include reward systems, benefits, compensation, training, and career development. A company-wide diversity council can be accountable for the effectiveness of managing diversity, including setting training objectives and surveying the work force to read the climate of the organization.

7. What the economic crisis brought in Romania in 2009?

2009 was a year when the human resources departments from Romania, but not only here, were subject to a strong pressure coming from three directions: employer, employees and market. Employers imposed a decreasing of costs at the level of all departments, employees experienced progressive salary cuts, layoffs and more work, while the market changed the strategies from "we develop, grow, invest" into "we reduce costs, close branches, revise plans".

What the economic crisis brought about, was sustained or amplified by a faulty implementation of some basic concepts in the human resources management such as: a syncope and formal management of performance, lack of correlation between performance and other processes/systems such as training, the individualized development plan, the analysis of necessary skills in order to achieve the objectives, measuring up the process of recruiting/selection by preponderantly quantitative indexes (cost /employer, number of hiring / period of time) and neglecting the qualitative ones (job suitability, the lack of programs designed to keep the key-employees in the company/organization, the lack of analyses based on relevant indexes for retention (turnover top performer, hours of training/employer, percentage of employers with implemented individual development plan, percentage of rehiring, surveys, performance results) and the lack of correlating them with indexes such as business figure/employer, retentive client percent, the lack of a clear system of ensuring an internal and external equity, the lack of a judicious analysis of costs associated to the participation in training and development

programs for employees as well as a non-alignment of teambuilding to the true organizational or/personal needs.

Adrian Lupulescu, Eastern Europe HR Director of Freescale Semiconductor Romania estimated the following changes for the local human resources market that are needed starting with 2010: rebalancing of supply-demand on the competence market, decreasing readjustment of salaries (especially on hiring), job security – a criteria looked for when searching for a job, "the natural selection" of suppliers of HR services – more interest taken in the client and a more realistic ratio price / quality, rethinking the employee – employer relation, investment in leadership and innovation, eliminating the "luxury" and a pregnant control of costs, of special policies of retaining the key-people, increasing the authority of the human resources manager (as strategic partner and agent of change), slower but more solid development based on healthier grounds.

8. Conclusions

Most organizations are trying new structures and processes. Organizations are restructuring to do more work with fewer employees. Putting a restructuring strategy into effect, however, requires that the organization rethink how to work will be accomplished.

The changing demographics of the work force have contributed in large part to increasing diversity. As more women entered the work force, gender differences needed to be addressed. The work force has aged as well. Globalization has also increased diversity. And more people with disabilities are contributing members of the work force than ever before.

Decisions are built on value opinions both for humans and the organizations where they put their daily existence to good value. Values are those which ensures the future of the company and of employees, those which make the clients devoted or those which set the organization in order to be distinguished from the competitor mass.

Managing diversity means valuing diversity. Managing diversity means providing choices. Organizations must develop flexible policies that enable employees to respond to their unique needs.

9. References

[1] Brown, T., Crainer, S., Dearlove, D., Rodrigues, J.N., *Business Minds,* Publica Publishing , 2008, Bucureşti.

[2] Cameron, K.S., Freeman, S.J., & Mishra, A.K., "*Downsizing and redesigning organizations*", in G. Huber and W. Glick (eds), *Organizational Change and Redesign* (pp 19-63) Oxford University Press, 1993, New York.

[3] Emerson, R., W., *Conduct of Life*, 2007, New York: Cosimo.

[4] Hall, E., T., *"Unstated features of the cultural context of learning",* The Educational Forum, 54(1), 1989.

[5] Heskin, A.D., Heffner, R.A., "*Learning About Bilingual, Multicultural Organizing.",* Journal of Applied Behavioral Science 23(4), 1987, p.525

[6] Hosmer, L.T., *The Ethics of Management,* Homewoood, 1987, IL:Irwin, p.82.

[7] James, D., "Middle managers or those with 'power' often went first".*Business Review Weekly*, March 22, 1999.

[8] Malița, M., *Zece mii de culturi.O singură civilizație,* Nemira Publishing, 1998, Bucureşti.

[9] Naisbitt, J., Aburdene, P., *Anul 2000-Megatendințe*, Humanitas Publishing, 1993, Bucureşti.

[10] Nedelcu, A., *Fundamentele educației interculturale. Diversitate, minorități, echitate*, Polirom Publishing, 2008, Iaşi.

[11] Nicolae, M. (2010) „ Care sunt învățăturile lui 2009?" *HRManage Journal r*, year 2, no. 9, pg. 18.

[12] Nicolescu, O. (2003), *Multidimensional and Multicausal Approach of Managerial Change inside Organisations*, available on-line at http://www.rmci.ase.ro/no10vol5/Vol10_No5_Article1.pdf, accessed: 13 June, 2010.

[13] Nieto, S., *Affirming Diversity*, Longman, 1992, New York.

[14] Pfeffer, J., *Resursele umane în ecuația profitului,* All Publishing, Bucureşti, 2010 p.45.

[15] Pomian, K., *L'Europe et ses nations*, Gallimard, 1990, Paris.

[16] Rampell, C. (2009) Layoffs spread to more sectors of the economy, *The New York Times*, January 29, 2009. http://www.nytimes.com/2009/01/27/business/economy/27layoffs.html?_r=1&scp=1&sq=layoffs%20spread&st=cse.

[17] Story, L., & Dash, E. (2008) "For Wall Street workers, ax falls quietly", The New York Times,May16, 2008.www.nytimes.com/2008/05/16/business/16layoff.html?_r=1&ref=business&pagewanted=print&oref=slogin.

[18] Terpstra, V., David, K., "*The Cultural Environment of International Business*", Cincinnati, OH:South-Western Publishing Co., 1991, p. 106

[19] Wilkinson, R., Pickett, K. (2009), *The Spirit Level. Why Equality is Better for Everyone*, Penguin Books, London.

[20]http://www.census.gov/popest/national/asrh/NC-EST2009-srh.html, accessed: 10 July, 2010.

The Role and Place of the Anti-crisis Management in the System of Public Administration Management

Tureac Cornelia Elena,
Filip Alin Constantin
Bordean Ioan
"Danubius" University of Galati, Faculty of Economics
tureaccornelia@univ-danubius.ro, alinconstantin.filip@idanubius.ro,
ancaturtureanu@univ-danubius.ro

Abstract

The implementation of the market economy in Romania could not generate a series of new problems, one of the most important being the problem of the anti-crisis management. Many companies have not been able to adapt to the new economic conditions, which were favored by the general political instability, the inconsistence of implementing the market reforms, adverse invitational climate, inefficient fiscal policy and other macroeconomic factors. In this article, the authors wanted to establish the role and place of the anti-crisis management in the public administration management system. The paper is based on contemporary economic theory, local and foreign, the management theory, the Romanian legislative and other official documents, concerning the bankruptcy issues and anti-crisis management. The researches in the anti-crisis management domain are outlined in the work of exceptional economists.

The legislation analysis in the insolvency process of the economic agents from within the local public administration is demonstrating that, the mechanism of anti-crisis management is quite contradictory and needs to be processed. In this sense is very important to determine the essence of the anti-crisis management applied in the public administration management.

In conclusion it was highlighted the place and role of the anti-crisis management in the management of the public administration.

Key words: market economy, anti-crisis management, public administration, role
J.E.L. classification: H3, L3

1. Introduction

The crisis is part of the economic life of the society. It represents a moment (a period) of dysfunction in the economic activity, which requires viable solutions, meant to ensure a change or a revitalization of the damaged systems and processes. The causes of the crisis are complex, ant their resolution is related to the managerial functionality – economic, of system and process. Although the crises have been rigorously analyzed, are not known, and especially, there cannot be anticipated in totality and in an opportune way all the causes that are generating it, and sometimes not event the essential ones. No human society, from what we know so far, it has not developed and it does not develop linearly. The economic life of a society knows symmetrical, dissymmetrical and asymmetrical, moments, rapid development and stagnation, progresses and regression, normal situation but and abnormalities, crises.

On the first plan, today, in Romania has emerged the anti-crisis management, whose main purpose is to save, maintain the enterprises from the local public administration unable to maintain their business in the terms of occurring and manifesting the defining elements of the economic crisis.

2. Materials and methods

In this article, the authors wanted to establish the role and place of the anti-crisis management in the public administration management system. The paper is based on contemporary economic theory, local and

foreign, the management theory, the Romanian legislative and other official documents, concerning the bankruptcy issues and anti-crisis management. The researches in the anti-crisis management domain are outlined in the work of exceptional economists.

It must be mention, however, that, in the Romanian literature of specialty, the approach of the anti-crisis management in the organizations within the public administration is reduced.

For the analysis of research problems was necessary to establish some terms of reference concerning the major way of organizing and management of the economic activity of the public administration. Thus, the enterprises of the public administration are represented by the Autonomous Regis and Commercial Societies which are performing under the form of public industrial and commercial services of public interest and which are having the following features:

- are subject to the public law regarding their organization but of their rules of private law regarding the relations with the users;
- is the political establishment endowed with financial autonomy and legal personality, having ow management organs;
- have a autonomous budget subject to the balance principle and public accounting rules

3. Results

The legislation analysis in the insolvency process of the economic agents from within the local public administration is demonstrating that, the mechanism of anti-crisis management is quite contradictory and needs to be processed. [9] In this sense is very important to determine the essence of the anti-crisis management applied in the public administration management. [10]

Several experts that are dealing with the anti-crisis management are sustaining that the anti-crisis measures must be taken when the company's financial results are becoming unsatisfactory, when are appearing symptoms of an unfavorable (vulnerable) situation of the enterprises activity. In these cases there must be taken urgent actions. It is not randomly the unpleasant statistical event of the arbitrary judgments concerning the results of the external directorate. Few enterprises manage the restoration of the payment ability. This means that are taken too late measure of solving the problem.

It is considered that the main symptom of the economic damage of the enterprises are making up the non-payments of the population for granted services, thus the main role in the anti-crisis management must belong to the financial management from the respective department of the local public administration [8]. Of course that the possibilities of financial management are quite extensive, but the financial results, are depending on the totals of the entire enterprise.

The financial management cannot resolve the proposed problems without the resolving of those that do not have directly connection with the finances. These are – qualitative evidences of leadership, the corresponding planning, ensuring the organization with qualified personnel etc. In other words, to qualitative improve the financial results of the enterprise; it is necessary improving the quality of the overall managerial administration. According to several authors, who have publications on this issue, the most important thing in the anti-crisis management is ensuring the necessary resources when the financial difficulties will not have a permanent and stable character [2].

In other words, it must be developed some management mechanism, which would allows to remove the problems at the highest directorate of the economic agent, ad this, until they won't get a serious character. From such a anti-crisis management approach, it can be deducted its purpose – ensuring a rigid position on the market and ensuring the financial stability of the company whatever the economical, political and social metamorphoses will be from the country. Moreover, there is a view according to which the anti-crisis management of the enterprise – is development and implementation by the enterprise directorate of a economical policy that would prevent the insolvency of the economic subject, and in the case of its apparition – would recover the enterprise state" [4]

From this, it appears the main purpose of the anti-crisis management – development of the mechanism "economic leap" of the enterprise at a new level of development. The well-organized management may diminish the impact of the crisis and reestablish the organization's visibility, can be done the organization's renewal with maintaining the owners and of the existent directorate, or restructuring (merging, division, fusion, separation) of the organization. In other conditions the crisis could lead to the complete liquidation of the organization. It must be considered that into organization the crisis not always is resulted with negative consequences.

In the table 1 are classified the positive and negative consequences that occur as a result of the intervening the crisis situation in the organization

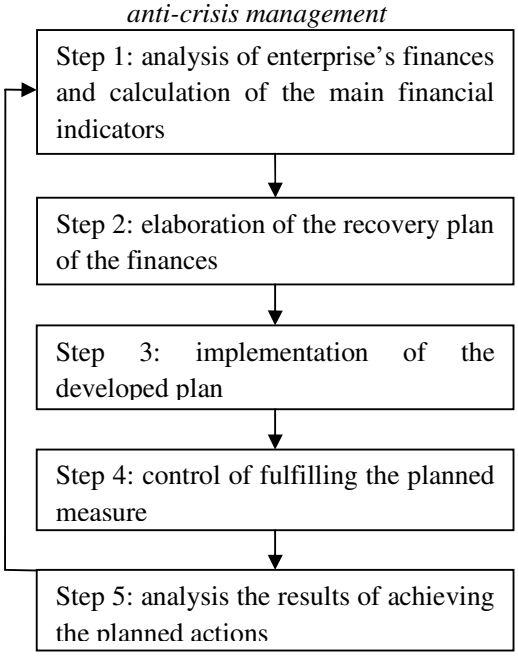
Table 1. Possible consequences after the occurrence of the crisis situation in the organization

Positives	Negatives
Crisis attenuation	Crisis intensification
Overcoming the crisis situation	Starting of a new crisis
Maintaining the organization as legal person	Liquidation of the assets
Restructuring (transforming) the organization	Change of owners

In economy, when the conflicts are spread and most enterprises are in state of crisis, meaning that are practically unable to male payments, the anti-crisis management is associated with an arbitrary directorate. Therefore, the existing methods of the anti-crisis management are oriented towards fulfilling the legal decisions, meaning there are some methods of arbitration. In our days it has accumulated and experience of arbitration work of the leaders and arbitrary judiciaries, respective it was developed a methodology of arbitration management.

Although many specialists believe that the main cause of the enterprises insolvency is the unprofessional management, lack of a quality management at the enterprise, however, they sustain that the main purpose of the anti-crises management is to restore the payment ability of the enterprise or resolution of the financial problems. [3]. In other words, the set of anti-crisis management methods proposed in the current step, is intent upon restoring the payment ability of the enterprise. Traditionally, all methods of anti-crisis management are subject to a succession by the enterprise's managers, ie it can be determined a functional scheme of anti –crisis, exposed in the figure below.

Figure 1. Traditional functional scheme of anti-crisis management



Further is exposed the description of the functional scheme

- Step 1: Analysis of enterprise's finances and calculation of the main financial indicators

Currently for most enterprises, are current the problems of payment capacity, of supply, of production with orders, the rational fiscal policy. All these problems arouse the interest of the managers to study more thoroughly the financial possibilities of the enterprise and of their business partners. Of all types of resources, the financial one is the only ones that can be transformed in any other type of resources. Therefore, the financial analysis must be performed continuously. The most important instrument in the financial analysis is the calculation based on the data records of some special coefficients. These coefficients allow the dynamic observation of the financial state of the company compared with

the similar indicators of the last years or with the indicators of the competing enterprises.

- Step 2: Elaboration of the recovery plan of the enterprise's finances

The anti-crisis management decision – it is a result of financial diagnostic of the enterprise's state. She must provide answers to the following questions:

What should be done? What should be done in the first place?

How must be acted? With the help of what resources of production, human and financial nature will be acted?

To what extent? In what period?

What results will give the given management decision?

The process of fulfilling the decision of anti-crisis management supposes the development of some plan of improving the enterprise's finances or of a anti-crisis program.

- Step 3: Implementation of the elaborated plan

Implementation of the anti-crisis program must lead the enterprise towards the increase of the payment ability, to rigidity of the financial states, towards the business success.

- Step 4: Control of fulfilling the planned measures

The control of fulfilling the planned actions must be performed on the norms developed in the planning phase. The control rules must be consisted, with a single sense in treating, to be achievable and to have some reservations

- Step 5: analysis the results of achieving the planned actions

At achieving the analysis of the results of implementing the planned measures, are examined the results of fulfilling or not fulfilling the proposed normative proposed at planning. If the results obtained match or are better than these norms, then it can be considered that the anti-crisis program is successful achieved, which should advance the enterprise to a new qualitative level. But if the results are lower than the proposed norms, it must be reviewed the situation, ie the return at step 1, introducing in plan the necessary corrections and taking some new decisions of management.

From the ones exposed previously is foregoing, that the process of anti-crisis management is cyclical. The cyclicity is obtained by reverse relation indicated with arrows in the figure 1. Its function is observed in the continuous and successive achieving of the measure system of anti-crisis management, which allows the adaption of the company to the changes of conjunction to the external environment.

The diversity of the methods used in the proposed scheme, is quite extensive and may be detailed, extensive and completed. For example, is proposed carrying out the financial analysis of the enterprise more often, (performing the monitoring the finances quarterly), to obtain the dynamic of the indicators, which would allow the operative influence of the situation if they are worsening. Also there can be elaborated more plans of financial recovery, of which it can be chosen the best for the company in cause.

Besides this, most specialists consider, that this is quite rational and the solution of existing the enterprise from the crisis state would be producing the competitive goods , because the enterprises in cause does not face the competition in the conditions of market economy [6]. Therefore at the traditional methods of anti-crisis management is added and some methods like: analysis of the supply and demand on the market (marketing analysis), the appearance on the market of a new product (innovation management). [5]. But often these methods are only declarative, because for their practical implementation, most enterprises that are already facing with financial difficulties, are lacking of the necessary resources.

Based on the exposed one there can be defined the principles of organizing the anti-crisis management systems:

- continuity throughout the whole activity of the enterprise;
- systematic, namely, the interdependence and successive of all anti-crisis measures
- elasticity, stability at different influences of the external environment
- mobilization, namely the momentary reaction of all the elements of anti-crisis management at any changes in the internal and external environment of the organization;
- innovation – the causes of the emergence of the crisis situation are different for each enterprise, therefore the measures of

solving the crises for enterprises are individual and them cannot be printed;

- complexity – the main sign of crisis is the decline of the sales volume, reducing the payment ability of the enterprise and therefore the directorates of the companies are beginning by "recovering" the finances, forgetting, that the financial result is actually the result of the whole activity, and for "recovering" the finances there must be taken "recovering" measures of the whole organism of the enterprises.

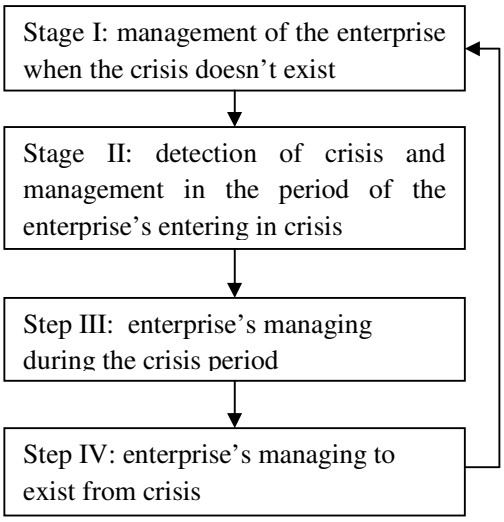
The functional scheme of the anti-crisis management described above, after our opinion does not correspond the enumerated principles by the organization of the anti-crisis management. For example, it does not correspond to the principle of complexity, because the reduction of the sale volumes can be influence and by other causes then the ones that are related to the enterprise's finances, like the incorrect management decisions, or increasing the competition. Therefore, at the analysis of the causes of reduction the sales volume; it must not be considered only the financial analysis of the enterprise.

It was mentioned previously, that in the activity of the enterprise, the crises are an objective reality. They reflect the inconsistency of the development rhythms of an enterprise with the development rhythms of the Microsystems and the necessity of changing the trajectory of development under the influence of macro cycles. Moreover, the regularity of the crisis apparition in the enterprise's activity results from the fact that her activity is subject to rotation. We can therefore conclude that in the enterprise's activity the crisis will intervene, even if are not signs to predict its occurrence. That, any enterprise as prosper as it would be in a certain step of their development, will pass and through a crisis step. Moreover, the crisis is one of the condition of progressive development and renewal of enterprise.

Thus, the anti-crisis management – is a operative system to reform the entire system of directorate of the enterprise, with taking account of some possible financial risks of other nature – is a necessary method for economic survival in the market conditions. [7]

Considering this attitude across the enterprise activity, in our view the anti-crisis management of the organization is divided in the following steps exposed in figure 2.

Figure 2. Scheme proposed for anti-crisis management



All the stages mentioned are forming a closed cycle of organization's management. In this way, are realized the principles of continuity and systematic of the anti-crisis management.

In the first the stage, when the enterprise is operating prosperous, it would seen that there is no reason for concern and of undertaking anti-crisis measures. But it is not like this. In the case of stable development of the business, when the enterprise obtains the planned profit, holds the leader positions on the market, then comes confidence in the prosperous future and auto-silence of the enterprise's leaders. The main purpose of the anti-crisis management in this stage is to highlight the "tight" places, especially in the strategic planning and forecast, calculation of the main financial indicators, making monitoring and situational analysis.

The most difficult in the second stage is to detect the approaching crisis, as quickly as possible. In the case of occurring the crisis, can intervene both the external and the factors and internal conflicts. The purpose of the anti-crisis management in this stage is – creation and application of the information environment of the business. The larger will be the information field that relates to the

enterprise's activity, the more precise will be determined the approaching crisis.

The management of training towards the organization's entering in crisis is into the determination of the crisis that is approaching, in forecasting the consequences for organization, in determining the insurance with then necessary resources for transgressing the crisis, in elaborating the anti-crisis strategy.

The main purpose of the third stage is – the mobilization of the internal reserves of the organization for transgressing the crisis. This is done, primarily, by checking the quality of company management. If the enterprise is run by a team of people who share the same ideas, aimed towards the final result of keeping the business and development in the future of the enterprise, then the crisis will be transgressed in the shortest time. But if there is no understanding between managers, then the enterprise is condemned to crisis. In this situation event the external help is useful.

In the fourth stage, the main purpose of the anti-crisis management is the insurance of rhythmic output of the enterprises from the crisis. The crisis is a disease for the organization, as for any live organism, and after disease the organism need of a recovery period. In other words, the enterprise need as well of this kind of period. It is needed of a post-crisis strategy for achieving the plan indicators of the enterprise, o strategy of exiting on the market.

4. Conclusions

The management as a administration system in the market conditions ensures the orientation of the enterprise towards the satisfying the necessity of market, of the consumers demands, by organizing those types of production that are searched and capable to bring to enterprise the biggest profit, for preventing or liquidation the crisis situation in business.

The opinion system beside the management, formed at the beginning of XXI century, sometimes is named "cozy management revolution". All her principal situations can be used without crushing or destroying the structures already formed systems and methods of management, completing them in evolution, adapting them to new circumstances. This refers to the prediction of changes and managing on the base of flexible decisions, which allows and reacting to unpredictability of the future development.

The legislation analysis in the insolvency process of the economic agents from within the local public administration is demonstrating that, the mechanism of anti-crisis management is quite contradictory and needs to be processed. In this sense is very important to determine the essence of the anti-crisis management applied in the public administration management. There were resulted several steps and stages in the anti-crisis management.

In conclusion it was highlighted the place and role of the anti-crisis management in the management of the public administration.

5. Bibliography

[1] Burduş E., Management Fundamentals of the organization,Economic Publishing House, Bucharest2007

[2] Burduş E., Change Management, Economic Publishing House, Bucharest: 2000

[3] Corm G. New global economic chaos: At the sources of development failures, Dacia Publishing House, Cluj-Napoca 1996

[4] Constantinescu P., Ciucur D., Transition through crisis, Efficient Publishing House. 1995

[5] Dumitrescu E., Transition in Romania: Economical Approaches, Economic Publishing House, Bucharest 2002

[6] Dumitrescu M., Strategies and strategic management, Economic Publishing House, Bucharest, 2002

[7] Mocanu N, Economical-organizational analysis of the applied strategies in the anti-crisis management to the enterprises from the public administration, october 23th- 25th 2009, „Tomis University", „The economy in crisis conditions", Constanta, 2009

[8] Lutrin C., Allen K., American Public Administration. Concepts and cases. New Jersy: 1995.

[9] Frâncu Marin. Swing of global economic instability, Economic Tribune, year 11, nr. 23, 2000

[10] Law nr. 215/2001 concerning the local public administration In Official Gazette. nr. 204/23 April 2001Law 85/5 April 2006 In Official Gazette. 359/21 April 2006

[11] Law 277/7 iunie 2009 regarding the approbation O.U. of the Government nr. 173/2008 for the modification of the Law 85/2006 regarding the insolvency procedure. In Official Gazette. nr. 486/14 July 2009

The Opportunity of Developing the Urban Tourism During the Economic Crisis

Turtureanu Anca Gabriela
Tureac Cornelia Elena
Ivan Alexandra Maria
"Danubius" University of Galati, Faculty of Economics
ancaturtureanu@univ-danubius.ro,
tureaccornelia@univ-danubiu.com,
ivanalexandra@univ-danubius.ro

Abstract

This paper aims to analyze the importance of the tourism in the development of some urban area. In the first part of the paper we presented some theoretical issues concerning the urban tourism. Currently the tourism and the touristic industry offer many opportunities, attractive destinations, niche products, offering maybe the most complex products. In this case the resources, whatever their nature plays a special role. The second part of the paper includes the analysis of the Touristic resources of the urban center Braila and captures the opportunities of the development of urban tourism in the period of economic crisis.

Key words: tourism, development, urban tourism, economic crisis
J.E.L. classification: O1, R1

1. Introduction

Starting from the premise that most cities are housing many attractions, which are polarizing for various activities and offer opportunities for organizing a wide range of events, the tourism development is one of the most efficient ways of exploitation, capitalization of these advantages. However, taking into account the trends on the current touristic market, the enrollment of the cities in the travel destinations becomes even a necessity.

For a human settlement, in this case a city, to be a destination, must fulfill a touristic function in the complex sense of the word, it must benefit by a series of arrangements both in terms of specific infrastructure and of the natural conditions. In recent years, the tourism activity has become a strategic factor of economic recovery from some regions and countries, even in the conditions during the economic crisis in 2008 there were 924 million international tourists (representing an annual increase of 2%), being one of the economic activities which registered positive growth (Serrano BArquin, Hernandez Moreno and Serrano Barquin, 2009)

2. The advantages of urban tourism

The urban tourism, if it is properly planned, developed and managed, can create advantages and benefits both to the urban communities and to the societies as a whole (Iordache and Cebuc). The tourism encourages the development of new cultural and commercial facilities that can be used both by the residents and tourists. The tourism allows collecting the funds needed to preserve the natural resources, archaeological and historical monuments, of art and cultural traditions, and especially it contributes at improving the environmental quality (Stanciulescu 2009).

In the conditions of the economic crisis, when the funds allocated to touristic development are reduced and when the available revenues of the tourists are in decline, the urban tourism is an alternative worthy to be considered.

On one hand is has an infrastructure already created and developed for residents, and on the other hand the vast majority of the urban centers have cultural resources, natural, etc. In general, the arrangement of the landscape is made considering the type of

beneficiary thus distinguishing esthetic arrangements of the spaces of habitat designed especially for habitants but which also contain attractive elements for the development of the touristic activities and touristic arrangement required by the exigencies of the visitors.

A big importance in the urban tourism it has and the typology of the animation activities existent at urban level and can be distinguished:

- thematic circuits (eg. Gastronomic routes);
- street animation(competitions, shows, touristic transport with unconventional means);

Table 1 Tourist needs and physical structures

TOURIST NEEDS	URBAN STRUCTURES
Eating	Restaurants Trattorias Fast foods Pizza-restaurant
Sleeping	Hotels Campsites Rooms
Drinking	Bar Pubs
Reaching	Airports Motorways Railways stations
Moving	Subway stations Bus stations Car hire agency Taxi ranks
Information	Information bureau Tourist office
Visiting	Museum Monuments Art gallery Exhibition structures
Amusing	Amusement parks Discotheques Casinos Theaters Cinemas
Shopping	General stores Souvenirs shops Bureau de change
Meeting	Congress center University Trade fair buildings

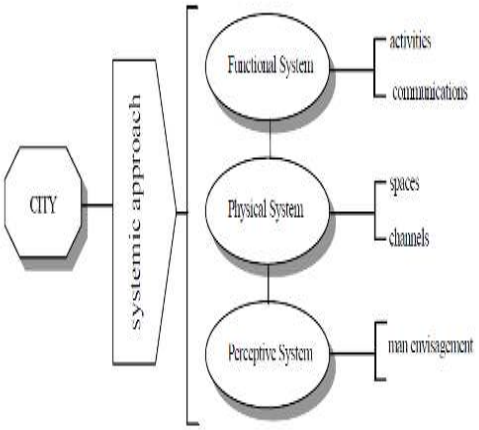
- sportive animation (competitions, contests, sportive competitions);
- traditional holidays (winter holidays);
- thematic parks;
- festivals;
- carnivals;
- night animation (sound and light spectacles, night lighting on the facades);

The touristic capitalization of the urban centers generate social and economic effects for the local communities in the conditions in which of the historical centers often interfere with the commercial ones and of business or where in its inside or their nearness were developed residential districts. Under these conditions, the behavior of the tourists with the natives is just as important as well as of the local population beside these.

Often, the local population holds indirectly a significant role in marketing and promotion of the urban touristic product. The shops, handicrafts made by these, houses, customs and traditions can improve better the respective area becoming attractive for tourists, knowledge of the local community being a central element in the understanding of the symbolism of historical resources.

Of many times however, the local community perceives the interest of visitors as an aggression brought to their peaceful way of life. Often, the presence of the tourists in excess can overload the sewage networks, water supply, energy, waste collection and the comfort and quality of life of the residents knows a slight decline. Also, the flow of tourists , either is about the private cars, busses, taxis, are affecting the local traffic and are limiting the freedom of movement of the local residents, are crowding the parking places and restricting the access to the services that are necessary to them and the noise and pollution it creates discomfort.

Figure 1 The urban interpretative pattern: the city as a system



The figure illustrates the conceptual scheme referred to the systematic interpretative patter. In particular, it shows the components of the three subsystems: activities and communications for the functional system; spaces and mobility channels for the physical system and the individual perception of the city for the perceptive system.

3. Urban tourism development opportunities in Braila

Braila and its peri-urban area are integrated at regional level in an area dominated in terms of accessibility and connectivity on the Pan European Transport Corridor IV (road and railway): Dresden/Nuremberg – Prague – Vienna/ Bratislava – Budapest – Arad – Bucharest – Constanta/ Craiova – Sofia – Salonic/ Plovdiv – Istanbul.

In the same time, the harbor fluvial-maritime city Braila is located in the space of the Pan European Transport Corridor VII, which crosses its peri-urban area and which include the navigable Danube, the Canal Danube-Black Sea, the arms of Danube Chilia and Sulina, waterway connections between the Black Sea and Danube, Canal Danube Sava, Canal Danube – Tisa.

On the other hand, the regional territory is crossed by several European Roads (E), of which, at least two are passing through the urban area / peri-urban Braila. The Network of European Roads, established and actualized in the Economic Commission of the United Nations Organization (CEE/ONU) after a complex set of technical criteria, geographical, economical and territorial politic, are a base of spatial analysis extremely useful and relevant, often shadowed by the authority recently acquired of the networks Pan European and TEN initiated by the European Union.

The cultural heritage built from the peri-urban area of the Braila County was analyzed from the perspective of territorial development based on the information contained in the historical studies of substantiation of PATJ Braila, respectively PUZ the protected area built Historical Center Braila, made by a collective of the Braila Museum.

From the quantitative point of view it can be said that compared to other counties from the afferent region of development from the country, the Braila County has a built cultural potential relatively reduced. From a qualitative point of view the assessment of this potential has reveled remarkable characteristics which it gives a unique position in the national cultural heritage. Thus, there can be mentioned the following:

- Braila County is one of the oldest counties on the Romania's territory, with a relevant evolution for the national history
- the existence of numerous archaeological vestige attest the antiquity and continuity of inhabiting this territories
- the Braila county functions as an important human settlement (more the six centuries), being in present among the few locations from Romania that are keeping in good state of physical and morph-structural conservation, the old historic core
- outstanding value in terms of urban and architectural of the old historical center of Braila
- the monuments of A category from the city are, especially urban ensembles, which contributes at the creation of a valuable identity, of high attractiveness
- great variety of the elements of cultural heritage, are a consequence of the richness and remarkable socio – economic life – sustained especially by the presence of the Danube – which marked, in certain periods the evolution of Braila and of the neighboring territories (the periods of functioning of the free zone)
- the ethno-cultural of great specificity of the cultural heritage, as a result of the multi – ethnic coexistence and of the adaptation at the natural environment of plain from the vicinity of Danube

Inventory of historical monuments and their distribution at county level shows a clear concentration in the city of Braila, as a consequence of its territorial important role over time:

- in the Braila city are 115 listed monuments representing 68% of the total of the county/ 4 monuments of A category (historical monuments of national value) are found in the city of Braila
- the ethnographic area, outlined in a long period of time is strongly determined by historical occurred events. The Romanian traditional lifestyle has been preserved and in the period of the Turkish

domination, enriching with elements resulted from the typical multi-ethnic mix

- this way of life developed in particular historical conditions, has generated a real group awareness, zonal, brailean, clearly distinct from the other surrounding areas. The preservation, capitalization and transmission of this ethno-cultural heritage are a task of present generations, represented both by public authorities and by ordinary citizens. The importance of awareness the population on this type of heritage is a determinant condition for the territorial development, contributing at the creation of cohesion and of the increased involvement of rural communities in the locality's life.
- testimonies of the craftsman's are kept today in museums and less at popular craftsmen. These reflect the material culture of the settlements located in close interaction with the nature of the places – plain, Danube, Danube plain – and is referring at: manufacturing of wood tools for fishing, agriculture, boats, storage items, decorations for the houses ("flower shops"), skinner], tissue of the piece from the popular harbor, of towels, bark/bed foils, wall foils… etc

4. Conclusions

In the contemporary society, the tourism is one of the most dynamic economic sectors, which is registering permanent changes and an upward evolution. Currently Romania aspires to become an important tourist destination, but first of all, it must remedy some weaknesses which don't offer a competitive position of the international tourism market. For developing the tourism it is necessary a strategy to promote the tourism with secure and lasting effects.

From the economic point of view, the tourism can be regarded as a primary source of national economic recovery from the countries that have tourism resources and of course it exploits them accordingly. Seen in correlation, with the ensemble of national economy, the tourism is acting as a dynamic element of the global system.

The optimum evolution of the touristic activities requires a specific request of goods and services, and the stimulation of production of necessary products in this activity. Here it is about the multiplier effect of the tourism: the developed areas of tourism will have to be always an attraction point for investors from the adjacent sectors.

The urban tourism can be a solution to maintain the touristic values in the economic crisis period, but also an alternative worthy to taken into account of all types of practiced tourism.

5. Bibliography

[1] Holloway, J.Ch., The Business of Tourism, ed. IV, London: Pitman Publishing, 1994

[2] Hunziker, W., Individual und Sozial Turisme in Westereuropaische Raun, Berne, 1940

[3] Iordache, C. and Cebuc, I., The influence of juridical regulations upon tourist town planning. Theoretical and Empirical Researches in Urban Management, 1(10), 2009, pp. 86-92

[4] Minciu, R., Tourism economy, edition III - revised and added, Uranus Publishing House, Bucharest, 2005

[5] Popescu, I., Promoting the urban touring destinations by implementing the total quality management, in *Transylvanian* Magazine of Administrative Sciences, 2008, No. 1(21)/2008, pp. 105-124.

[6] Profiroiu, M. (1998). Strategically management of the local collectivities, Economic Publishing House., Bucharest 1998

[7] Reutsche, J., Urban Tourism: What Attracts Visitors to Cities?, Let`s Talk Business, 2006

[8] PATZ Peri-urban Braila – Secon Phase: Multicriteria analysis July 2010

[9] *ONE CONSTRUITE PROTEJATE* pg.819 /434 PATZ Peri-urban Braila – Second Phase: Multicriteria analysis July 2010 Inter-county Territorial Context, Regional and National pg. 3/6

The Implications of the Economic Crisis on Tourism Activity

Turtureanu Anca Gabriela
Filip Alin Constantin
Ivan Alexandra Maria
"Danubius University" of Galati, Faculty of Economics
ancaturtureanu@univ-danubius.ro,
alinconstantin.filip@idanubius.ro,
ivanalexandra@univ-danubius.ro

Abstract

The authors aim to realize the evolution of the touristic activity in Romania between 2006 -2010. Correlative viewed, with the ensemble of the national economy, the tourist acts as a dynamic element of the global system, in normal conditions of development. Although in the first years of the analyzed period it can be talked about a significant increase of 15 – 17% at different indicator, and in the years 2009 and 2010 the decline was of 20 %. The evolution of the Romanian tourism is seen by specialists with different eyes, but almost all voices say that the effects of the economic recession will be felt in 2011, at least in the first half of the year, after which may follow a slight recovery.

Key words: evolution, touristic activity, economy, economic crisis, analysis
J.E.L. classification: R1, O1, O5

1. Introduction

The tourism is analyzed and pursued in dynamic by a system of specific indicator, based on a methodology of calculation standardized worldwide. The touristic indicators provide and quantify information necessary to the action of macroeconomic touristic management, allowing and the evaluation of the effects of macroeconomic decisions of sustaining the tourism phenomenon. The indicators can be simple, economics and socials and are concerning at touristic sizes and variables, at the distribution, evolution and interaction of these in time and space.

The analysis of touristic activity in the last five years reflects the existence of several problems, starting with the infrastructure, roads, accommodation facilities etc at which are added the effects of the economic crisis. Tourism is a favorable area in what's concerning the reviving and modernization of any economy, because the businesses are of reduced dimensions and the necessities of capital are small printing to the investments a rapid rhythm, thus, is being constituted in a simulator of the investments. The investments in tourism train the investments from those domains which are developing their activity in close relation with tourism.

2. Evolution of touristic activity 2006 – 2010

The evolution of the Romanian tourism presents the specific of Romania's economic development and reflects the tourism role in the economy. According to the Statistical Institute of Romania the arrivals registered in the structures of touristic reception during the period 1.I – 31.VII.2007 totaled 3874.7 thousands, in growing with 13.9% compared to those from the period 1.I – 31.VII.2006.

The arrivals of the Romanian tourists in the structures of touristic reception with accommodation facilities were in the period 1.I – 31.VII.2007, 77.4% of the total number of arrivals, while the foreign tourists were 22.6% of the total number of arrivals, equal shares with those from the period 1.I – 31.VII. 2006. Significant increases were recorded for most types of touristic reception with the exception of the following types: campsites and touristic stops.

The arrivals registered in the structures of touristic reception in Romania, in the first 7 months in 2010 totaled 3266.2 thousands, in decrease with 4.3% compared to those from the period 1.I – 31.VII.2009. The arrivals of Romanian tourists in the structures of touristic reception with accommodation facilities were in the period 1.I – 31.VII.2010 77.4% of the total number of arrivals, while the foreign tourists were 22.6% of the total number of arrivals, shares closed of those from the period 1.I – 31.VII.2010.

The arrivals in hotels are holding in the period 1.I – 31.VII.2010 a share of 76.0% of the total arrivals in the structures of touristic reception with accommodation facilities. Compared to the 1.I – 31.VII.2010, are decreasing with 2.4%.

Tabel 1. Arrivals in the main structures of touristic reception with facility of touristic accommodation – thousand tourists

	Arrivals				
	Arrivals period 1.I – 31.VII.2006 - thousand tourists-	Period 1.I – 31.VII. 2007 - thousand tourists -	Period 1.I – 31.VII. 2008 - thousand tourists -	Period 1.I – 31.VII. 2009 - thousands -	Period 1.I – 31.VII. 2010 - thousands -
Total	3400,6	3874,7	3994,0	3455,2	3266,2
Romanian tourists	2633,5	3000,4	3132,4	2735,8	2526,5
Foreign tourists	767,1	874,3	861,6	719,4	739,7

Source: National Statistical Institute

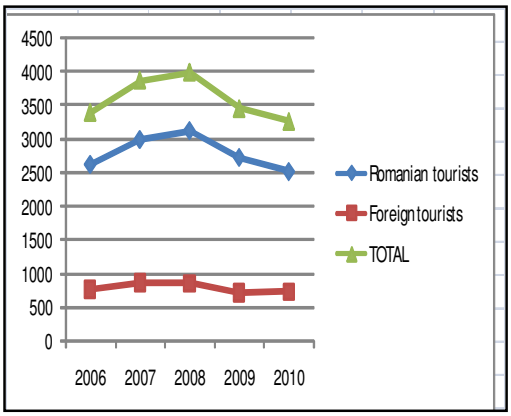


Fig. 1 The evolution of arrivals in the main structures of touristic reception with touristic accommodation facility – thousand tourists

Figure 1 reflects the major increase of the arrivals indicator in the period 1.I – 31.VII of the years 2007 and 2008 including of the arrivals of the foreign tourists. Since 2009 it is found a decline in the number of arrivals. In 2010 the number of foreign arrivals has increased compared to the previous year due to the attenuation of the crisis in most countries in Europe.

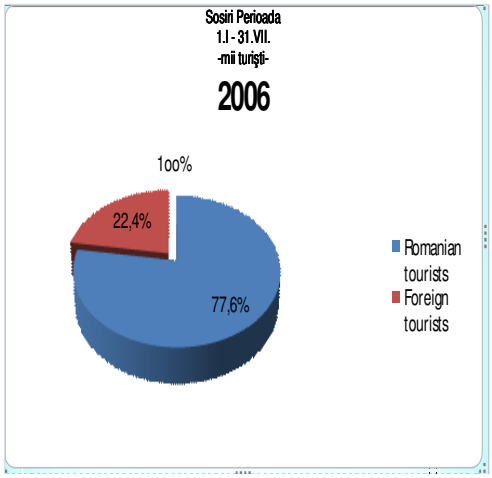


Figure 2 Structure arrivals in the period 1.I – 31.VII.2006

Figure 3. Structure arrivals in the period 1.I – 31.VII.2007

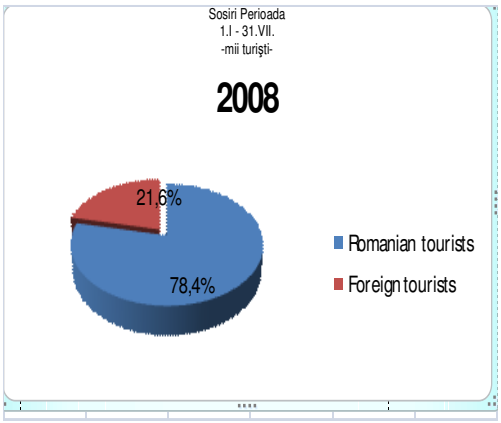


Figure 4. Structure arrivals in the period 1.I – 31.VII.2008

In the analysis of the touristic activity the number of arrived foreign is important and from the collecting point of view, is known that in the case of the Romanian tourists they just move the consumption from the place of residence in the visiting zone. It can be observed that the share of the foreign tourists oscillates around the percentage 20% with the smallest value in 2007 and the following a slight increase until 2010.

Figure 5. Structure arrivals in the period 1.I – 31.VII.2009

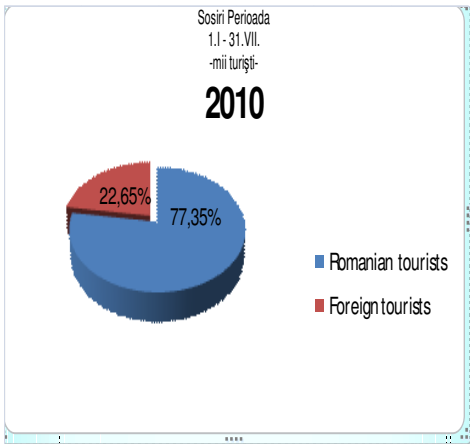


Figure 6. Structure arrivals in the period 1.I – 31.VII.2010

The overnight stays registered in the structures of touristic reception during 1.I – 31.VII.2008 totaled 11187,6 thousand tourists, in decrease with 0.1% compared to the others from the period 1.I – 31.VII.2007.

The Romanian tourist's overnight stays in the structures of touristic reception with accommodation facilities were in the period 1.I – 31.VII.2008 82.3% of the total number of overnight stays, while the foreign tourist were 17.7% shares approximately equal with those of the period 1.I – 31.VII.2007.

Table 2. Overnight stays in the main structures of touristic reception with facility of touristic accommodation – thousands tourists

	Overnight stays				
	Period 1.I – 1.VII.2006 - thousand tourists-	Period 1.I – 31.VII.2007 - thousand tourists -	Period 1.I – 31.VII.2008 -thousand tourists -	Period 1.I – 31.VII.2009 - thousands -	Period 1.I – 31.VII.2010 - thousands -
Total	10049,7	11197,7	11196,2	9309,6	8360,3
Romanian tourists	8251,6	9150,4	9211,1	7798,9	6833,8
Foreign tourists	1798,1	2047,3	1985,1	1510,7	1526,5

Source: National Statistical Institute

The overnight stays registered in the structure of touristic reception I the period 1.I – 31.VII.2010 totaled 8360,3 thousands, in decrease with 9.3% compared to those from the period 1.I-31.VII.2009. The overnight stays of the Romanian tourists in the structures of touristic reception with accommodate facilities were in the period 1.I – 31.VII.2010 81.7% of the total number of overnight stays, while the overnight stats of the foreign tourists were 18.3%.

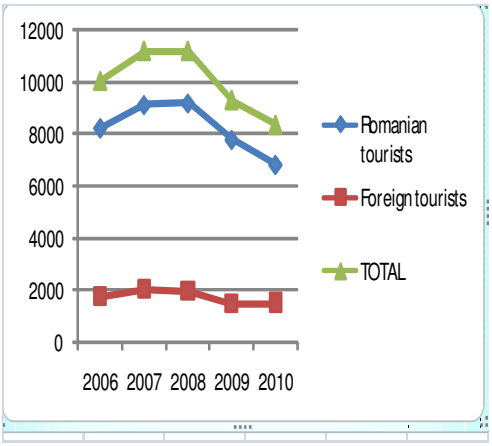


Fig. 7 The evolution of overnight stays in the main structures of touristic reception with touristic accommodation facility – thousand tourists

The curve of overnight stays follows the general trend of the touristic activity during 2006 – 2010 with increase in the years 2007 and 2008 and significant decrease in 2009 and 2010 only for the Romanian tourists and a slight increase in the case of the overnight stays of foreign tourists.

3. Conclusions

The current world economic and financial crisis is still ongoing and no one knows if the global economy will revive in the near future. It is still too early to understand the social and economical implications of the crisis, but it is already seen the regression of the number of arrivals and overnight stays of the tourists in 2009 and 2010.

Even if the impact of crisis on tourism is smaller than in other economical sectors, the results are not encouraging especially if we take in consideration the strong link between tourism and the important indicators of the economy and the staggered effect in the tourism development.

Given the experience of the past crises reflected in tourism, and the analysis of the arrivals and overnight stays indicators is expected that the tourist to have a preference to move closer to home or visits to friends or relatives. It is expected, also, a decline in the average lengths of staying and of expenses, which is higher than the decrease of the volume of global tourism

4. Bibliography

[1] Lavery, P. *Travel and Tourism* Publishing ELM Publications, Northants, 2007
[2] Stolyarov II, G., William Arthur Lewis's Two-Sector Economic Growth Model and Its Failure,Associated Content, 2010
[3] National Statistical Institute, Press Release, no. 182 of September 3, 2010
[4] National Statistical Institute, Press Release, no.172 of September 3, 2009
[5] National Statistical Institute, Press Release, no.174 of September 3, 2008
[6] National Statistical Institute, Press Release, no.163 of September 3, 2007

Maritime Human Element, Globalization and World Crisis

Utureanu Simona
"Ovidius" University of Constanta, Faculty of Economic Sciences
simona_utureanu@yahoo.com
Dragomir Cristina
Maritime University of Constanta
nistor.cristina@gmail.com

Abstract

When considering the overall picture of maritime business, maritime human resources are high on the list of matters that influence competitiveness. During actual crisis, though budgets for training and team-work activities were reduced, there have been made efforts to gain an awareness of human element issues and human error.

Key words: human element, human error, maritime transport, globalization, crisis.
J.E.L. classification: J24, M54.

1. Introduction

In the context of significant maritime disasters that happens today, consideration of human factors and human errors are becoming increasingly important in maritime domain[1]. According to International Maritime Organisation, the human element is a complex multi-dimensional issue that affects maritime safety, security and marine environmental protection. It involves the entire spectrum of human activities performed by ships. crews, shore-based management, regulatory bodies, recognized organizations, shipyards, legislators, and other relevant parties, all of whom need to co-operate to address human element issues effectively. The vision of this concept is to significantly enhance maritime safety, security and the quality of the marine environment by addressing human element issues to improve performance [2]. The traditional view that human error is the major cause of all accidents is being challenged by some who consider human error to be a symptom of deeper problems inside the system. Errors can be induced through bad design, poor training or poor/inadequate management systems. Indeed, some argue that modern technology has reached a point where improved safety can only be achieved on the basis of a better understanding of human element within the system.

2. Human Element in the Context of Actual Crisis

During actual crisis, after acknowledgement of too many reports on sea accidents caused by human error, there have been made increasing efforts to gain and maintain an awareness of human element issues. Though economic and financial restrictions like lower budgets for training and team-work activities are imposed, human component must evolve from initial capability analysis, through all the lines of development. A well-trained crew and a well-manned vessel impacts on every facet of the shipping company and is an issue that must not be ignored.

In order to make savings, shipping companies apply for new vessels which, due to their high performances, have almost completely reduced the maintenance crew. There is an obvious tendency to drastically reduce the number of crew members, but never the human factor can be replaced by technology. Still, crew members must permanently keep up with technological developments and managers must invest in the development of professional and personal skills of employees in order to increase productivity and work satisfaction.

Employees' development begins in the recruitment stage and continues while interviewing prospective cadets and seafarers in order to find the best employees for the

maritime company. Considering managerial decisions in the interest of personnel development, this type of decisions are the most difficult to be made, as they have to be moral, ethic and legal. Employment, promotion, professional development, motivation, dismissal represent complex managerial acts, as they involve people with specific needs, characterized by their own personality, with their own objectives and personal problems to deal with. The adoption of certain managerial decisions in a knowledge based maritime company can affect individuals' health, their career, professional development and even their life. Within human resources department, managerial decisions should be responsible (towards society), undiscriminating and flexible (towards individuals). Management decisions should not lead to social conflicts, misinterpretation or reading between lines. Decisions should be adapted to the personality of the applicants and to their educational and professional background. Managers should take into account the fact that personnel are not a heterogeneous group; crew should be regarded as a group of distinct personalities, with individual targets, hopes and objectives [3]. This aspect is more difficult to cope with when we are talking about working in the maritime sector.

3. Maritime Human Element Factors

Working in the maritime environment involve several abilities such as human senses, perception, situation awareness and decision making. Factors related with human element, responsible with many maritime accidents, are the following: poor crew competence, lack of communication, lack of proper maintenance, lack of application of safety or other procedures, inadequate training, poor judgment of the situation, and so forth. Proper education and training of ship personnel is important and this might constitute one of the most important risk reduction measures. Training with marine simulators would further enhance this requirement.

Following the procedures that are established for safety and control assumes at least that these procedures exist and are carefully thought of. The problem in many cases is that such procedures are vague, ambiguous, and difficult to apply [4]. External factors such as bad weather, temperature, humidity, air quality also contribute as a cause to accidents. When the environment in which crew live exceeds normal limits, it can directly affect crew performance and health. Individual factors like human senses: vision, hearing, tactile senses and perception, cognition and behavior are other important factors to consider when discussing about human element and human error.

Even if maritime operations and new ships involve more automated activities and high technology, still needs to be taken into consideration human strengths and weaknesses when designing the ship systems.

4. Maritime Human Element and Globalization

In the globalized production, trade and distribution channels of today, managing the entire - and increasingly complex - process of movement of materials and goods has become more important than producing transport. Globalized production and distribution chains were made possible precisely by the provision of cheap international transport [5]. Globalization has extended and deepened the effects of containerization. Production systems are increasingly global, as firms depend upon the door-to-door services and just-in-time deliveries that containers have made possible. Logistics is the means by which trade is being organized, and ports, which used to be gateways (or bottlenecks) through which trade flowed, are now but one many links in chains that are global in scope. The shipping lines have emerged as the most important players in these logistics chains, widening their maritime services and extending their control over landward movements [6]. A number of external developments are creating conditions of great uncertainty and change, which are making obsolete traditional port planning approaches. The port industry has always been competitive. Every port has a history of rivality with competitors near and far. The shipping lines have themselves responded to globalization in ways that impact directly on ports [7]. As a process expected to increase

global economic integration, port reform is now a significant part of the neoliberal agenda. In this sector, high capital outlays and rapid technological change, resulting from the globalization maritime trade, create pressures for investor. The majority of global maritime trade is now controlled by an oligopoly of shipping lines and container operators who have consolidated their position through a series of mergers [8]. Perhaps the most significant of all the changes wrought by globalization is the interdependency and inter-connectivity between people who would previously have considered themselves completely unconnected. The potential benefits are clear: growth can be accelerated, even in crisis conditions. Skills and technology can be more evenly dispersed, and both individuals and countries can take advantage of previously unimagined economic opportunities. Nevertheless, this global linkage can also be a source of anxiety and concern as people become increasingly subject to unfamiliar forces that they are unable even to influence, let alone control.

There have been massive changes in the supply side of the shipping industry's human resource in recent years, in particular a fundamental shift towards new labor markets concentrated in developing countries. The development of open registries for ships has given the shipping industry the flexibility to recruit its manpower from alternate sources, with the result that developing and newly industrialized countries, and particular those in Asia, now provide the majority of seafarers for the entire global fleet – not just for the ships flying their own country's flag. The Philippines leads the way in this respect, with more than 300,000 Filipinos seafarers making an immense contribution to the country's balance of payments and providing a major source of foreign currency. China, Indonesia and India are also major suppliers of seagoing manpower.

5. The Effect of World Crisis for Organizational Change Management in Maritime Companies

Container shipments from Asia to Europe shrank by 17% in January 2009 dragged down by particularly weak conditions in eastern Mediterranean and Black Sea economies. The figures of European Liner Affairs Association, whose members account for around 95% of the global container shipping industry, show that their westbound shipments of dry and refrigerated cargoes from Asia fall to 845,985 teu in January from 1,022,776 teu in the corresponding month of 2008. Eastbound shipments were 23% lower at 258,664 TEU [9].

The overcapacity of the fleet of vessels had been announced by certain people, even before the crisis itself. This will mainly concern dry bulk which had become a highly speculative market attracting completely new operators. In the container sector, the Ultra Large Container Carriers will arrive on the market in 2009, without doubt a bit prematurely; however the industrials in this sector are regularly confronted with these shipping cycles. The ship-owners also adjust their maritime links, a strategy whose future will say if it is only temporary. It is difficult in this context to assess the needs for port expansion and to estimate the financial risks. Between an excess of prudence and the risk of missing opportunities, public authorities and private investors will be much stricter regarding the quality of the projects and will concentrate on the development of existing structures [10].

Our world is changing fast and maritime organizations must change quickly too. In our opinion, only those maritime companies that will manage to handle change will survive the economic crisis. A key part of this depends on how far crew people and personnel within the maritime company will understand the change process. A basic model for understanding organizational change was developed by Kurt Lewin in 1950s, and still holds true today. His model is known as Unfreeze – Change – Refreeze and refers to the three-stage process of change he describes. Organizational change is explained using the analogy of changing the shape of a block of ice. There are forces driving change and forces restraining it. Where there is equilibrium between the two sets of forces there will be no change In order for change to occur the driving force must exceed the restraining force The analysis can be used to: investigate the balance of power involved in an issue, identify the key stakeholders on the issue,

identify opponents and allies, identify how to influence the target groups. Griffin's model assists organization change by allowing the process to be understood and providing milestones for evaluating progress towards the change.

Unfreezing is the shake up phase perhaps triggered by declining sales or profits of a maritime company due to economic crisis. The result is an acceptance that the existing structures and ways are not working To get people ready for change it is necessary to develop an awareness of the: necessity of change, nature of change needed, methods planned to achieve the change, needs of the persons affected, ways that progress will be planned and monitored

Changing is the process of devising and implementing the change, by defining the problem, identifying solutions, selection of the most appropriate strategy to implement change and implement efficient solutions.

Refreezing is the process of maintaining the momentum of change: locking in the changes, stabilizing the situation, building new relationships, consolidating the system, evaluation and support, preventing any going back to the old ways. Refreezing is complete when the new patterns are accepted and followed willingly [11].

Culture is created and sustained by the daily conversations, negotiations and commitments which take place between crew members or between maritime company's personnel and its stakeholders. For an organizational culture to be changed there should be taken different conversations. In this situation, manager needs new connections, diverse thinking, and new ways of behaving.

5. Conclusions

Seafaring is a skilled job at all levels, from master to ratings. It demands that management of maritime companies take into consideration dynamic and continuous changing factors while focusing on solving human element issues that appear on board ship. Such issues affect productivity, work activity, crew cohesion and personal or professional skills that seafarers must possess in order to carry out the various functions for which they are certificated. Maritime companies must pay attention on human factors that can affect ship's integrity and safety, as well as to issues of cultural retention and intergenerational socialization on board ship.

6. References

[1] M. R. Grech, T.J. Horberry, T. Koester, *Human Factors in the Maritime Domain*, CRC Press Taylor & Francis Group, USA, 2008.

[2]***, IMO Resolution A.947(23), *Human Element Vision, Principles and Goals for The Organization*, IMO, adopted on 27 November 2003.

[3] H. A. Thanopoulou, From Internationalism to Globalization Trends in Modern Shipping, *Journal for Maritime Research*, 2000.

[4] P. Bocănete, C. Nistor, Challanges And Cultural Identity Issues Of Maritime Human Resources In The Globalized World, "*Knowledge based technologies and methodologies for strategic decision of sustainable development*", Vilnius Gediminas Technical University, Lituania, 2009.

[5] B. Slack, *Globalization in maritime transportation: competition, uncertainty and implications for port development strategy*, 2001 http://papers.ssrn.com/paper.taf?abstract_id=27213

[6] D. Hill, *Globalization and labor relations: The case of Asian ports. Maritime Knowledge-Based Organization,* The Knowledge-Based Organization 15th International Conference Proceedings, 26-28 November 2009, "Nicolae Bălcescu" Land Forces Academy, Sibiu, 2009.

[7] H. N. Psaraftis, P. Caridis, N. Desypris, G. Panagakos, N. Ventikos, *The Human Element As A Factor In Marine Accidents*, IMLA-10 Conference, St. Malo, France, September 1998

[8] J. Porter, Black Sea and East Mediterranean weakness knocks box cargoes, *Lloyd's List*, 26 March 2009.,

[9] R. J. Sanchez, "The crisis: long run perspective, signal of over-tonnage, and crisy pricing", Cepal/Eclac, *Maritime bulletin*, p.19, 2009.

[10] F. Surugiu, P. Bocănete, C. Nistor - *Organizational Change Management in Maritime Companies during World Crisis* – 6th International Conference of Management of Technological Changes, Alexandropolis, GREECE, sept. 2009, published in Management of Technological Changes, 2009

New Paradigms of Management Control

Vărzaru Anca Antoaneta
Vărzaru Mihai
University of Craiova, Faculty of Economics and Business Administration
varzaruanca@yahoo.com;
mihaivarzaru@yahoo.com

.

Abstract

Environmental changes require a new management control, to give more power and confidence of all parties involved and a management accounting that is concerned with understanding the environment and taking in consideration strategic orientations, decision, resource management and continuous adaptation of enterprises. This paper examines recent research aimed at transforming the management control, interference with the concept of business social responsibility and sustainable development. The conclusions highlight the current transformations and perspectives of management control.

Key words: management control, crisis, creativity, social responsibility, sustainable development, social management control.
J.E.L. classification*:* M10, M40, M41, M49

1. Introduction

Early 1990s reveals a period of social crisis management, marked on one hand, by economic difficulties of enterprises and, on the other side of the questions of management office of human resources management function concerning real goals of their mission. The existing tools have proved inadequate management control is tributary to the taylorist organization type. It was required an evolution to a social control management.

2. Crisis of management control

Today's enterprises environment is unstable, hostile, complex and diversified. If to these features of external environment is add the increasingly growing complexity of domestic social relations, then it can be understood why the management control knows a crisis that many authors have identified, such as Friedberg (1993), March (1991), Bouquin (2008), Reynard (1989) and others. Among causes of the crisis are cited in particular: the indetermination of human behavior, decrease of formal rationality in the detriment of multiple rationality; the complexity to combine the behaviors in a collective action; ambiguous nature of the modes of regulating human activities; history and permeability of structure.
Environmental changes require a "new management control, to give players more power and confidence" (Malo, Mathe, 1998). In the future the accounting must be concerned with understanding the management environment and to take into account the strategic guidelines, decision, resource management and the continuous adaptation of enterprises. Control function that ensures standardization and normalization, should be open and take a vocation of "service" to the enterprise and its employees. Such a vision seems to be adopted internationally, but with variances in the "centrality" of management accountant role (IFA, 1994). Researchers are invited to review the accounting and control concept and to recognize the limits of application in human assemblies, like Argyris underlined in 1990. Renewal of management control appears to exceed, in terms of efforts, the focus on the search for new techniques and tools, taylorism and enterprise structure are those who are accused of such a state of affairs. In 1994, H. Bouquin noted that "taylorism which divides and closes is the great accused: cropping a process in elementary tasks assigned to different individuals and, especially, to separate entities, without being predicted the

coordination function, enterprises have laid on the ability of the hierarchy to coordinate. The hypothesis is actually reversed: the more is segmented, the more they went up to find the one that has a complete view of the process; when it is outdated, experienced, he entrusts all to the organizational control, to bureaucracy the coordination task, with all the disillusionment that follows from here".

Management control is faced with the challenge to direct action of autonomous actors and the challenge to dissipate the ambiguity on his part. He must ensure the transition from oversight by ensuring transparency of processes (Grenier, 2003), becoming more global, more systematic and positive, in order to better mobilize the skills and energies, without concern for details and measure.

In their efforts to analyze the current evolution and changes of management control, many researchers use different concepts to individualize and underline their specificity. Thus, by traditional management control, C. Iacob (2008) means a control process based on three main phases: identification of the aims to be achieved, defining the tasks and resources and comparing results with results concerned. Traditional management control is based principally on the financial statements: balance sheet, results, and analytical accounts. But these cases provide historical information on the results of the work done by an entity and don't have the ability to provide action variables to identify the causes of these results.

From a practical perspective, the traditional management control often takes the form of budgetary control, with finding the differences between expected and realized levels and calculation of influence factors, which is in fact the core business of management controllers. This issue (Danziger, 2000; Bouquin, 2006) is clearly outlined both to level of SMEs (Cappelletti, Beck and Noguera, 2004) and the large enterprise.

If H. Bouquin is based on two complementary logic of management control, financial performance and logic of techno-economic performance, Savall and Zardet outline the idea that "management control" involves two dimensions:

- an economic and strategic dimension, visible in the selection of operators to achieve its objective rules;
- an organizational and psychosocial dimension that leads to inciting people to act according tothe operator rules of the operators and, consequently, the enterprise must be the subject to socio-economic analysis.

Thus, in our opinion, the control gains new dimensions, becoming:

• a coordination tool for people within the enterprise;
• a tool of strengthening the coherences and cohesions within the organization;
• a process of cross-organizational business activities;
• a dynamic process by continuous changes and accumulating experiences.

In other words, managerial control is the process by which managers get assurance that resources are obtained and used effectively and efficiently to achieve organizational objectives. Although managerial control ambiguity is related to the presence of uncertainty and complexity management, enhanced by human factor, the latter can be considered a lever of value creation, therefore control system becoming, a potential vector of change. Strategically, socio-economic control is designed to select the enterprise failures and create a "cultural shock" or awareness of players to encourage them to seek solutions in the so-called "phase of the project".

3. Transformations of management control

In the current economic context, the issue of management control system must become creative. Through creative management control we understand the ability of management control to create added value and to influence actors to exploit resources derived from reducing the costs. In other words, the creative management control means a process attached, on one hand, to reduce costs, and on the other hand, to reassignation of resources saved. Value creation is designed to reduce costs and development of activities through organizational change. This statement does not embrace the creative vision of Chiapello

(2000), which insists on the importance of organizational context to foster creativity. Basically, Eve Chiapello refers to a "creative context.

The creative management control is a new concept, based on a different model than the classical one and it's detached from what some authors name "creative accounting" (Hoarau, 1995; Raybaud-Turillo şi Teller, 2000; Bunea St., 2004). Accounting is considered creative when managers use the leeway available in the choice of accounting options for changing the presentation and content of the final financial reports. Thus, creativity appeals to the inherent subjectivity of choices in building the accounting models and not of the organizational actions.

Creativity in accounting lies in the game of measurement and representation and not in concrete actions that aim the organizational context. However, creating value based on potential earnings converted to performance by reorganizing and eliminating ineffective activities, is a tool whereby cost reduction of functions increases the organizational value.

Currently management control must be based on creating value for shareholders or partners, in particular, by developing activities that produce visible growth in turnover, but also those invisible, by detecting the hidden performances (Savall, 2003) context in which emerged the concept of socio-economic management control.

Sustainable development is a complex notion; a definition that does not yet fully supported (Feron, 2001). Article 2 of the Treaty of Maastricht, considers "a harmonious and balanced development of economic activities and non-inflationary sustainable growth that respects the environment." Sustainable development, whose supporters are economic development, social cohesion and environmental protection, must meet the requirements of present generations without compromising the ability of future generations. Transferring that vision to all of the enterprise management system is reaching sustainable management control issue.

A control-oriented management to sustainable development pilot means a system that integrates sustainable development purpose, i.e. a device that aims to improve the sustainable and balanced performance of an organization, permanent increase in wealth and value, as of all partners providing the guarantee that it actually contributes to the development of the society, that action concerns the common good, and finally, that its actions do not contradict current with what it wants to do in the future. Related to sustainable development, G. Roussillon also believes that the role of management control is very important. He has the task of project manager with performance. He has to ensure that the enterprises goals are coherent and to define the determinants of performance in economical, social and environmental domains and its relation with financial results

In many ways, balance scorecard, an approach that aims the implementation of indicators to track business strategy, already carries the characteristics of sustainable development through four directress axes - financial, customer, processes, organizational learning.

The influence exerted in the economic environment today by another important concept, the corporate social responsibility, extends to management control and this particular aspect interest us.

The corporate social responsibility (CSR) concept appeared in US in the 1980s. In Europe, A. Riboud describes the concept of enterprise-citizen in the same period. In the American context, authorship of CSR concept is attributed to Howard Bowen, with the apparition of "Social Responsabilities of the Businessman (1953). He defines a number of requirements that lead to policy decisions and guidelines of conduct consistent with the objectives and values of society as a company evolves. The definition of social responsibility requires decisions and actions made by leaders from technical or economic reasons. Committee for Economic Development (CED) deepens the concept of CSR and refers to three aspects:

- the first covers the responsibilities based on the essential functions of the company relative to production, employment and economic growth;
- the second includes the first and include expanded notion of responsibility, with a sensitivity to developments in society and its expectations, taking into consideration

environmental issues, social relations or information on customers;
- the third part takes into account the exercise of the responsibilities that arise and lead to environmental improvements, such as, for example, providing jobs for disadvantaged populations.

Evolution of CSR concept leads to a new concept: the social responsiveness (corporate social responsiveness). The concept is defined by the ability of organizations to respond to social pressures. It means the application of management company relationships that correlate with various interested parties (stakeholders). Responsiveness brings management and operational guidance to social responsibility. Social responsiveness expresses leaders' attention to the demands of society, and thus the flow of social responsibility. Unlike the american vision of social responsibility, which is limited to philanthropic actions foreign to economic activities of the company, the european approach tends to believe that such actions are carried out within the scope of CSR and that they are assessed in the usual terms of the enterprise.

The concept of social responsibility also expresses taking into consideration three dimensions of sustainable development. Development is represented by highlighting the following objectives: one economical (the creation of wealth for all, based on ways of production and consumption), other ecological (conservation and resource management), and third, social (equity and participation of all social groups).

In recent years, the research and business have been increasingly concerned with the implications and economic benefits of social responsibility. Social responsibility can be defined by the actions of an enterprise in terms of promoting social interests before some items of purely economic interest and legislative requests. This concept has two goals: to prevent, on the one hand, the demobilization of employees and, on the other hand, the denial of citizens (Salmon A., 2003).

To implement and meet these new requirements, the organization must have new tools to refine existing ones. We consider in this regard, the emergence of concepts of sustainable management and creative control was a decisive factor in the emergence of social management control.

4. References

[1] C. Argyris, *The Dilema of Implementing Controls: The Case of Managerial Accounting*, în Accounting, Organisations and Society, vol. XV, nr.6, 1990, New-York

[2] Club du jeudi: Contröle de gestion et développement durable, Roussillon G., http://www.assemblance.fr/publications/tbleronde_controle_gestion_sociale_%20devdurable.pdf, p.3

[3] C. Grenier, *Contrôle de gestion, în Encyclopedie du management, tome I*, sous la direction de J-P. Helfer, J. Orsoni, P. Batteau, Edition Vuibert Gestion, Paris, 2003, p.385

[4] C. Iacob, *New Paradigms of the Control of Administration,* Analele Universității din Craiova, nr.36/2008, p.1596-1601

[5] A. Helluy A. şi X. Durand, Reperes pour un controle de gestion oriente developpement durable,http://www.strategieaims.com/dd03/comdd/durandhelluy.pdf, p.1

[6] International federation of Accountants*, A View Of Tomorrow: Management Accountancy in the year 2004*, New-York, 1994

[7] M. Orlitzky, F.L. Schmidt, S.L. Rynes*, Corporate social and financial performance: a meta analysis.* Organ Stud 24(3): 403-441, 2003

[8] A. Salmon, *L'entreprise citoyenne* , Encyclopedie des ressouces humaines, Edition Vuibert, Paris, 2003, p.183

[9] A. Riboud, *Modernisation, mode d'emploi (Rapport au Premier ministre)*, Paris, Union Générale d'Éditions (1987), p.128-129, dans *L'entreprise citoyenne*, Salmon A., *Encyclopedie des ressouces humaines*, Edition Vuibert, Paris, 2003, p.183

Social Strategy and Added Value

Vărzaru Mihai
Vărzaru Anca Antoaneta
University of Craiova, Faculty of Economics and Business Administration
mihaivarzaru@yahoo.com

Abstract

Value creation is a basic criterion in evaluating the enterprise's activities, but it raises special measurement to researchers and practitioners. Economic added value, its main indicator, cannot express what may be considered in accounting terms, leaving aside social or societal efforts that contribute to value creation by the enterprise. This paper proposes an analysis of the concept of social added value, providing more opportunities for understanding and measuring the value creation process in the enterprise.

Key words: social strategy, social added value, accounting, instruments
J.E.L. classification: M20

1. Introduction

Taylorism and scientific organization of labor made efforts to increase economic added value, marketable, while the added costs of unmarketable securities rose to become more important than the actual transformation. The methods of classical quantification based on accounting, hide the results of efforts and activities that have great potential in creating value. The concept of social added value appeared to highlight the results of actions considered unproductive, but have a great effect on increasing the added value of the enterprise.

2. The concept of social added value

The concept of added value, as defined by the literature is equivocal. In a narrow sense, it means the difference between the final value of a product and intermediate value of consumptions used in manufacturing. However, this value is not represented only by what can be measured in monetary terms. It is also what some experts call the "use-value" or other "value of use" and to further complicate things these terms cover very different realities, depending on the author who uses them. Another factor is the emergence of the concept of "social added value," which seems even more open and therefore more uncertain.

By need for clarification and not oversimplify things, Quentin (2000) examines the value added from two different angles, economic and social. Because the current economic instruments measure only what can be found in accounting terms, they tend to reduce the economic value added to inputs, i.e. the facilities installed and used. If we accept this reduction and social added value is considered in terms of outputs, the final value, as a whole is more than the mere sum of its parts, the same can be said about this new concept. Therefore social added value is more than the mere sum of its constituent economic added values.

Once overcome this semantic difficulty, one can easily foresee the end of the crisis of added value, by reconciling its economic side (which is in crisis) and social (which seems to offer the greatest opportunities). To further complicate things, can be tackled in more detail the concept of economic added value.

Thus, in accounting, added value of an enterprise is the sum of costs incurred to achieve a finished product, so marketable, starting from raw materials, parts and services purchased. For several years is assisting to develop the concepts of productivity and quality, which give a more restrictive sense to accountable added value, appropriate to amount of expenditure incurred to change the real market value of the product or part. It is about true marketable added value, which includes operations such as handling, storage or controls, which represents unmarketable

added value. Taylorism and scientific organization of work have focused their efforts on marketable added value, while added value costs have soared to become unmarketable often more important than the actual transformation.

Discussions on the social added value continued, focusing on the problem of limits increasingly visible of financial assessment of the performance and tracing how human resource costs, generally social and societal efforts, contribute to creating value by the organization. For reasons of simplicity and understanding, Albouy (1999) provides a good example of two hypothetical companies, EVA and VAS Company Company, quoted on international markets, whose key financial results are formulated to play the value creation. The names of the two companies were chosen to be suggestive in terms of their social and societal policy and how it affects the creation of added value.

Figure 1. Financial results of two hypothetic companies and creation of added value

	EVA Company	VAS Company
Turnover excluding VAT - which recyclable products	2.300	2.300 1.500
Outside interest operating expenses: - key-skills training; - performance pay and other forms of stimulation; - children's wages worldwide	2.000 40	2.000 200 150
Profit before tax and interest	300	300
Profit after tax	180	180
Capital invested in the previous period (net fixed asset amortization and need working capital)	1.000	1.000
Average cost of capital	10%	10%
Economic Added Value (EVA)	80	80

Both companies, which obtain comparable results in economic terms for their shareholders, record large differences when addressing the social aspects of these results. EVA Company has a questionable ethical behavior, since using children in its subsidiaries in Africa and Asia, which is an important long-term risk. VAS Company adopted a favorable attitude of consumerism, by making decisive societal investments and recyclable products. Thus, it anticipated changes investing in key skills training and positioned in a favorable logic of development of the dynamic performance by setting the remuneration of its staff. In conclusion, the same economic value creation hides very different potential risks economic, social and societal and, ultimately, different variants of value management.

3. Quantification instruments of social added value

Social added value approach offers several lines of response and operational ways of resolving some of these problems. It opens the prospect of creating value analysis, introducing collective intelligence developed within enterprises and allows a rebalancing of the distribution of value created for stakeholders neglected or forgotten by traditional financial analysis, i.e. employees, customers and external partners.

A first idea would arise in the minds of those who analyze these cases would be to establish a single indicator, VAS (social added value), which would pair with EVA (economic value added) taking evaluation criteria in specific to social domain.

Although seductive itself, the idea met with attempts to quantify, which showed that the variety of social measurement makes less relevant a single value. This is why was submitted the proposal to the measurement of VAS based on multiple indicators. Thus, it was possible listing of a number of indicators most appropriate to allow tracking of the creation of social added value in enterprises.

These indicators relate to the development of individual competence, to exploit the synergy of collective intelligence, the integration of external knowledge and capacity to mobilize the organization's employees.

The variety of expression of social or socio-economic performance requires a variety of methods of assessment, which leads to the existence of two types of objective measurements.

The first type is quantified using an objective assessment by groups of indicators, but not homogeneous. Thus, policies to increase the skills of the teams work will be translated into practice through quality data on recruitment, through periodic indicators of accumulation of skills, through balance sheet with key skills, through the training costs etc.

The second type of evaluation does not use numbers and ranks in the commentary, which may be accompanied by some quantitative data. An assessment of injuries in a region of serious pollution or a positive impact of wage and social measures taken by management of the business climate can be offered as illustrative examples.

Assessment of social added value is performed at four successive levels of evaluation, from simple to complex, with the main landmarks:

- the means used for the operationalization of social policy - performance;
- performance assessment;
- social or societal risks specific to the chosen strategic variant.

At the first level of evaluation, the tools used, except indicators to measure results also engaged in social work (within enterprise) and societal work (outside enterprise). In this way political choices are characterized based on a scale taken from the mix of personnel, such as for personal expenses, and in relation to rules, norms or standards, with other units of general expenses. An example in this regard is all commitments to achieve environmental preservation certificate, which becomes relevant indicators at this level. The observer is situated in an audit-type approach by conducting an objective grading practices promoted, taking account of existing reference. Considering the content of the indicators used at this level, it can be concluded that this measurement has a primarily financial character.

The level of obtained results is the level to which any effort translates different results. Therefore, the assessment is operating in terms of efficacy, i.e. the degree of achieving the objectives. It is estimated, for example, how efforts to increase competences actually turned in poli-qualification situations to key posts or how they have improved flexibility of production processes.

Performance appraisal. At this level, observers express the results obtained by means that are within logic of efficiency. It is placed in logic of productivity or efficiency in the investment, such as training activities. Social investment and costs find themselves placed in the general economic analysis of efficiency and adopt classical logic and financial comparisons.

The level of risk. A social or societal risk is generally defined as the mathematical expectation of losses, i.e. a decrease of specific potential value to a probability of occurrence. There are penalties for non-observance of standards or various types of conflicts with employees and / or consumers.

In social domain, approach through risks is very significant as the actors game, in all its complexity is often random. Example of a strike is revealed in this sense because it can start instantly and can have negative or positive consequences.

If we return to those two companies from above and try to filter through the matrix to measure the added value, we get more than just an expression of values created by them, and we can already make some observations:

- the use of child labor by the EVA company proves a negative choice as regards ethical behavior and can be easily calculated as a financial risk of market losses;
- making recyclable products is quantified in the accounting environment in terms of potential costs and specific risks;
- the practice of performance pay by VAS Company is likely to create a dynamic short and medium term results, which is measurable in productivity strengths;
- commitment to invest in training by the same company is a long term valorization, which may occur in assessing the potential of teams included in training programs.

Value creation is an issue that arouses a growing interest today in many areas of management sciences: strategic management, business finance, accounting, management control, marketing, organizational, human resource management. Under the practical aspect, the problem of value creation has

become a concern for administrators of large companies because it allows development of activities and uses.

Organizational value concept, defined as the high performance and enterprise management (Capelletti and Khuatra, 2004), could be put in correspondence with other conceptual approaches, especially those issued by swedish authors have attempted to determine the root causes of the hidden value by studying intangible capital. In this context, the model Sveiby (1986) appeared integrating measure indicators of individual components of intangible capital and Edvinsson and Malone (1997) models who proposed the famous instrument "Skandia Navigator".

Organizations socio-economic theory and its method of diagnosis and evaluation work based on the study of dysfunctional, is a possible mean of measuring the creation of organizational value as an effect of reducing hidden costs (Iacob, 2007).

Hourly contribution to the added value variable costs (COVACV) represents the average hours of work done in enterprise, functional or operational, by the employees, and is obtained by comparing the variable costs divided by added value added, the number of hours recorded by all employees, according to the relation:

$$COVACV = \frac{VA \ / \ CV}{NO}$$, where

VA = added value
CV = variable costs
NO = number of hours

This, in my opinion can be achieved through an indicator called "added value contribution to the hourly cost variables", as a measure indicator of gross added value achieved by all enterprises stakeholders. We believe that this indicator we propose allows for a transverse evaluation related to structural organization offcut. The key problem is to know the creation of economic value of time invested in the enterprise work. The value of each hour of work is intended to cover not only wages but also the structure of costs and results. This option therefore calculation serves to demonstrate what is expected of every actor who has an active contribution to the creation of economic result.

4. References

[1] M. Albouy, *Theories, applications et limites de la creation de valeur*, RFG, no. 122, janvier 1999

[2] L. Cappelletti, *Concepts et mesure de la création de valeur organisationnelle*, Revue Comptabilité – Contrôle- Audit, Tome 10, vol.1, France, 2004

[3] B. Galambaud, *L' allocation des resources au coeur de la strategie des gestion des resources humaines*, in Allouche J., Encyclopedie des resources humaines, p. 1409, Edition Vuibert, Paris, 2005

[4] S. Guerrero, *Les Outils des Ressources Humaines. Les savoir-faire essentiels en GRH*, Edition Dunod, Paris, 2004

[5] C. Iacob, *New Paradigms of the Control of Administration,* Analele Universității din Craiova, nr.36/2008

[6] J-Y. Le Louarn, T. Wils, Mesurer la contribution de la GRH: un point de vue nord-americain, Effectifs, mars,p. 18-23, Paris, 2000

[7] B. Martory, *Contrôle de gestion sociale. Salaires, masse salariale, effectifs, compétences, performances*, 5e edition, Edition Vuibert, Paris, 2007

[8] J-P. Quentin, *Mutation 2000, le tournant de la civilisation*, Edition Le Hameau, Paris, p.125

[9] B.D. Steffy, S.D. Maurer, *Conceptualising and measuring the economic effectivness of human resource activities*, Academy of Management Review, vol 13, no. 2, p.271-276, 1988

[10] D. Torrington, L. Hall, S. Taylor, *Human resource management*, 7th edition, Pearson Education, London, 2008

Global Economy under the Current Economic Crisis Effects

Voicu Ioana-Iulica
Tălmaciu Iuliana
„Constantin Brâncoveanu" University of Piteşti
ii_voicucb@yahoo.com
iuliana_talmaciu@yahoo.com

Abstract

In the current context in which countries in the world search new solutions and strategies to counteract the negative effects generated by the worst economic crisis in the last 80 years, the globalisation rises polemics and controversies regarding the causes that lead to the expansion of the crisis. May it be, the current economic crisis, a consequence of the globalisation? Beyond the contradictory answers, the globalisation must be seen in essence as a stimulating and expansion factor of the processes from the global economy.

Officially, the crisis release took place in August 2007, when the American central banks interfered providing liquidities to the banking system. But, during the following years, the crisis exceeded the borders of the sectors initially affected, riveting the entire world's attention. Instability has surged from sector to sector, first from housing into banking and other financial markets, and then on into all parts of the real economy.

The crisis surged across the public – private boundary. Practically, the hit received by the financial situations of the private companies imposed heavy new demands on the public sector's finances.

Key words: economic crisis, globalisation, gross domestic product, capital flow, recession
J.E.L. classification: F01, G01

1. Realities of the global economy during 2002 - 2009

The global economy expansion during 2002 – 2007 started by destroying the illusion of the American technical capital, which had a substantial wealth effect on American households. To minimize the duration and depth of the ensuing recession, the Federal Reserve tempered aggressively the USA monetary policy, by lowering the federal funds interest rate or the discount rate. The federal funds interest rate fell from 6.5% to 3.5% in just a couple of months, stimulating the explosive development of the real estate market. By the mid of 2005, housing prices on the market increased up to 50%, favoring the speculations and releasing a real construction frenzy. Practically, 40% from the houses bought didn't operate as permanent residences, but as investments or holiday homes.[1] Mortgage credits with variable rates, with special offers for the first two years, became the most popular tool used by lenders. The high percentage of the real estate capital compensated excessively the wealth loss from the capital markets decline during 2000 – 2002. The higher housing prices fueled a consumption boom, and the expansionary monetary policy, practiced by the Federal Reserve, maintained the USA economy awash in excess liquidities.[2] Moreover, maintaining low the American real interest rates influenced the orientation of developing countries towards accumulating large volumes of American assets.

The result of this combination between policy and market psychology materialized into a global recession over a short period of time (2001 – 2002), followed by a dynamic growth period in the USA and in many other

developed countries, doubled by low capital costs.

The year 2009 represented for the global economy the first absolute decline regarding the growth pace from the last 20 years, and the trimestrial evolution can be synthesized into: crisis, stagnation, refreshing and progress. Therefore, the last quarter of 2009 contradicted the economic analysts predictions and presented the recovery of the global economy growth. China surprised again by maintaining itself in 2009 the world champion, with a growth rate of the GDP of 8.7% , with just 0.9% less than in 2008, taking into account that the economic growth rate on all developed countries reduced with 3.2%, after a modest increase of 0.5% in 2008.[3] Therefore, in 2009 the global economic crisis reduced its magnitude, and the productive activity and investments met an easy recovery. The immediate and coordinated intervention of the governments, of the main international financial institutions, but also of the G-29, through its packages of financial and fiscal measures stopped the sudden fall of production and rushed the healing of their economy.

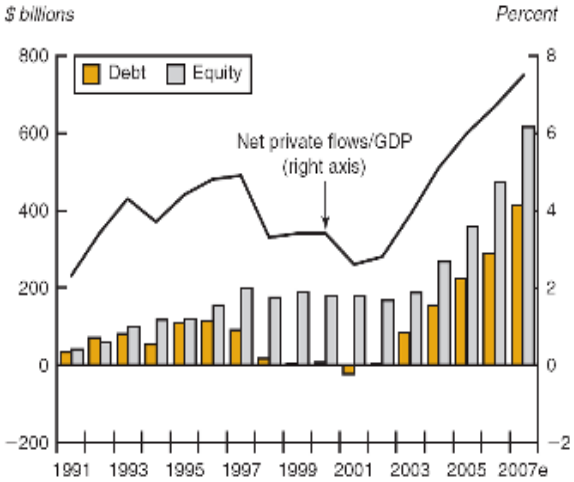
2. Interdependencies and vulnerabilities of developed and developing countries.

Analyzing the evolution of developing countries during 2002 – 2008, one can observe that their economic situation was prosperous. Overall, these ones had a better macroeconomic situation, a lower inflation and a fiscal policy much more viable than in the previous two decades. These conditions would likely have predisposed the developing countries to a faster growth and they also have prepared them to deal with the exogenous shocks in the current crisis.

Moreover, as a consequence of the explosive development of the developed countries, the growth recorded in the developing countries was impelled even more by the increased incomes from exports, by the higher commodity prices, by the foreign direct investments and by the remittances from abroad.

First, the increases recorded by the mature economies and by the others economies increased export demands during 2002 – 2007, so that the developing country exports accelerated even beyond their rapid growth pace of the 1990s. [4] At the same time, the commodity prices recorded an accentuated growth, representing at the same time a result but also a contribution to the growth in many developing countries.

Figure 1. Real price indices of consumer goods, 2000-2008

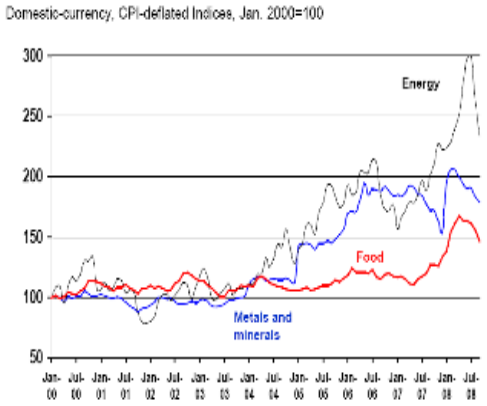


Source: www.worldbank.org

Exports increased as a share of developing countries' GDP from 29% in 2000 to 39% in 2007. The direct foreign investments afflux increased spectacularly, because the investors were trying to obtain profits larger than those they could earn domestically in a period of low yields in mature economies.

Therefore, in 2007 alone, the net capital flow to developing countries increased from 269 billion dollars to a record number of 1 trillion dollars.

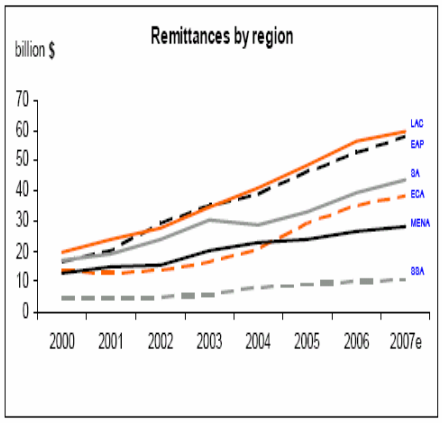
Figure 2. Private capital flow to developing countries, 1991 - 2007
(Capital flow includes direct foreign investments as well as those of portfolio)



Source: Global Development Finance 2008, The Role of International Banking, World Bank, pp. 35

According to Global Development Finance – 2008 the net loans at the banks and the bond flows increased theoretically from 0 in 2002 to 3% of developed countries' GDP in 2007, while the net direct and portfolio equity flows increased from 2.7% of GDP up to 4.5% and the remittances had an accentuated growth to a total of about 240 billion dollars in 2007.

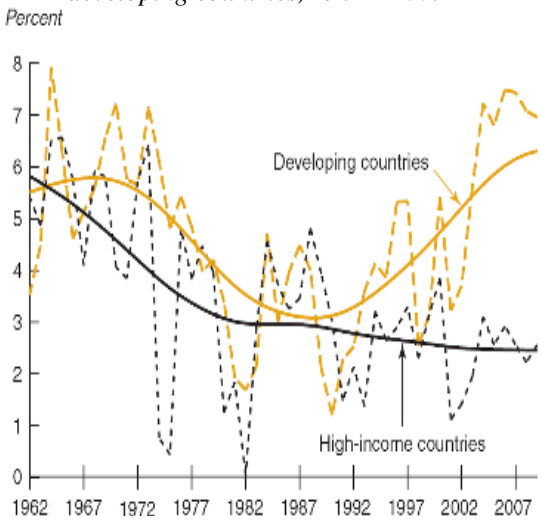
Figure 3. The remittances to developing countries, 2000 – 2007



Source: Global Development Finance 2008, The Role of International Banking, World Bank, pp. 59.

These transfers represented a very important source of finance for some labor – abundant, resource – poor countries. Moreover, the fast recorded growth lead to an explosive development in many developing countries, leaders being Brazil, Russia, India and China. [5] This fact stimulated their demand for fix capital from USA, Japan and from other developed economies. As a result of both the direct effects of investments and this self-reinforcing cycle, all the developed countries reached the highest growth rates recorded in decades. During 2003 – 2007, the collective GDP of the developing countries increased with more than 5% each year, and the growth rate reached a maximum of 8% in 2006.

Figure 4. GDP growth in developed and developing countries, 1962 - 2007



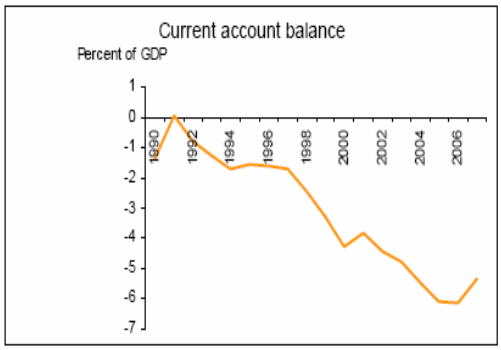
Source: Global Development Finance 2008, The Role of International Banking, World Bank, pp. 21.

The annual average growth for 1980 – 2000 was of just 3.4% and in the following years up to 2007, the investments added about 4 percentage points to the GDP annual growth.

At the same time, the USA demand was stimulated by the substantial oscillation in the USA fiscal position, from a small surplus in 2001 to a sizeable deficit in 2003, resulted from the sharply increasing spending on defense and national safety doubled by the cuts of the central government taxes. Combined with a low interest rates and a low saving rate, the fiscal deficit contributed to

the generation of great current account deficiencies in the USA and of higher demand for developing country exports.

Figure 5. American current account deficiencies, 1990-2007



Source: www.worldbank.org

With rapid growth in developing countries appeared the vulnerabilities similar to those appeared in developed countries. The combination between the abundant investment capital and rapid growth lead to the growth of real estate prices at an unrealistic level, on some emerging markets. Many stock markets have recorded oscillations themselves, some showing an irrational exuberance. The increases of goods prices recorded in the first stage of this rapid global growth period (2002 – 2007), were compensated by the low production prices in countries such as China, India and Vietnam. The cheap exports from the respective countries allowed the world economy to continue to achieve a high growth, as well as a moderate inflation. But, due to the years of fast growth up to 2007, many economies had started to deal with capacity constraints. Resources costs recorded spectacular increases, and the USA twin deficits, fiscal and current account, led to a depreciation of the dollar and to a larger volatility in commodity prices. The excape from a weak dollar enforced the investment position in raw materials and energy. Can one speak about the end of a dominant period of the USA? The acctual economic crisis certified the end of a relative stable period based in the USA domination, as a global economic power and the dollar as the principal reserve currency. No doubt that the political and financial instability that we now live, as a consequence of the actual economic crisis, will redefine the force position and will redefine a new world order.

3. Conclusions

In our evolution, crises can be defined as being situations characterized by a pronounced instability, accompanied by a growth volatility and uncertainty. But it is very difficult to quantify the volatility or the markets fall to fit such an evolution in the category of a crisis. How big does the inflation, unemployment or GDP fall got to be to appreciate its entrance into a crisis?

Conventionally, it was established that the recession happens when, after two successive quarters, we deal with a GDP decline of a country or region.

National Bureau of Economic Research (NBER) defines the crisis as being: *a significant decline of the economic activity for several months reflected by the GDP decline, lower individual income, reduction of employment, reduction of the industrial production and of the consumption.*

Basically, we always talk about an economic crisis generated either by financial causes or by political or social causes. The financial crisis represents a form of expression of the economic crisis and reflects the disbelief in the financial system, a significant decrease in the volume of stock transactions, a disorder of market mechanisms. Stock exchange is the barometer of the economy and trades business of different sizes and from different sectors. Unfortunately, we speak about a crisis only when its effects affect a large number of people and companies. But crises can exist in a latent state and not be as visible, damaging little by little the economic stability of a country or region. It is not the first time when global economy confronts with a recession period, but it's the first time, after the crises in 1929 – 1933 when we live a generalized crisis, both in the developed countries as well as in the developing countries.

4. References

[1] Joseph Marson and Joshua Rosner, How Resilient are Mortgage Backed Securities to Collateralised Debt Obligation Market Disruption, Hudson Institute, Washington, 2007, pp.11.

[2] Alesina Alberto and Allan Drazen, Why Are Stabilizations Delayed?, American Economic Review, vol. 81, issue 5, 1991, by American Economic Association, pp. 88.

[3] Global economic situation, The Institute of World Economics, Bucharest, 2010, pp.2.

[4] Richard Berner, A Deeper US Recession Goes Global, Global Economic Forum, Morgan Stanley, October 07, 2008, www.morganstanley.com

[5] Chen Shaohua and Martin Ravallion, The Developing World Is Poorer than We Thought, But No Less Successful in the Fight against Poverty, Development Research Group, World Bank, August 26, 2008, http://siteresources.worldbank.org

[6] *Global Economic Prospects 2007*, Managing the Next Wave of Globalization, World Bank, www. worldbank.org

Role of Loyalty Management in a Polish Company

Wereda Wioletta
University of Podlasie, Poland
weredawioletta@tlen.pl

Abstract

Loyalty programs have recently become one of the most popular methods for maintaining customers. In this context, the main aim of this article is a trial of showing the role of loyalty management in a Polish company in the frame of a case study.

Key words: loyalty management, customer, communication, organization
J.E.L. classification: M14, M31

1. Introduction

Market research has proven that gaining new customers is a far more costly activity than maintaining current customers. Hence, entrepreneurs put a lot of emphasis upon relationships with customers. Loyalty programs have recently become one of the most popular methods for maintaining customers.

What are the reasons for their growing appeal? First and foremost, they are very effective. A well-constructed loyalty program can result in considerable improvement in customer attachment. The idea behind loyalty programs is as simple as can be. The customer purchases products or services and receives a bonus: it may be a prize, a gift or a discount. Subsequent purchases and granted discounts attach the customer to the company and, more importantly, increase the brand awareness. The benefits for the enterprise are obvious: regular profits and the indirect winning of new customers.

2. Loyalty Management – a short overview and best practices

Customer loyalty is a concept used in marketing since the existence of this field. There are different approaches to understanding customer loyalty issues.

Loyalty is recognized as an alternative to the following terms: satisfaction, habit, repeat purchases, preferences, commitment, retention, loyalty, good communication of opinions, coercion. Modern marketing dealing with issues of customer loyalty is defined as a variety of terms: relationship marketing, affiliate marketing, marketing, centrally-oriented, marketing-oriented frequency, individual marketing and loyalty marketing. The most accurate definition of marketing that deals with customer loyalty is a concept of "loyalty marketing" because loyalty is the goal of the organization, as opposed to other terms that say about how to reach a target. Most of the definitions of loyalty issue focuses on the aspect of friendship and ties with the client and a company.

Loyalty is more than just doing another repeated purchases in a particular company. Loyal customers are very loyal to the company and fully dedicated to it. Quite different definitions of the nature of loyalty is that customer loyalty throughout your budget is earmarked to benefit from certain types of products in one company. Very accurate determination of loyalty requires that a loyal customer recommend your company so it is an advocate of the enterprise.

Loyal customer not only benefits from a specific company's products, but is so happy with the services and products that say about them to others.

The most comprehensive definition is to define a loyal customer as a person who:

- makes regular and repeated purchases;
- uses the products offered by the company;
- disseminates positive information about your company;
- is resistant to the promotion of competitive firms.

In the marketing literature there can be seen two basic understanding of the issues of customer loyalty. Firstly, loyalty as a customer behavior, and secondly - loyalty associated with personal feelings or attitudes of the client. Loyalty as a customer purchasing behavior, and above all as a re-purchase is a very superficial notion, since it shows the causes that lead to this behavior which is a purchasing power.

According to F.F. Reichhelda loyalty leads to more than repeated purchase, it means "someone's readiness, such as a customer, an employee, a friend for investment or personal sacrifice in connection with the strengthening of the relationship. For a customer it could mean to remain with the provider who treats him well and gives him good value in the long term even if the supplier does not offer the best prices on individual transactions".

Understanding loyalty related to the affection and feelings of a client poses many problems of interpretation because of the complexity of the phenomenon. Speeches attitudes and behaviors of loyalty precedes many processes occurring inside the client. The literature lacks a clear classification system so conceived loyalty.

There can be distinguished groups of customers which can have other conditions of loyalty towards the company. All typologies of loyal buyers should be preceded by a description of the types of causes that lead to customer loyalty behaviors. Deeper knowledge of the company for these reasons lead to the improvement of effective creation and maintenance of loyal customer base. Knowledge of the causes leading to the loyalty of customers is essential for effective strengthening their loyalty and may prevent the leaving of customers.

Increasingly, both theorists and practitioners of management repeat that loyal customers are "a kind of asset", which enable the company to gain a competitive advantage. Loyal customers come back for more to buy, are cheaper to operate, less responsive to small price changes, and without batting an eye recommend the company and its products to others.Conducted research shows that loyal customers are more profitable than the newfound customers.

More than 100 years of concentration on the company, its capabilities and products in the heart of "modern business" has become a customer who must be provided with high-value offer to acquire them first, then to maintain, and ultimately build with them long-term partner relationships based on loyalty.

Long-term orientation concentrated on loyalty is both a strategy pursued by the top management and business philosophy. It applies equally to the head and heart, income, and ethics. It does not give immediate results but in the medium and long term provides a significant improvement, real profits and corporate success.

3. Tools of building customer loyalty

True loyalty must be based on a sustainable basis, and deep relationships with customers. Company's marketing efforts should be aimed at building and consolidating loyalty.

Encountered in practice marketing activities aimed at building and strengthening customer loyalty can be divided broadly into three groups:

1) The use of instruments of price (discounts, rebates, special pricing terms, free service for regular customers, etc.);

2) Activities aimed at providing the customer in exchange for the loyalty of additional value (point systems, lotteries, discount cards, gifts, activities associated with companies from other industries);

3) Actions based on an understanding of financial needs and an individual approach.

Instruments of building customer loyalty are:

- **customer visits**

Meetings between representatives of management or a senior employee with the client have a distinctive, ennobling, indelibly written in their memory activities. In this way the company can support the work of its sales representatives while maintaining the customer's emotional bond with the company.

- **cards for regular customers**

Generally they give the various discounts; the action is checked on the activity of providing a client the compensation after a certain amount of money spent on purchases

of products or services, in the form of bonuses, discounts or rebates that are important during next visits; this card is a way of better understanding the customer and building the long-term relationship.

- **letters written by the company to buyers**

This facilitate the communication of relevant information to customers, according to the company, as a direct correspondence helps to maintain close contact with the buyer; regular mail informs about the activities of the club, marketing of new products and services and members of the club allows answers to questions.

- **telephone hot line (hot line)**

It is another way of direct communication with buyers all the time; this hotline should be operated by qualified personnel providing advice in connection with use of the product/service. The connection is usually free of charge and in many cases 24-hour available for a client or handled automatically..

- **clubs for regular customers**

This instrument requires a strong commitment from both the consumer (active) and organizer (high cost). Particularly important here is the good of the organization and the attractiveness of the offer addressed to members of the club. It should offer them real benefits. To achieve the aim it is important that the club remained selective and was a distinction belonging to the most faithful and most attractive for business customers.

- **customer advisory clubs**

This is another technique to build and enhance consumer loyalty to the company. During the meetings organized for customers they are acquainted with the new offer, meet a competent person with whom they can share their opinions and suggestions regarding offered products. Buyers have knowledge about what they want and how it is to be supplied by the company, they are able to toss ideas and interesting suggestions for a company, tailored to their own tastes and expectations (they become experts of the company).

They can also test new products or services in order to modify and adapt it to their own expectations. Such meetings with clients are conducted on a regular basis. Other common forms of such contacts is a questionnaire (often including samples of the relevant products) distributed to the client-expert asking for a preliminary opinion on them.

- **marketing events**

Marketing events whose essence is reduced to the shaping the image of the brand or company in the minds of customers by providing them with a real experience and a direct experience in the world; temporarily staged events and symbols associated with the promoted item. The recipient is not just a passive observer, he has the opportunity to participate and experience, and this affects his reactions harder than previously used form of promotion. Marketing events are to provide satisfaction and significantly differentiate the company from promoting competition. Satisfaction with participation in a particular event too often then translates into customer loyalty.

- **business magazines and newsletters**

Published on the pages of reports about the success of the company, awards, presentation of the next goals is part of an advertising company. On the other hand, given the analysis of development of the industry, cited opinions of recognized experts and showcase the latest solutions to the world in the field may be an attractive source of information for buyers. Magazine company should also provide the opportunity to express their views customers. This function should play especially when it is warehouse club. Often, companies encourage their members to prepare a journal club as they can describe their experience with the product or service and expectations of new products.

- **consumer websites**

For interactive communication with customers and building loyalty there are used also possibilities that creates web-based network. Moved there yet applied marketing operations become more attractive particularly to young customers. They have been used already by several companies in Poland, including successful Alima Gerber, producer of the drink Frugo. Frugo Internet service is not focused solely on promoting the drink. It creates a virtual image of the hero - Mariana, giving it many features convergent with those of the target group, which is directed both the product and the

site. Every month, he says on the site their unusual adventure, using a common youth slang. On visiting the many attractions waiting at the beginning of such shares provided for the possibility of setting up email accounts in the domain lists.

Each company should introduce tools that build client loyalty. The purpose of such actions is to reward loyal customers and strengthen ties with them.

As the world economy faces new and serious challenges, it has become increasingly important to enhance the customer experience. In particular, customer churn is very costly – it's many times more expensive to acquire a new customer than to keep an existing one – so retaining customers by offering a superior experience is a top priority. Also, delivering unique experiences to different customer segments is a valuable strategy. In many industries, a relatively small percentage of customers delivers most of the revenue, so investing in the experience offered to high-value segments will enhance profitability.

Customers today are empowered with information, and they evaluate their relationship with your company with respect to their own unique needs. The leaders of successful companies start with their brand promise – and then train employees and align processes to create excellent customer experiences that are consistent with the brand.

To deliver superior value, it's crucial to establish the right metrics. These metrics should measure the progress of your business strategies across customer-facing sales, service, and marketing processes – and support development of your brand. The key is to use metrics – covering areas such as service levels by customer tier and first-call resolution attainment – to determine your progress toward enhancing your customers' experiences, achieving differentiation relative to your competition, and enhancing customer lifetime value. Moreover, particularly during challenging economic times, it's highly valuable to invest to build brands while carefully monitoring ROI. If you sustain spending on marketing and service excellence

While many others are focusing on cost reductions alone, the long-term returns are likely to be favorable: relative to more cautious competitors, you can increase brand equity as well as retain customers by offering a better experience.

While establishing the right metrics is essential for enhancing the customer experience, companies often lack a rich set of data covering customer behavior and insights. Without a way to collect a robust set of customer data, you may be inclined to monitor only what is easy to measure – and not develop deep insights derived from customer interactions. Loyalty management programs are a means of collecting meaningful customer data to be used for subsequent decision making.

Companies often pursue loyalty programs because they believe the rewards encourage customers to buy – a quick path to boost revenue and profits. Unfortunately, such an approach has tended to produce only temporary results. The programs become commoditized within an industry; consumers are overwhelmed with membership in multiple programs; and companies increasingly struggle to foster the desired consumer behaviors. But companies are starting to realize that well-run programs provide data to enhance processes – achieving a true 360-degree view of each customer – and thereby enable durable improvements to the customer experience. By avoiding the pitfalls of limited visibility, you can make sure that you're making

intelligent investments in your most profitable customers.

For example, before implementing a loyalty program, an airline might find a segment of customers who purchase tickets frequently and deliver high revenues – seemingly a high-value segment. Once a loyalty program is implemented, however, the company finds out more. These customers actually are not highly profitable: they book only low-margin seats, do not purchase extra services or upgrades, and do not act as advocates for the airline. The company can then determine what action to take, such as focusing on truly high-value customers or trying to change the behavior of customers in this low-profit segment.

To enhance the customer experience and achieve profit growth, loyalty programs need to be part of a comprehensive customer relationship management (CRM) strategy that starts at the executive level and engages all employees. Company leaders first need to establish their brand attributes and determine the implications for interaction with customers across all touch points. Companies also need to determine how different customer tiers – from steadfast and highly profitable segments to occasional shoppers – are to be treated. That means training employees thoroughly, steering customers to the appropriate channel, and satisfying customers so well that they become advocates. Establishing a sound CRM foundation is essential for any industry intending to implement a loyalty program – since success depends on achieving a complete view of the customer. This is true for business-to-consumer industries, such as travel, hospitality, and wireless services – as well as for business-to-business industries, such as construction and energy, where loyalty programs are becoming increasingly relevant to enhance customer relationships. In any company, loyalty management processes should be integrated across the enterprise: all departments should align around the treatment of customers based on loyalty strategies delineated by segment.

Once the CRM strategy is put in place, the loyalty program needs to be enabled by a software solution that can achieve the intended visibility across touch points (figure 1). Such a solution needs to have the basics – including program management with functions to register members, establish tier groups, and set up program-specific point accrual. The basics also include a robust rules management engine, which incorporates the setting up of program conditions and timed execution of reward rules.

But it's crucial to go beyond the basics. In order to streamline data collection and enhance the customer experience, integration with a company's software applications for sales, service, and marketing is paramount. For example, sales and service agents should have visibility into loyalty account status to address point-redemption requests, up-sell and cross-sell when appropriate, and handle complaints. Customers should have self-service functionality via a Web portal so they can access their account and handle routine functions, like changing an address or viewing account status. Finally, marketing should tightly integrate with a loyalty management solution and leverage data collected from all interactions.

Figure 1. Framework to Enhance the Customer Experience for an Airline

Source: Report "SAP Thought Leadership – Enhancing the Customer Experience with Loyalty Management", SAP AG 2008, p. 5.

4. Loyalty management concept in PKN ORLEN

Currently, the ORLEN brand includes a fuel station network in Poland and Lithuania. These are modern facilities offering top quality fuel and services, friendly stop-over and resting places. ORLEN fuel stations guarantee quality and safety, offering loyalty programs and car fleet services.

Flota is a professional fleet programs focused on the needs of business customers. It offers partnership approach and advanced technological solutions. The fleet cards offer was developed and tailored to the needs of companies of various sizes and representing different business sectors. The main advantage of the brand is its comprehensive offer targeted at various B2B sectors. Participation in the program guarantees safe and convenient payment for fuel and services, and sound financial management

through better control over a company's fuel expenses.

VITAY (introduced in February 2001) is the brand of the Polish most extensive customer loyalty programs aimed at and created for customers of ORLEN fuel stations. The program offers a wide range of rewards. In accordance with the motto – it also stimulates activities and behaviours of customers, their zest for life. Its is easily available and user friendly, and the rules of collecting points are simple. In this program in 2009 have already participated nearly 6.5 million Polish drivers. In order to maximize the benefits of the program, PKN Orlen has decided to implement an advanced system of knowledge (Statistica Data Miner) on the behavior of their customers. This system is aimed at customer segmentation, customer loyalty program effectiveness analysis, testing the effectiveness of promotions and their impact on consumer behavior, and planning advertising campaigns.

To join the program VITAY must be 18 years and:

1) fill up one time for a minimum of 100 PLN;

2) fill in the form of the participant;

3) the customer receives a card VITAY immediately after the purchase and with it 200 points as a gift;

4) to collect points and exchange them for prizes at the station or on order.

One liter of fuel is credited to a participant in the program by 6 points, and a liter of gas by 4 points. In addition, points can be scored using the additional services or products ORLEN. PKN ORLEN activated SMS service for program participants, designed to inform the customer about the additional discounts and points that can be obtained. The main features of the program are listed in table 1.

Table 1. Features of the VITAY program

Feature	**VITAY program**
Program type	Partnership
The possibility of transferring credits	To children from family orphanages
SMS service	Service "Let's be in touch"
A way of accession to the loyalty program	Fillig out the form at the ORLEN station.
Specific requirements for joining the program	The obligation to tank for the amount of at least 100 PLN
Value of awards	Rewards points with a higher value compared to the rewards offered by other companies such as BP PAYBACK program
Product awards catalogue	Limited choice
Offer for most faithful participants	Special offer for a gold card
Discounts in outlets of program partners	Discounts with partners SEMI LINE, Fantasy Park, Flower Mail
Credit card within the loyalty program	Partnership Credit Card VITAY PKO
Number of partners cooperating with the loyalty program	A small group of partners involved in the program
Advertisement	Advertisements located at sales outlets of all program partners
The possibility to transfer credits under the program partners	The possibility of a transfer points from the loyalty program 5plus.

Source: Own research based on http://www.orlen.pl/PL/DlaKierowcow/VITAY/OProgramie/Strony/default.aspx (08.09.2010)

The most loyal customers may participate in the Super VITAY program, which is a unique, prestigious offer under the VITAY loyalty program. To get the Super Gold Card VITAY you are to collect at least 9 000 points within six months. For holders of the card there were prepared catalogue of special gifts, protection of collected points in case of loss of cards and additional bonus points

which the cardholder receives when the thresholds have been exceeded during the month:

- 2 000 points – they are 500 points for free;
- 5 000 points – they are 1500 points for free;
- 10,000 points – they are 5000 points for free.

Therefore, loyalty management in PKN ORLEN company is quite developed, because there are three different programs, but on the other hand customers complain about the many failures of these programs, as well as the customer is still treated as a group rather than a separate entity.

5. Conclusions

Customers' needs are constantly changing under the influence of various factors, so the company should continue to explore them. Prosperous loyalty program is a source of customer loyalty which accumulates in the long term profits for the company. Investing in a loyalty program is necessary to improve it, as well as keeping customers and creating a positive corporate image to "the outside world". Lasting relationships with customers are more profitable than disposable contacts that is why it is so important to maintain a loyal customer. The most widely used tool that aims at shaping the company's relationship with the customer are customer loyalty programs.

6. References

[1] Cichosz M., *Lojalność klienta wobec firmy*, „Marketing i Rynek" 2003, nr 8.
[2] *Customer loyalty*, www.loyaltysystems.eu (15.10.2010).
[3] Corporate responsibility report 2009, PKN ORLEN, Plock 2009.
[4] Oliver R.L., Whence consumer loyalty? *Journal of Marketing,* 63 (Special Issue) 1999.
[5] Ratuszna E., *Inwestycje w lojalność klienta*, http://www.swiatmarketingu.pl/ index.php?rodzaj=01&id_numer=351776, p. 4, (09.12.2009).
[6] Report "SAP Thought Leadership – Enhancing the Customer Experience with Loyalty Management", SAP AG 2008.
[7] Rudawska E., *Lojalność klientów*, PWE, Warszawa 2005.
[8] Schüller A. M., Fuchs G., *Marketing lojalnościowy. Total Loyalty Marketing*, Akademia Sukcesu - HDT Consulting, Warszawa 2005.
[8] Stodulny P., *Analiza satysfakcji i lojalności klientów bankowych*, CeDeWu, Warszawa 2006.
[9] Urban W., Siemieniako D., *Lojalność klientów. Modele motywacja i pomiar,* PWN, Warszawa 2008.
[10] Urban W., Siemieniako D., *Motywy lojalności klientów*, „Marketing i Rynek" 2005, nr 5.
[11] Wereda W., *Zarządzanie relacjami z klientem (CRM) a postępowanie nabywców na rynku usług*, Wyd. Difin, Warszawa 2009.
[12]http://www.orlen.pl/PL/DlaKierowcow/VITAY/OProgramie/Strony/default.aspx (08.09.2010)

Corporate Social Responsibility Concept in Marketing Activity of a Large Company

Wereda Wioletta
University of Podlasie, Poland
weredawioletta@tlen.pl

Abstract

While companies often view customer loyalty programs as a fast way to enhance profitability by inducing customers to buy, they are finding that there is a much greater value provided by this programs: the collection of information from program members.

In this new light, the main aim of this article is to show the role of social responsibility concept in marketing in a large company in Poland in the 21st century, in the theoretical frame and practical one - that is the example of "a case study".

Key words: corporate social responsibility, marketing, company
J.E.L. classification: M14, M31

1. Introduction

Advertising, sales promotion, research, ratings, merchandising, and practically every item of marketing are becoming increasingly important to the organizations in selling their products or services.

Executives in any industry will be telling that they sincerely care about their customers – after all, satisfied customers are the source of a company's long-term success. But as they face the daily challenges of designing new products and services, building brands, and creating strategies for addressing competition, many executives lose their customer focus. They haven't developed clear insights into the diversity of their customers' needs nor have they identified their most valuable customers. And managers rarely have a data-based understanding of how well they are satisfying customers across numerous interactions with them. Loyalty programs – which promote specific customer behaviors by providing benefits (such as rewards for miles flown) – can help enhance the customer experience. While companies often view such point-based programs as a fast way to enhance profitability by inducing customers to buy, they are finding that there is a much greater value provided by loyalty programs: the collection of information from program members. Companies can then use this data to develop a 360-degree view of customer interactions and determine how best to tailor process enhancements by segment – particularly for high-value customers. By implementing loyalty programs that are integrated across sales, service, and marketing – across all channels of interaction – a firm can greatly enhance the customer experience, increase customer retention, and foster development of a community of people who serve as advocates for the business.

2. Marketing and CSR

According to the definition of marketing success of marketers depends on the ability to create important, lasting and original value for the customer. Specifically, more and more marketing specialists, both from the scientific world as well as practitioners believe that good financial results and survival for many years are determined primarily by developing and maintaining relationships with customers. That view has led to the development of marketing programs aimed at the relationship - for example, loyalty programs and bulk mailings - which seek to strengthen ties between the company and its customers and instil loyalty. In summary, although in an era of increased competition and reduce the diversity of products, the need for interaction with customers is stronger than ever, marketers have no illusions about the economic efficiency of loyalty programs and continue to seek effective ways of establishing lasting

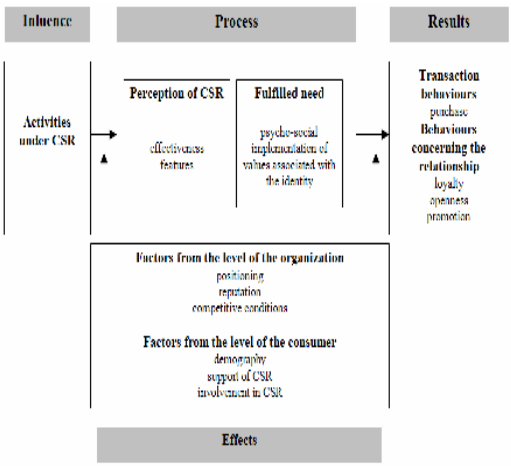
and important relationships with the client. Marketing Science Institute concluded "the relationship with the client company" as one of the most important topics of their research and urged to take more tests " analyzing of new methods of creating and maintaining emotional bonds with the brand"

Properly carried out activities within the framework of CSR can bring this kind of value which is based on a strong, stable and secure client-to-business relationships. Detailed studies show that socially responsible company that cares about the value and has a "soul" or "nature" incomparably better establish deep and meaningful relationships with clients.

It is worth to note that this applies not only to regular customers in which they carry the latest marketing research. Marketing research confirms the reduction of transaction costs arising from the CSR but it seems the greatest benefit is that consumers are becoming big supporters of a company or brand; act in its interest not only because of their loyalty, but also promoting the company (brand) among friends.

However, most experienced marketers realize that the desired benefits of CSR are not easy to obtain. Basically, this is the same reason as in the case of products and services where "one size does not fit all." One of the models which can help in the development pattern for optimal formulation, implementation and measurement of CSR from the perspective of marketing is the model input-output "(extended to the analysis process) presented by CB Bhattacharya and S. Sen `a -– figure 1)

Figure 1. „Input-output" Model



Source: C.B. Bhattachary, S. Sen, Koncepcja odpowiedzialności biznesu w marketing [in:] N.C. Craig, G. Lenssen (red.), Odpowiedzialność biznesu. Teoria i praktyka, Studio Emka, Warszawa 2009, p. 380.

Influence

Firms undertake CSR initiatives under one or more of wider areas:

• society (for example, voluntary work, charities);

• diversity (for example, the composition of the Supervisory Board,

the policy concerning sexual minorities);

• employee relations (for example, health care, pensions, security);

• environment (e.g. clean energy, recycling);

•corporate governance (for example, the remuneration system, ownership structure, transparency);

• product (for example, quality, safety);

•human rights (for example, labor rights, relations with the indigenous population).

Activities under the CSR can take many forms (for example, advocacy marketing, social marketing, socially responsible business practices), which differ in aims and methods. Of course, the nature and amount of company resources (e.g. money, goods, time spent by staff, expertise) allocated to CSR varies depending on the type of initiative.

Process

It is worth noting that the objective assessment of CSR differ on how customers perceive it. And as opposed to objective assessments of how a client receives a given share of CSR may vary significantly from the perception of it by another client. Moreover, the assessment involves a single initiative - although it is often quite different - with the general level of business involvement in social responsibility. Recent studies show that there are at least two aspects to this perception. Firstly, the stakeholders assess the initiative in terms of effectiveness with which improved the lives of those for which it was addressed. In other words, they perceive the initiative in the context of its declared objectives and are sensitive to any departures from these goals, both the plus and minus. Secondly, previous research shows that customers evaluate the action of CSR in terms of motivation, they assign it to

the company in question undertaking. These motives may be external, when perceived that the company is trying in this way increase profits, and internal, when the company attributed that motivates her genuine concern for the matter which it has taken. Customers are increasingly intolerant extra motivation, if the initiative also faced internal motivations.

Effects

If CSR initiatives partially or completely satisfy customer needs, and the front part, it is more likely to engage in activities which are equal for the company, as well as for the case. If the company meets the higher (in terms of identity, not only the customer's needs, he often wants to reciprocate).

Frequently reciprocation is an integral part of the same needs, especially in cases of self-learning or improving your opinions on the topic. Identification with the company based on CSR activities brings together the interests of consumers and businesses, triggering a desire to work for the company. Studies have shown that they can be ad hoc and transaction activities, for example, buying a product or a more long-term relationships and related, for example, loyalty, support business and refute negative opinions about it.

If the consumer perceives the relationship with the company as a mutually beneficial, then a similar effect can be observed in relation to a particular social cause. More specifically, if CSR initiatives meet the needs of the customer is more likely to be positively approached the case, supporting and promoting it among others. It should be noted, however, that it was likely at least partially dependent on sense of gratitude to the company, not only from the same approach to the matter. In other words, the quality of relationships with the business affect the personal relationship to the case 1.

Conditions

Recent research on CSR is the conclusion that the degree to which activity in the area of CSR affects the perception of CSR programs, and related needs, is essentially conditioned by a number of factors, both at the level of organization and the consumer.

Conditions at the level of the organization affect the relationship between activity in the area of CSR and CSR initiatives and the perception of needs which satisfy customers. These factors include the characteristics of CSR, companies that take it, and the existing competitors in the market. First, the benefits of CSR depend on the characteristics of the initiatives undertaken and they include the type of case and fit the company's CSR initiatives. Matching companies to CSR initiatives are defined as "perceived link between the case and the company's products, brand image, position the company and its target market." Secondly, the reception of CSR characteristics influence customer business. For example, the positive effects of CSR can strengthen or weaken the reputation, because it affects the association, perception and identification. Not without significance is also the industry in which the company operates. Stakeholders suspicious approach to companies in certain industries (such as tobacco and oil), which may well undermine the ability to satisfy customer needs through CSR, as well as adversely affect the final evaluation of the initiative and the company itself.

Thirdly, consumer evaluation of CSR initiatives is not done in a vacuum but in relation to comparable projects in the industry and beyond. Thus the reception of the company affective CSR initiatives undertaken by the competitors. Evaluation of CSR initiatives depends on the expectations and the expectations arising from knowledge of CSR initiatives, not one, but many businesses. For instance, companies that have positioned through CSR - as opposed to those that only engage in it - may enhance the perception of consumers, meeting the needs of builders and triggering behavior relationships, but on the other hand, their activities are severely judged and, in conjunction with that are vulnerable to the adverse effects of CSR.

The factors include the level of consumer characteristics of the consumers and their level of involvement in CSR initiatives. In the model the effects of demographic characteristics affect both consumers and their support for the issues taken by the

Company under the CSR, as these features reflect the needs and values of the individual stakeholder. Studies show, for example, that an important feature that plays a role in the response to the CSR, is sex. Another important factor is the involvement of customers in the process of making social responsibility. Of course, the effects of CSR are the strongest, when customers actively involve in CSR programs, because by then most of these programs can express and reinforce its identity. In addition, most dedicated clients themselves Contributors value that is allocated to them. Creating, promoting and implementing CSR programs have a feeling that something reaches, develop their skills and learn about people with similar views, each of these effects is likely to meet an important need, and thus enhance confidence in the company and more identification with it.

Workplace responsibility, responsibility towards customers and partners and social responsibility in PKN ORLEN – a case study

Polski Koncern Naftowy ORLEN is a modern, professionally managed Company which applies state-of-the-art technological solutions. The brand also symbolizes a dynamic expansion and successful transformation from Petrochemia Płock SA and CPN SA into PKN ORLEN. PKN ORLEN is a leader not only of the Polish economy, but also of the regional refinery and petrochemical industry, a leading producer and dealer of refinery and petrochemical products. Products are subject to control from production to distribution stage, as our top priority is the highest quality of manufactured products and offered services.

Motto of the company:

Whenever you need us.

Mission of the company:

Aiming to become the regional leader, we ensure long-term value creation for our shareholders by offering our customers products and services of the highest quality.

All our operations adhere to 'best practice' principles of corporate governance and social responsibility, with a focus on care for our employees and the natural environment.

The company has the largest fuel station network in Central Europe, covering Poland, Germany, the Czech Republic and Lithuania (figure 2). Fuel stations offer top quality products and services. PKN ORLEN retail network is based on effective logistics infrastructure consisting of corporate and external fuel terminals, underground cavern storages and a network of long-distance pipelines.

Figure 2. Fuel station network in Central Europe

Source: Corporate responsibility report 2009, PKN ORLEN, Plock 2009, p. 8.

As at 31 December 2009 the ORLEN Capital Group consisted of 125 companies. The Group included 82 subsidiaries (36 direct subsidiaries, 46 indirect subsidiaries), 58 directly affiliated entities, 67 indirect affiliates, including 3 joint venture companies (2 directly affiliated, 1 indirectly affiliated).

Today PKN ORLEN is the Polish synonym of world-class products and model expansive enterprise, a company observing the principles of corporate social responsibility, ethics, corporate governance and full transparency. The Company stimulates the professional development of its employees and strives to protect the natural

environment. PKN ORLEN aims at maintaining the proper balance between economics, surrounding environment and human needs. Consequently, thanks to effective domestic and international investments, PKN ORLEN has joined Europe's leaders – companies perceived as model representatives of their countries.

In PKN ORLEN there can be seen four types of levels of responsibility:

1. Responsibility towards the market;
2. Workplace responsibility;
3. Responsibility towards customers and partners;
4. Environmental and social responsibility.

Because of the main aim of the article there will be discussed workplace responsibility, responsibility towards customers and partners as well social responsibility in the company.

3. Workplace responsibility in PKN ORLEN

In 2005 the Company adopted the Code of Ethics based on key values of PKN ORLEN. The document determines the principles that should guide the Company and its employees in their relations with the internal and external environment. It is compatible with the most important organizational acts regulating the management of the Company. The most important organizational acts regulating the management of the Company are compliant with its provisions. Observance of the

Code of Ethics is ensured by the democratically elected Ethics Ombudsman. The Ombudsman guarantees all stakeholders the possibility to freely report on any breach of the principles stipulated in the Code. It also enables them to report any irregularities, and thus helps develop a sense of having personal influence on respecting the values in the Company.

The general principles of the Code of Ethics and its chapter devoted to relations within the Company emphasise the need to observe the law and good habits, and the principle of respecting the dignity of each human being. Activities popularizing the Code of Ethics among employees (trainings, workshops) have always reminded about its strong connection with the Human Rights Charter. In the Code of Ethics the Company declares its respect for the national origin, race, religion and political orientation of its employees, co-workers, customers and business partners, as well as equal and fair treatment of everybody, irrespective of the above or of the position held by a person, his or her seniority in the Company, membership in trade unions or appearance. PKN ORLEN did not report a single case of breach of the above principles in 2009. In accordance with the Collective Labour Agreement the Company respects the principle of the freedom of activity and equality of trade unions, and of non-discrimination on the grounds of trade union membership.

4. Responsibility towards customers and partners in a researched company

In 2009 PKN ORLEN took all reasonable efforts to maintain and elevate customer service standards. Priority of the company is the top quality of products and services to ensure that fuel stations are places, where in accordance with the principle "two hours of driving, twenty minutes break" customers may safely and comfortably relax. It is very important to ensure that customers are professionally served. The company also respects their privacy.

In 2009, the company did not find any justified cases of customers' complaints which would arise from the loss of personal data in the VITAY Program.

In comparison to the previous years, positive effects of these efforts were confirmed by results of surveys related to service standards and mystery shopping studies. We constantly elevate our standards of customer care e.g. by implementing a comprehensive training system for fuel stations employees conducted by sales managers – coaches.

The year 2009 was characterized by an increased number of complaints and claims filed at own stations in comparison to the previous years. The share of accepted complaints and claims in the total number of filed complaints and claims, which remained on the same level in 2007 and 2008, grew by 4% in 2009 (figure 3). Such phenomenon always causes concern, therefore its causes

were thoroughly analyzed. It turned out that in most cases, extreme weather that unfortunately occurred last winter sometimes made it impossible to win with natural conditions, although our fuels met all required norms.

Figure 3. Number of complaints and claims in PKN ORLEN in 2007–2009

	2007	2008	2009
Total CoDo (own stations)	1,174	1,150	1,418
Accepted	285	278	399

Source: Corporate responsibility report 2009, PKN ORLEN, Plock 2009, p. 46.

As products – fuels – are not sold in packages, in 2009 the company did not recover materials from sold products and their packages. Suppliers also constitute an important group of partners. The quality of products we purchase and who supplies them are very important factors for the company.

The company constantly works with suppliers to satisfy current needs of fuel stations. PKN ORLEN introduces new products in line with significant world trends, e.g. the fair trade idea. Coffee offered at Stop Cafe is certified by F airtrade. Although statistics show that this logo is still not very popular in Poland, the company believes that the duty is to promote this idea and to join the fair trade movement. Surveys conducted by the company indicate that the F airtrade certificate does not directly influence the decision to buy coffee, however when the customer finds out that the coffee is certified by this logo, he or she feels satisfied with the purchase of such a product. This is very important for a good beginning. PKN ORLEN also strives to make life easier for disabled customers. The portal www.orlen.pl offers them functionality dedicated to them, whose additional advantage is a legible icon. Customers have at their disposal the search engine allowing them to find PKN ORLEN fuel stations which enables them to plan their journey and locate stations on their route corresponding to their needs.

After marking an appropriate criterion, the map shows the stations which have a wide access ramp and a toilet adjusted to the needs of the disabled. Disabled customers may also use detailed selection criteria allowing them to select three features facilitating the visit at the fuel station. It is worth emphasizing that the implementation of these ideas was guided not by business motives, but by care and the sense that as the Company it may do something which will make life easier for other people. The website www.orlen.pl itself offers features for the disabled in accordance with the applicable WCAG 1.0 standard. PKN ORLEN operates in compliance with all points included in Priority 1 and most points of Priority 2 and 3. This standard applies among others to illustrations captions, not using too vivid colours, too dynamic animations etc.

There are several primary objectives that guide the PKN ORLEN Purchase Office in relations with suppliers. These include developing partnership with reliable suppliers, maintaining friendly work environment, creating the model of effective cooperation with external customers by satisfying their expectations in the best possible way and readiness to provide necessary support. The Office mission is to acquire the status of the best purchase organization in the fuel and energy industry of the Central and Eastern Europe. Thus it is our priority to timely deliver required materials and services of desired quality, as well as to systematically optimise costs in the course of these activities. While fulfilling their duties employees must be professional, but simultaneously respect the primary values and principles of the PKN ORLEN Code of Ethics. In cooperation with its suppliers the Company adheres to the purchase policy regulations. One of its key documents is the PKN ORLEN Purchase Instruction. On the basis of this instruction we select our suppliers in a clear and transparent way. Centralization of scattered purchase functions carried out a few years ago was on the one hand the effect of the development of the Company, and on the other hand resulted from efforts to respond effectively to market needs and provide clear cooperation procedures.

PKN ORLEN organizes annual satisfaction surveys in order to ensure the best cooperation with suppliers. Regularity of surveys allows us to determine whether cooperation with respective suppliers is

developing, deteriorating or remains stable etc.

The principle „Think globally, act locally" is also applicable towards cooperation with suppliers. The Company uses the services of local suppliers (whose headquarters are located in the Płock Poviat), thus supporting the local market and business. Their obvious advantages include good knowledge of the local market or possibility to reduce transport costs. However, the final selection criterion is always the ability to satisfy high expectations. Therefore the Company does not keep statistics specifying the share of expenses for services provided by local suppliers.

PKN ORLEN cooperates with reliable suppliers from all over the world. All of them are subject to regular verification; forms of long-term cooperation have been developed with key suppliers. Apparently as a result of such actions, no agreements with suppliers have been identified that would require the application of human rights clause. One of the effects of applying due diligence in the purchase processes is the fact that in 2009 no penalties were imposed on the Company for breach of law and regulations relating to delivery and usage of products and services.

5. Public relations in PKN ORLEN

When developing the strategic approach to the issue of social involvement, the company acts in line with key values, which include consistency in pursuing goals, ability to cooperate, honesty, professionalism, responsibility and entrepreneurship. It strives to respond to the needs of its environment in order to incorporate social responsibilities into the PKN ORLEN development strategy. People are in the centre of the company`s attention, which is why actions in the scope of corporate social responsibility are supposed to satisfy their needs and expectations as fully as possible. The Company is involved in many social initiatives. The range of activities is broad: from charity, intersectoral partnerships, support of sport and culture, to dealing with serious social problems.

6. Conclusions

CSR is an innovative addition to a number of strategic actions which are used by the company to strengthen its customer focus. Therefore, the role of CSR in the marketing model is best to discuss the "four P" and positioning. CSR themes fit well into the module, which raises other issues outside the "marketing mix", for example, consumer co-creation of a company or the creation of brand communities, because marketing can be used both to build important relationships with stakeholders and to initiate positive social change.

7. References

[1] Bhattachary C.B., Sen S., Koncepcja odpowiedzialności biznesu w marketing [in:] Craig N.C., Lenssen G. (ed.), Odpowiedzialność biznesu. Teoria i praktyka, Studio Emka, Warszawa 2009.

[2] Bhattacharya C.B., Sen S., Doing better at doing good: When, why, and how consumers respond to corporate social initiatives, *California Management Review,* 47 (1) 2004.

[3] Brown T.J., Dacin P., The company and the product: corporate beliefs and consumer product responses, *Journal of Marketing,* 61 (January) 1997.

[4] Corporate responsibility report 2009, PKN ORLEN, Plock 2009.

[5] Du S., Bhattacharya C.B., Sen S., Reaping relationship rewards from corporate social responsibility: The role of competitive positioning, *International Journal of Research in Marketing* 2007, 24 (3).

[6] Dutton J.E., Dukerich J.M., Harquail C.V., Organizational images and member identification, *Administrative Science Quarterly,* 39 (34) 1994.

[7] Ellen P.S., Webb D.J. , Mohr L.A., Building corporate associations: Consumer attributions for corporate socially responsible program, *Journal of the Academy of Marketing Science,* 34 (2) 2006.

[8] Marketing Science Institute, *Research Prloritles: 2006-2008 Guide to MSI Research Programs and Procedures,* Marketing Science Institute, 2006 Cambridge, MA.

[9] Oliver R.L., Whence consumer loyalty? *Journal of Marketing,* 63 (Special Issue) 1999.

[10] Reichheld F.F., The one number you need to grow, *Harvard Business Review,* 81 (12) 2003.

[11]http://www.orlen.pl/PL/DlaKierowcow/VITAY/OProgramie/Strony/default.aspx (08.09.2010).

ISSN 1582 – 9383

© 2010 Ovidius University Press