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Section I
International Affairs and European Integration

Subsection 1
International Affairs

Asserting Intellectual Property Rights

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Abstract

Intellectual property law has received a final and official dedication along with the conclusion of the Convention which led to the establishment of the World Intellectual Property Organization (WIPO) signed on 14th July 1967, in Stockholm [1].

According to WIPO, Intellectual Property covers four main areas:

a) Copyrights for literary and artistic works;

b) Rights related to copyright – there are protected (as related rights): the performances or interpretations of artists – performers or interpreters –, producers' sound recordings or phonograms, radio and television broadcasts;

c) Industrial Property Rights;

d) Other intellectual property rights not included in the previous categories.

Key words: WIPO, breeder, patent, industrial property,

J.E.L. classification: K11

1. Introduction

Intellectual property law has received a final and official dedication along with the conclusion of the Convention which led to the establishment of the World Intellectual Property Organization (WIPO) [1], signed on July 14, 1967 in Stockholm.

Professor Ioan Macovei, in his work *Tratat de drept al proprietății intelectuale* ("Treatise of intellectual property law"), from the very beginning, in his the "Foreword", argues that, within the strategy of economic, social and cultural development, the intellectual property is an essential part, ensuring the protection of human intelligence

works and guaranteeing the capitalization of the free-market [2].

At the international level, Romania is a founding member of the World Intellectual Property Organization and of the World Trade Organization.

Generally, intellectual property includes all legal rights arising from intellectual activities in the literary or artistic, scientific and industrial fields [3]. In a more technical sense, intellectual property is also defined as a domain (a subset in a mathematical sense of the legal concept of ownership), under a patrimonial aspect, which refers to the property resulting from a work of intellectual creation process of any kind: literature, science, didactics, method, fine arts etc. [4].

2. Intellectual property law

Intellectual property is inextricably linked to the legal concept of law because it involves both moral, as well as patrimonial attributes [5].

There is, thus, a system of interference of unwritten moral issues with the legal ones which have a sovereign nature (belonging to any law in force at a time) and which are contained in a system of legal acts constituting the intellectual property law.

Professor Constantin Turcanu states that intellectual property is an intangible property, stemming from human intelligence and creativity, so it requires adequate protection, specific and specialized for this type of property [6]. Intellectual property protection is provided for the inventions in all fields of human activity: economic, industrial, agricultural; transportation, construction, tourism, services, commerce, administration; scientific, literary, artistic, audio-visual and media [7].

Professor Viorel Roş says that the discipline of "intellectual property law" studies the protection of the intellectual creation of the authors of works of the mind and the results of these creative activities in various forms, but also the protection of the most important distinguishing signs of trading activities [8].

In another sense, the "Intellectual property law" refers to all the rights related to the protection of the intellectual creation of the authors of spiritual works and of the results of creation activities in their most varied forms, and the protection of the most important distinguishing signs of trade activities [9].

3. The protection of the right to intellectual creation

The idea of protecting these rights was unanimously endorsed by almost all countries, for reasons related both to the interests of authors and to the policy of each State. Thus, we may clearly draw two main reasons:

a) The assertion of legality, of the moral and economic rights of creators on their creations and the rights of the public to have unrestricted access to these works, on a voluntary basis;

b) The promotion of creativity by adapting legislation in order to encourage a fair trade through the application and use of these rights, with direct effects on the development of economy and society.

4. The recognition of intellectual property rights

Intellectual property rights are property rights as all the other rights defined by the civil law - they allow the creator or owner of a patent, of a trademark or of work protected by a copyright to benefit from his/her work or investment[10].

These rights are outlined in Article 27, paragraph 2, of the Universal Declaration of Human Rights which states that "Everyone has the right to the protection of the moral and material interests resulting from any scientific, literary or artistic production of which he is the author". This dimension of intellectual property rights protection finds a new larger and more complex approach in

article 15, paragraph (1) of the *International Covenant on Economic, Social and Cultural Rights*, by means of which the States Parties undertake to recognize that every person has the right to:

a) take part in the cultural life;

b) benefit from the scientific progress and its applications;

c) benefit from the protection of moral and material interests from any scientific, literary or artistic production of which he/she is the author.

For this right, the States Parties to the Covenant undertake also to ensure the full exercise of those rights and to adopt the appropriate measures in order to ensure the maintenance, development and diffusion of science and culture (paragraph 2) and to respect the freedom indispensable to scientific research and creative activities (paragraph 3).

5. Conclusions

The importance of intellectual property was first recognized by the *Paris Convention for the Protection of Industrial Property* of March 20, 1883, published in the Official Gazette no. 77/1998 and the *Berne Convention for the Protection of Literary and Artistic Works* of September 9, 1886. Both treaties are administered by the World Intellectual Property Organization (WIPO).

According to article 3, paragraph (1), section 1 of Law no. 344 of 29.11.2005 on the measures to enforce intellectual property rights in customs formalities clearance, intellectual property rights include: copyright, related rights, the right on protected product or service marks, the right on industrial drawings and designs, the right on geographical indications, the right on patents, the right on supplementary protection certificates, the right on plant breeds.

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Practical Difficulties Generated by Cargo Description in Contracts for International Sale of Goods and Bills of Lading

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Abstract

It is estimated that over 80 percent of the goods sold on international market are carried by sea [1] and many times a bill of lading is required for cashing the letter of credit. The parties to the sale contract require that cargo is described as clear as possible and a certificate of quality is very often required, while the shipowner will many times insist that the cargo is described as generic as possible in the Bill of Lading, and no references to cargo quality are accepted.

This paper will explain the reasons behind such a strict requirement from the shipowners point of view and based on recent legal case will provide practical solutions for overcoming the potential disputes arising between shippers, charterers and shipowners.

Key words: bill of lading, cargo condition, cargo quality, UCP 600, letter of credit

J.E.L. classification: K33, L91, G10

1. Introduction

According to art. 35 (1) of the United Nations Convention on Contracts for the International Sale of Goods the seller must deliver goods which are of the quantity, quality and description required by the contract and which are contained or packaged in the manner required by the contract".

The parties to a contract for the international sale of goods will prefer a complete and very clear description of the goods in order to avoid possible claims that may appear at a latter stage. They will also include very clear clauses related to quantity and quality issues, including required certificates. If the payment is done using a documentary credit method the parties to the contract will obviously discover that in

accordance with UCP 600 the description in the Letter of Credit should be brief and should not include excessive detail. An acceptable description would be "Hardware items as per buyer's purchase order no. 2334." An unacceptable description would be a listing of all the various items covered in the purchase order. Excessive detail does not add to the protection of the applicant, and could detract from the beneficiary(ies) ability to collect.

The commercial invoice is the only document where the goods description must correspond exactly with that indicated in the Letter of Credit. Even the slightest deviation can be cause for rejection.

Art 15 (1) (a) of The Hamburg Rules requires the carrier to include in the Bill of Lading " the general nature of the goods" while Art 36 (1) (a) of Rotterdam Rules requires "description of the goods as appropriate for the transport". The phrase "as appropriate for the transport" is intended to give the carrier some flexibility to condense overly long and detailed technical descriptions. [2] Even if computers have made fairly easy the reproduction of detailed technical description the introduction of such particulars overburdens carriers, custom authorities, security authorities and banks.

As we have seen above cargo description may differ between the contract and the letter of credit and it may also differ between the Letter of Credit and the Bill of Lading or other transport document.

According with The Business Dictionary the quality is a measure of excellence or a state of being free from defects, deficiencies, and significant variations, brought about by the strict and consistent adherence to measurable and verifiable standards to achieve uniformity of output that satisfies specific customer or user requirements. ISO 8402-1986 standard defines quality as "the totality of features and characteristics of a

product or service that bears its ability to satisfy stated or implied needs." [3]

The quality of a product has to be differentiated from its condition. Quality is the inherent nature of a product and may or may not be influenced by its condition. Condition is related to the external inspection of the cargo and to the packing [4]. A reasonable external inspection is not necessarily limited to visual inspection, sounds or smell could also reveal information that could be included in the Bill of Lading.

Statements as to quality are unusual in bills of lading [4]. In *Cox v. Bruce* (1886) it was stated that the master has no apparent authority to represent the quality of goods in the bill of lading.

2. Cargo condition under maritime international conventions

When the carrier takes charge of the goods, he must, on demand of the shippers, issue to them a Bill of Lading. The Bill of Lading would normally include statements as to the quantity and description of the goods shipped together with condition of the cargo at the time of receipt. Such representation of facts has three important commercial effects:

1. The buyer or the bank is entitled to reject the documents if the description of the goods in the Bill of Lading do not correspond with their description in the sales invoice;
2. They form the basis of any cargo claim by the receivers if the goods are short delivered or in a damaged condition at discharge;
3. Such statements may seriously affect the negotiability of the bills in the hands of a consignee, since the goods would not be sealable in transit if the bill of lading disclose that they have been shipped in a damaged condition.

At common law the shipowner is allowed to exclude liability for the truth of the statements related to apparent order or condition of the cargo or to include a clause to the effect "condition unknown".[6] However a clear statement made by the

shipowner that the goods were shipped in good order and condition will override any standard printed clause in the body of the bill of lading indicating that state of the goods on shipment was unknown.

In accordance with Article III rule 3 of Hague Rules the shippers is entitled to demand a bill of lading incorporating a statement as to the apparent order and condition of the goods when received by the carrier. The carrier can not rely on expression "condition unknown" as this is a tentative to reduce the obligations of the carrier below the minimum obligations set out by Hague Rules and it will be considered null and void. It is true the most bills of lading contain a printed clause such as "weight, measure, quality, quantity, condition, contents, and value unknown". Such statements related to cargo condition may protect the carriers only when the cargo details cannot be verified by reasonable shipping practices.

According to article 16 (2) of Hamburg Rules "if the carrier or other person issuing the bill of lading on his behalf fails to note on the bill of lading the apparent condition of the goods, he is deemed to have noted on the bill of lading that the goods were in apparent good condition". This means that in case the carrier wants to avoid liability he should include in the bill of lading a statement as to the cargo condition at the time of receipt.

According with article 36(2)(a) of the Rotterdam Rules the carrier has to include in the transport documents a "statement of the apparent order and condition of the goods" at the time they are received for carriage. Although the carrier has no duty to conduct anything beyond a "reasonable external inspection of the goods as packed at the time the shippers deliver them" The Rotterdam rules are the first international rules that are making reference to "any additional inspection that the carrier ...actually performs before issuing the transport document". This means that when in doubt the carrier has the right to perform additional inspection. Is the carrier under an obligation to perform

additional inspection when in doubt? It appears that for the time being he is not, but there is no guarantee that he will not be in the future.

3. Relevant cases related to cargo condition

The following two legal cases have been selected to illustrate how difficult is sometimes to draw a borderline between the cargo quality and cargo condition. The first case concerned a shipment in May 1995 of urea in bulk loaded on board the DAVID AGMASHENBELI at Kotka for carriage to Beihai in China. A dispute arose about the condition of the cargo as the master protested about its moisture, its colour and contamination. According to shippers' surveyors (who carried out a random inspection plus analysis), the cargo's condition was normal and had the correct colour.

The dispute was not resolved before the vessel sailed, and the master claused the Mate's receipt with following wording: "Cargo discoloured, also foreign materials (e.g.) plastic, rust, rubber, stone, black particles found in cargo". This remark was worded in very broad terms without saying anything about the extent of the contamination or discolouration.

When the vessel arrived at Beihai in China the Bs/L had still not been issued, but on the day of arrival the Bs/L were signed claused with the same, similar wording. The clausing of the bills caused rejection of the Bs/L by the buyers' bank and the market prices fell. Buyers eventually agreed to buy but at a reduced price, and cargo interests sued the carrier.

The question then was argued before the court where the basic question came to be whether it is the master's duty to either objectively and accurately describe the actual apparent order and condition of the cargo or describe the apparent order and condition of the goods as an ordinary and reasonably

skilled master reasonably and honestly believe it to be.

The court held that it was the carrier's duty to record the apparent order and condition of the cargo according to the reasonable assessment of the master (or other agent of the carrier). There is no absolute guarantee of accuracy. The master is required to exercise his own judgement on the appearance of the cargo being loaded (and there is no separate obligation to call in expert help e.g. a surveyor or other "expert" with specific knowledge of the cargo in question). The actual wording of the clausing is also a matter for the master's judgement. [7]

In this specific case, the court also held that, on the evidence, the cargo had in fact not been contaminated and that the master had been wrong to clause the bills with respect to contamination. The court, however, also concluded that, on the evidence, a smaller portion of the cargo had been discoloured. The correct clausing would therefore have mentioned the extent (e.g. by percentage) of cargo being discoloured and the clausing employed in this case was likely to cause any third party to believe that a major part (or all) of the cargo was discoloured.

The decision is therefore a reminder that, when clausing a B/L, the master must not only use his reasonable judgement in deciding whether to clause, but he must also be sufficiently specific and precise in his clausing, failing which the owner may be held liable in damages.

The second case concerned a shipment in November 1999 of wheat in bulk loaded on board the ALIAKMON RIVER at Constanta for carriage to Hodeidah in Yemen. A dispute arose about the condition of the cargo as the master protested about its contamination with sun flower seeds and other impurities. According to shippers' surveyors (who carried out analysis), the percent of impurities was 0.6% (out of which 0.2% sun

flower seeds) while according with sale contract the allowed percentage was 2%. [8]

After the numerous discussions and negotiations the parties did not reach any agreement and the master claused the Mate's Receipts with the following remark: "sun flower seeds / barley / maize / corn cockle are mixed with wheat at loading" and he gave to the agent a letter of authorisation for signing on his behalf Bills of Lading that are in strict conformity with the Mate's Receipt. There were some other remarks, but they are not considered relevant for this paper.

The shippers have not accepted a claused Bill of Lading due to the fact that according with the Letter of Credit only a clean on board bill of Lading was acceptable. The shippers have consequently obtained a court order and the cargo was eventually discharged and the vessel arrested. After the P&I Club has lodged a bank guarantee the vessel was released and the case was referred to Maritime section of Constanta Court.

The main question under investigation was if the master was entitled to include such remarks when it was obvious that the cargo was in accordance with the sale contract quality requirements. The court has correctly reached the conclusion that the master is not a party to the sale contract and can not be bound by its terms and conditions. Also the court held that the master was entitled to clause the Bills of Lading to reflect the true condition of the cargo at the time of shipment. However the court has not went into details and has not analysed if the remark was too general and a more precise qualification was required.

This second case is in many ways similar with the first one and it is now clear that the master is entitled and is even unde an obligation to reflect the apparent condition of the cargo at the time of shipment. If in the first case it is not very common to find urea mixed with plastic and other impurities it is hard to find wheat without any impurities and therefore much more care in clausung whet cargoes is required. The shipowner and the

master should always remember that they are expected to deliver the cargo in the same good order and condition it was received and their clausung should always take this into consideration. In the second case if the bills of lading were signed clean on board and at the discharging port the receivers would have lodged a claim then is was the duty of the owner to prove that cargo was not contaminated by sun flower seeds and other impurities during the voyage and this should have been quite easy to demonstrate.

4. Conclusion

As has been seen in this paper there are significant differences between the various documents used in international trade and particular atention is required from all parties involved in a business transaction. Quality and condition of the cargo are very different terms and even if a cargo is in accordance with sale contract from quality point of view there are significant risks that the carrier include remarks about the cargo condition at the time of shippement and Letters of Credit can not be cashed without aproval of the buyer. If the price on market is stable or is increasing the riskes are limited, but if the price is significantly decreasing then the buyer will either reject the cargo or ask for a significant price reduction.

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The Features of the Romanian External Commercial Trades

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Abstract

The events of December 1989 represented the trigger which determined the future evolution of Romania from an economic and political point of view. Among the first reform measures, adopted after the fall of communism, were also those regarding Romania's commercial policy. Being aware of the global economy's globalization trend, Romania liberalized its external trade, fact appreciated by the EU. Actually, Romania's main objective at that time was joining the EU. In this paper I have tried to present aspects regarding the evolution of Romania's exports and imports in two time intervals. The first interval refers to the pre-adherence period, being marked by the country's mistakes during the transition towards a market economy and the second interval refers to the post-adherence period, marked by the rules imposed by the EU and the effects of the global financial crisis.

Key words: export, import, trade balance, commercial policy, EU adherence

J.E.L. classification: F15, F41

1.Introduction

The sensible reduction of the level of customs taxes of the majority of the world's countries and the reduction of the quantitative limitations of international goods and services trade represent phenomena which have determined an accentuation of the liberalization of trade on a global scale in the last decades.

In this context it was possible a growth in importance of the role which developing countries play in the global trade. We should emphasize in this direction the successes obtained by the countries which compose the

BRIC structure. The apparition of new forces on the global economic scene such as China and India has made necessary the redefinition of economic and commercial relations. The triad USA, EU and Japan which has dominated the international economy and trade since the second world war is aware of the fact that countries such as China and India should have the opportunity to support their interests within global institutions, in this case there exists also the possibility of them generating their own system of international economic relations.

The unprecedented rhythm of the international economic relations development in the last decades has made on one side possible the powerful development of some countries and on the other has led to the increase of the interdependence between states, with a direct impact on the diminishing of their sovereignty.

Romania must also take into consideration all these aspects as after the fall of communism, it has been going on the path of global development.

2.Aspects regarding Romania's economic trade in the pre-adherence EU period

In the period before 1990, Romania's external commercial trade has been influenced by the belonging to the Council for Mutual Economic Assistance and by the necessities imposed by the planned development of the economy.

During the majority of the years between the end of the second world war and until 1980, the trade balance of Romania was in deficit. The objective was to pay the external debt determined a surplus in the trade balance between 1981-1989 with negative

consequences on the living level of the population and on the long term development of Romania.

The option of the transition towards a market economy which started in 1990 initially determined a reduction of the GDP and powerful disequilibria on the internal market. This phenomenon was characteristic more or less in all former socialist countries. We should also state that apart from that of all the other countries at the fall of communism, the external debt of Romania was practically zero.

The fall of the Soviet Union and the events which marked the Balkans at the beginning the 90's determined the end of the COMECON's activity, thus significantly affecting the commercial flows in the area. The fast liberalization of the external trade promoted by Romania, but unsupported by the reforms of the other national economic domains negatively affected the economic progress of our country. Losing an important part of the so called traditional markets the Romanian merchandise producing companies which were less competitive internationally recorded massive increases in inventory, fact which determined a blockage of the Romanian economy. Practice the depreciation of the Romanian lion became the main policy of export stimulation promoted by the Romanian decision makers.

Regarding the structure of Romanian exports in 1990, the biggest weights in the total exports of our country were detained by the following products: products of the car building industry (30,3%), mineral products (19,6%), metals and metal articles (16,4%), textiles and leather products (12,7%), products of the wood industry (10,1%), etc. We can notice that the big weight detained by the products of the manufacturing industry in the total Romanian exports, with the mention that the majority of the products meant for exporting came from work intensive fields or field which a big energy consumption per product unit.

Regarding imports, the product categories which were the best represented in 1980 were mineral products and the products of the car building industry. This group of products belonging to the car building industry is found well placed both in the structure of exports and imports, with the mention that the trade balance of the group was negative generating aspects regarding the low competitiveness of Romanian products and of the procurement of financial resources destined to the payment of imports.

Regarding the geographical orientation of the Romanian external trade we need to remark the relative small weight of the trade with the EU. Thus in 1990, out of the total of Romanian exports almost 34% had the EU as a destination, and out of the total imports less than 10% came from the EU.

The first years of the ninth decade of the last century were marked by Romania's wish to join the EU. We should note that in this regard the negotiations regarding the Agreement of Association between Romania and the EU entered into action on the 1st of February 1995, this ending the Agreement of Trade and Economic and Commercial Cooperation with the European Communities signed in October 1990. The consequence of this agreement was the elimination by the EU of tariff and non-tariff barriers to Romanian products on the 1st of January 1997, following their step by step reduction by our country until zero, process which ended on the 1st of January 2002.

Romania's adherence in the middle 1997 at the Central European Free Trade Agreement (CEFTA) represented a step to the access in the EU. Unfortunately the impact of joining CEFTA to Romania's trade balance was a negative one, the exports done by the countries in the organization diminished in the following years, while imports grew.

Specific to the pre-adherence period, respectively the 1990-2005 interval, is the fact that both exports and imports were multiplied just a bit more than 5 times, the

level of multiplication of imports being just slightly larger than that of exports. If we link this evolution with the fact that the beginning basis were completely different, in 1990 Romania's exports and imports recording values of 5,7 billion dollars and 9,1 billion dollars respectively, show that our country has been net importer, and thus the trade balance's deficit accentuates.

During the analyzed period we can see a significative growth of the commercial trade between Romania and the EU. The weight of exports done by Romania in the EU out of the country's total exports reached 67,6% in 2006 and the weight of imports in the same relation was 57,4%. This evolution shows that Romania did not succeed to take advantage of the asymmetric reduction of the custom tariff decrease in its relation with the EU.

3.The evolution of Romania's external trade after obtaining the status of an EU member country

Romania's adherence to the EU on the 1st of January 2007 meant among other things the application of mutual commercial policies, our country giving up on all international agreements in this field. Starting with the adherence date, Romania has applied in the commercial relations with the member countries the Mutual Custom Tariff whose custom tariffs are in average lower than the ones applied by our country in the previous period. In the same time Romania was forced to apply preferential customs tariffs in conformity with the Generalist Preference System of the EU, system which has the aim to stimulate the economic growth of less developed countries. We should mention that before its adherence, as a developing country, Romania was a beneficiary of commercial preferentials. The moment of adherence marked an entry on a powerful competition both within the EU community and on an international level of Romanian companies.

The years 2007 and 2008 touched the maximum levels both for Romania's exports and imports, with the mention that the later grew on a greater average annual rate than the first. This phenomenon was possible due to the stimulation the population's consumption, consumption largely satisfied with imported products. The stimulation of consumption was determined by credits which were easily given to the population and to Romanian companies by a Romanian banking system controlled an approximate 90% of foreign capital. The Romanian balance of trade deficit in the period immediately after the EU adherence grew alarmingly reaching in 2008 the level of 27,9 billion dollars.

With a large degree of economic openness, approximate 76%, Romania is strongly dependent on foreign markets. The propagation of the financial crisis at a global level had a powerful negative impact on Romania external trade in 2009. The demand reduction on external markets determined a reduction in Romanian exports from 33,6 billion euros in 2008 to 29,1 billion euros in 2009. For the same period imports also substantially decreased from 52,0 billion euros to 35,9 billion euros due to the austerity measures adopted by the Romanian government and the harshening of credit conditions. The positive element of these turbulences, if we can call it so, was represented by the reduction of the balance of trade with 62,3% in 2009 in comparison with the previous year. The Romanian exports and imports are expressed in FOB prices and their levels can be found in the reports of Romania's National Bank.

In the years 2010 and 2011 both Romania's exports and imports recorded growth. If in the case of imports, the level touched in 2011 was approximately equal with the level before the financial crisis (2008) in the case of exports, their growth was 33,9% higher in 2011 than in 2008. This evolution was reflected in the deficit of the balance of trade which was maintained at

reasonable quotas comparative with the pre-crisis period.

In comparison with the previous periods, in 2011 we can find an improvement in the structure of products of Romania's external trade. According to the information offered by the National Institute of Statistics, the exports structure contains: cars and transport equipment 41,2%, other manufactured products 33,4%, raw materials 7,2%, food, beverages and tobacco 6,4%, chemical and annexed products 6,3%, mineral fuels and lubricants etc. 5,5% and the situation of the imports is the following: cars and transport equipment 34,6%, other manufactured products 30,6%, chemical and annexed products 13,2%, mineral fuels and lubricants etc. 11,3%, food, beverages and tobacco 6,8%, raw materials 3,5%..

The geographic orientation of the Romanian external trade with goods in the period since the beginning of the crisis has been characterized by a slight reduction in the weight of trade with EU countries. This weight decreased from 74,2% in 2009 to 71,1% in 2011 for exports and from 73,1% to 72,6% for imports. In the last period we have seen an increase in the commercial trade with the USA, Brazil, Mexico, Norway, etc and other countries from Asia, Latin America and Africa. This has been done with the view of increasing the geographic dispersion Romania's external trade.

Romania's efforts to join the EU generated an entire series of effects also in the external trade of our country. The evolution of the main indexes can be seen in the following table.

Table no. 1

Indexes regarding the external trade

		Romania			Czech Republic			Ukraine		
		1994	2006	2011	1994	2006	2011	1994	2006	2011
Exports	bll. \$	6,1	32,5	62,7	15,9	85,4	138,5	13,8	38,9	69,4
Imports	bll.\$	6,5	47,3	73,2	17,3	82,8	133,2	16,4	44,1	83,2
Trade balance	bll.\$	-0,4	-14,8	-10,5	-1,4	2,6	5,3	-2,5	-5,1	-13,8
The weight of the balance of trade in the GDP	%	-1,2	-12,0	-5,6	-3,0	+1,4	+2,4	-4,6	-4,7	-8,2
Coverage level of imports by exports	%	93,8	68,7	85,6	91,9	103,1	103,9	84,1	88,2	83,4
Exports/capita	\$	267	1511	2929	1543	8372	13190	269	836	1538
Imports/capita	\$	285	2200	3420	1679	8117	12685	319	948	1844
GDP	bll. \$	31,8	122,6	186,6	45,6	148,3	215,6	54,2	107,7	167,0
GDP/capita	\$	1398	5653	8706	4421	14463	20475	1055	2313	3697

Source: <http://unctadstat.unctad.org/>

In order to present the accuracy of the measures taken by our country, I have made a comparative analysis of the indexes which characterize the external trade. In this regard we have chosen two countries, each representing a relatively opposed set of

countries. The Czech Republic, as a member of the Visegrad group, was part of the former socialist countries which took radical measures towards a market economy and therefore joined the EU in 2004. From the opposed group I have chosen Ukraine, former socialist country which hesitated applying economic reforms and is presently

outside the EU. The analysis started with the year 1994, because for previous years there is no available data for Ukraine.

We can observe that if initially Romania's GDP was lower than that of Ukraine, in 2011 the situation was inversed. The differences between the Czech Republic and Romania have more or less stayed the same during the studied interval. Regarding the GDP/capita the discrepancies between the two countries are much more accentuated.

The exports and imports of the three countries have known growth, fact that signifies a good participation to the world economic circuit, with the mention that during the entire period the external trade balance of Romania and Ukraine was permanently in deficit, while for the Czech Republic it was in surplus for the last two analyzed. Regarding the level of coverage of imports by exports, Romania is closer more to Ukraine than to the Czech Republic. The situation is net favorable to Romania in comparison to Ukraine regarding the value of exports/capita and imports/capita.

4. Conclusion:

In the last two decades, Romania tried and partially accomplished adapting its commercial policy to the main events which marked the global economy. After a fall in the beginning years of the transition, both Romania's exports and imports grew year by year until they were marked by the effects of the global financial crisis in 2009. Unfortunately, the exports recorded annual average growth levels inferior to the ones recorded by imports, resulting in a negative trade balance throughout the entire analyzed time interval. If we take into consideration the evolution of the former socialist countries which have stayed outside the EU, in our case Ukraine, we can see that Romania, through joining the EU chose the correct solution. When referring to the Czech Republic, one of the former socialist countries which adopted very quickly

economic reforms, we can say that the economic evolution of Romania was under its possibilities and under the goals of the population.

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Causes and Consequences of the Current Economic Crisis

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Abstract

Current economic and financial crisis is considered to be the deepest crisis to date. Some experts believe that the current crisis began following publications in the press about U.S. banks instability, which led to loss of credibility banks, and others believe that bankers are responsible for the crisis because they had cash reserves of state interest. These are just opinions, but in fact the causes are more complex as both macroeconomic and microeconomic.

Economic effects were felt worldwide, but different from state to state depending on the regulations and its level of development. Crisis governments have taken steps to protect the national economy both individually and collectively (at EU level).

Keywords: financial crisis, economic crisis, leverage, bubble, gross domestic product.

J.E.L. classification: F62, F65, F68

1. Introduction

Current economic and financial crisis is unprecedented in the last half century. The economic downturn extends to USA, Europe and Japan and is shaping up to be more painful than the 1981-1982 economic downturns. Beginning of the crisis led to a massive loss of confidence both in the business sector and the consumers, both responding by restricting spending. The global financial crisis became apparent in July 2007, when the loss of investor confidence in mortgages secured U.S. led to a liquidity crisis caused a substantial injection of capital into financial markets by the U.S. Federal, Bank of England and European Central Bank. The crisis worsened in 2008 as the world's stock markets

collapsed and went into a period of acute instability. A large number of banks, lenders and insurance companies went bankrupt in the aftermath. A large number of banks, lenders and insurance companies went bankrupt in the aftermath.

Federal Administration U.S. housing collapse is often held responsible for the production crisis. But the vulnerability of the financial system was caused by complicated financial contracts and operations and leverage subject (borrowing a joint effect on the profitability of own funds, which may improve if borrowed capital brings more income than the interest due), U.S. monetary policy setting a negligible price for credit and thus favoring a very high leverage effect and, as John Bellamy Foster American economist, a "hypertrophy of the financial sector".

Beginning with failures of large financial institutions of the United States crisis rapidly evolved into credit crisis, deflation and sharp reductions in shipping, causing several European banks to fall in various stock indexes, and large reductions in the market value of stocks and commodities worldwide.

Initially triggered in the United States, the crisis has spread to Western Europe and against the background of globalization, rapidly spread worldwide.

2. Causes of economic crisis - financial crisis

Root causes of the current global financial crisis are so macroeconomic and microeconomic in nature. The two types of cases were interdependent in the production crisis.

One cause deep economic crisis macroeconomic and financial was ample liquidity created by major central banks of the world and a desire for oil and gas exporting countries to limit currency

appreciation. Also, there was a saturation of savings generated by increasing integration into the global economy of countries (China, Southeast Asia generally), with high rates of accumulation and the global redistribution of wealth and income country exporters of goods (oil, natural gas and so on). Supersaturated with ample liquidity and savings available for investments have created resources, including sophisticated financial instruments, hardly understood by some investors. [5]

Consequences of the existence of abundant liquidity were very low interest rates and their low volatility. Risk margins were also very low. Together, these effects lead to increased appetite for assets with high returns. In addition, reduced market volatility has created a tendency to underestimate the true risk of complacency and investors.

Together, low interest rates, the appetite for assets with high returns, low vigilance towards risk and price signals masked small margins on financial markets and led to insufficient understanding of the risks involved.

Against this backdrop operated as aggravating, and a series of microeconomic causes. The first question is securitization frenzy that led to becoming opaque financial market. Cracks in the business model of rating agencies, outsourcing rational in terms of private but socially inefficient for deregulation and increased international competition may be considered in turn causes micro.

Finally, the demand for liquidity, combined with the loss of trust between banks, resulting in the pursuit of cash and the effective interest rate began to rise.

In the U.S. and some European countries, governments and central banks responded by improving liquidity, providing government guarantees for loans, recapitalize financial institutions; ensure the latest issued by insured banks, preventing disorderly collapse of large interconnected firms, buying shares in banks, coordinated interest rate cuts. Although such measures have been implemented after 17 months from the onset of turbulence, the market remained opaque, which amplified the financial crisis and facilitating its passage in the real sector, first in the U.S., and in other developed countries.

3. Consequences of economic - financial crisis

International economic and financial crisis are multiple and varying degrees affect the countries involved are unfavorable global economic growth.

The most important effect, so far, is the failure of banks and credit of the U.S. and EU member states following the entry of default and asset recovery impossible especially in real estate. [2]

The economic downturn caused by the chaos in the financial system weakness profound public, business groups and political leaders. Trying to prevent mass bankruptcy of banks and insurance funds, governments in America and Western Europe nationalized much of the domestic financial system which is contrary to the principles of modern capitalism and empowers the state to the detriment of private sector depreciates the validity of "values" associated with "free" market and erode economic model image promoted by the United States in the world.

Unprecedented government intervention through massive infusions of funds "borrowed" the financial system by purchasing shares in bankrupt institutions and reducing taxes, does not guarantee restoration of public confidence in the banking system and investment in real estate funds and ability of authorities to regulate credit markets to prevent toxic speculation, abuse and corruption.

In 2008, the shares offered in international markets have lost between 20 and 70% of the value taken in 2006 and 2007. Political leaders in many countries, afraid of the drastic consequences of the crisis, I agree that the priority must be to prevent the collapse of the international financial system. They are aware that States, individually, can not restore confidence in banks and investment than if they coordinate crisis. However, under pressure from local political leaders of many countries are inclined to act strictly national interest and to use protectionist measures to defend their own institutions of crisis and to prevent their acquisition by foreign interests.

Other effects of the financial crisis concerns on rising inflation, interest rates and unemployment, devaluation of national currencies and increasing current account deficits and public debt. [1]

The financial crisis was initially triggered in the United States. Administration led by President George W. Bush dominated by preachers "free market economy" degraded authority bodies responsible for regulation of financial institutions and gave free hand "trick" financial.

In the absence of limits imposed and enforced by state authorities, some banks, investment funds and insurance companies without the necessary coverage have lent considerable for "customers" who had no ability to pay rates. These loans, with considerable interest, were "repackaged" in foreign complex and seemingly attractive toxic, which then were sold profitably as legitimate financial products many local and foreign investors.

Creditor's excess spread globally. Excessive availability of credit funds created many "bubbles" (stock trading is a group at high volumes which differ considerably from the intrinsic value or real them) hyper inflated credit market for single-family houses, buildings, cars, student and credit cards. Ingenious financial manipulations were extended to loans made by regional and local governments, the industrial and commercial loans to grants of shares and markets for natural resources. During the banking crisis, increasingly more loans remained unpaid, the property has declined and many companies went bankrupt. Losing capital, banks can not grant credit. In America, unpaid loan losses could amount to over \$ 2 trillion.

Lack of regulatory rules and attitude "laissez faire" (an environment where private parties are free to trade without being constrained by state intervention, including regulations, taxes, tariffs and monopolies applied.) of the American government and contributed to the formation of hedge funds, where investors could participate only very rich and wealthy institutions. Transparent and manipulative managers of these funds were involved in all kinds of dubious transactions that helped precipitate the financial crisis.

In 2007 and 2008, American citizens have lost a third of their personal property. Values of houses and buildings, estimated at 13 trillion dollars in 2006 fell below 8 trillion in 2009. During the same period, private pension funds have been devalued from 11 to 8 trillion. These enormous losses shocked

American population. To avoid worsening of panic, the U.S. Federal Reserve made promptly to the pension fund an amount of 540 billion and 700 trillion allocated for use by banks and insurance companies failing.

In January 2009, the share of U.S. stock markets fell by 50% from the value it had in the first half of 2007. These losses have reported that the United States is in the worst recession of the past 75 years. In recent years, government deficit spending in Washington has created huge debts.

In September 2007, the federal government owed 5.8 trillion, equivalent to 41% of gross domestic product. Because of the worsening economic situation and the measures additional government debt crisis still grow with 3 trillion U.S. dollars, while the GDP and state tax revenues have declined substantially. Present value of debt, interest on borrowed funds only requires the U.S. government to pay \$ 12 billion annually.

Over half of the loans of the American government were made abroad, especially in China, Japan and oil-exporting countries in the Gulf region. If these countries were to decide to get rid of accumulated foreign currency, the U.S. dollar would collapse, which would have adverse consequences for both the U.S. and global economy.

Financial and economic crisis in America has expanded rapidly in the world. Europe went into recession. Trying to stabilize domestic financial entities and to revive the economy, governments in Western Europe have invested huge amounts in domestic financial structures, nationalized a large part of banks and cut taxes to stimulate the economy. [1]

Industrial production in developed European countries such as Germany, France, England, Italy and Spain fell in 2009 by 20-25%. Unemployment, lack of consumer confidence and feeling insecure people increased in most EU states. The German government has allocated 100 billion to guarantee loans granted by banks. Because the effect was insufficient, the government ordered that another 60 billion would be allocated to stimulate the economy.

Great Britain's GDP declined alarmingly in recent years. Trying to survive, British companies have turned to the state. In January 2009, the British government has allocated 20 billion pounds as collateral for

loans made by banks to small and medium enterprises, which is far too little to cover domestic debt of British firms worth over 500 billion pounds. [5]

So far, China has resisted the best current crisis. Although exports fell, imports fell even more; so that China's foreign trade balance remained positive, amounting to 460 billion dollars. The huge foreign exchange reserves, with great capacity to stimulate domestic consumption and strong trade surplus, China's economic rise will continue.

In Russia, the financial crisis has ravaged spectacular. Since last year the international market price of crude oil fell by two-thirds, oil export revenues have deteriorated substantially. Reacting to the ruble devaluation, foreign and domestic capital flight resumed abroad. In 2009, the stock market fell by 70%. Instead of taking measures of monetary policy, the Russian government decided to tackle the economic crisis and political repression control information. As "not to scare people," he allowed the media to discuss the financial and economic crisis. [4]

During the international financial crisis, the requirements for natural resources, products and services decline, which negatively affects countries with export-based economy. Exports from Taiwan, Japan and South Korea have deteriorated from 25 to 50%. Global economic growth, which was 5% in 2007, fell to 3.1% in 2011. Many developing countries survive the export process raw materials and agricultural products. IMF has enough funds to save the most underdeveloped states hit by the recession.

From a geopolitical perspective, the financial crash of 2007-2008 diminished influence, prestige and credibility of America in world economic. The economic recession that started in the U.S. and the nationalization of financial institutions has compromised, at least temporarily, effective overall promotion of American capitalist economic model, considered in the past as the most capable of creating economic progress and prosperity.

In the past, the United States and Western Europe were the main sources of private capital to the rest of humanity, which gives the Euro-Atlantic democracies great influence abroad. Budget deficits and deterioration of financial institutions, this

influence will diminish. In the future Euro-Atlantic community governments will be reluctant to engage in costly actions abroad.

Despite government efforts, Western capital markets will not recover for several years' previous vitality. Banks hit by losses from devaluation unpaid loans and investments will be required to restructure and reduce their number of employees. More cautious in future, they will only lend to customers who can prove that they will pay those rates.

Unprecedented financial interventions by governments of countries affected by the crisis, with the intent to restore vitality financial institutions and stimulate economic activity, drastic as it is, does not guarantee restore public confidence in the banking system, investment funds and in the capacity to regulate credit markets to prevent excessive speculation, abuse and corruption sanctioned.

Inevitably, people will have to pay considerable taxes, to cover the debts incurred by governments intended to stem the damage global economic recession. Member considerable financial interventions could ensure not only the survival of viable businesses and other entities or inefficient parasitic actually deserves to be removed or to fail. [2]

Economics are still "science" true, in the sense capability to explain what happens to predict events and to provide valid solutions. Specialists in the economy had not anticipated the onset and evolution of the current crisis. Their conflicting recommendations on measures to be taken to restore confidence in the financial system and to settle current economic depression reflects ignorance embarrassing.

4. The economic-financial crisis in Romania

International financial crisis were extended to the Romanian economy..

However, in terms of direct impact, the banking system was less affected by not being exposed to toxic assets and because prudential and administrative measures adopted over time by the National Bank of Romania.

Indirectly, however, the international financial crisis and especially its obvious

consequence - the recession in developed countries - Romanian economy extends across multiple channels. Commercial channel, slowing export growth or even reduce them. Financial channel, limited access to external financing and thus restrict lending volume, and creates difficulties in private external debt. Exchange rate channel, reducing external financing reflected in national currency depreciation. This had the effect of monetary and currency market manifestation of moments of panic and speculative attacks, like the one in October 2009 in Romania, which necessitated central bank intervention. Finally, channel wealth and balance sheet effects, damage occurs to the net assets of people and companies, due to the large share of loans in foreign currency (leu depreciation related) and falling asset prices and capital from speculative values, unsustainable (type "bubble").

Propagation of these effects is the degree of uncertainty about economic developments variables to be extremely high. This contributes, in turn, increase the negative effects of the crisis has on expectations and argumentation degree of caution for consumers and businesses.

In Romania, the adverse effects of the crisis response may be similar to that made by some European countries and the U.S. There are some differences between the Romanian economy and the economy, not simply allow copying package of measures developed there. In essence, it is about the fact that the Romanian economy has a large current account deficit, indicating dependence on external financing. We have to choose between reducing the deficit or the orderly reduction of the market in the current voltage and mistrust, with dramatic consequences for the exchange rate and economic growth.

Even if the economic adjustment process performance can not be accurately planned, however, to promote coherent and credible economic policies could avoid a disorderly adjustment. The government should avoid emotional approach to crisis under pressure from trade unions and employers, which would lead to measures to stimulate domestic demand, complicating bringing the current account deficit to a sustainable level. Only a concentration of macroeconomic policy mix adjustment process external imbalance

(current account deficit) and domestic (budget deficit) may lead to support a soft landing of the economy and improving investor sentiment.

If all these steps are followed, there is a high probability that investors improve their perception concerning Romania and prefer to invest here than in other countries in Eastern and Central Europe. High probability but not with certainty equals: it is conceivable scenario in which, although the Romanian authorities do everything you need, foreign investors may not react positively and treat its neighbors Romania undifferentiated. High probability but not with certainty equals: it is conceivable scenario in which, although the Romanian authorities do everything you need, foreign investors may not react positively and treat its neighbors Romania undifferentiated. Awareness of this possibility, however, should not lead to defeatism and abandonment so necessary adjustment measures. A coherent risk for such an orderly adjustment of external imbalances is the weather becoming more pessimistic developed by different institutions economic growth in Romania and going to anticipate negative growth. The danger is that political factor, giving credence to these forecasts could treat emotional problems, adopting and pay the tax cuts, which would only aggravate the crisis.

In conclusion, the private sector has already reduced its external deficit in past years, but it remains relatively high. At the same time, fiscal policy has been cyclical and contributed to increased external deficit of the Romanian economy. The analysis of the stance of national fiscal policies finds evidence that the quality of fiscal policies has improved in two ways: they are more clearly countercyclical – or less procyclical – and they are more readily used to restore competitiveness than to attempt to boost demand when competitiveness is eroded. [3]

Also be better prepared for EU funds absorption and adoption of financing agreements with international organizations from the European Commission and European Central Bank. The private sector must restore the correlation between wages and labor productivity to ensure external competitiveness. These policies would reduce uncertainty and restore confidence in future economic developments.

5. Conclusions - Output measures of economic crisis

One of the first steps taken by financial institutions (the Federal Reserve and U.S. Treasury) was addressing the TARP (Troubled Assets Relief Program), that sought to take over toxic assets from banks' balance sheets "weak" and then auctioning them on the open market for their real price discovery and to establish a market for these assets. Another measure was to provide state guarantees for debts of poor quality. To prevent abuse, providing security has a price: either in the form of special taxes or accepting as stricter regulations, or setting a franchise to which losses had been incurred as of that financial institution.

Institute of International Finance suggested reconsidering risk management practices, compensation policies, evaluation of credit, ratings and transparency of activities, both at the level of financial instruments and financial institutions.

Stimulus packages, ad hoc measures or accelerate the implementation of planned measures before, but tax cuts are among the main anti-crisis solutions recommended worldwide.

Financial advisory company Deloitte has put together all these measures, making a catalog of tax solutions used worldwide.

According to the report, several EU countries have already implemented a series of anti-crisis measures:

- The most popular measure (effective in 89% of the EU) is the exemption from capital gains. Often, this fee will be applied for a certain period of time for homes used for personal use.
- In 11 states operate a mortgage guarantee fund to support individuals who face mortgage payment problems. Several states, including Poland, Hungary, Slovenia and the UK such funds launched in 2009 as part of a package of anti-crisis measures.
- Bulgaria introduced tax exemption for a period of five years for investment in disadvantaged regions and reductions or exemptions from taxes on income for young families who pay interest on housing loans.
- The Czech tax rate was reduced from 21% to 20%, and social health contribution rate for employees and employers has been reduced.

- In Hungary proposed a series of tax measures aimed at taxing consumption, not income.
- UK reduced VAT rate for a period of one year from 17.5% to 15% and allowed to postpone paying taxes for companies that have been affected by the crisis.
- Both Holland and Spain, have introduced incentives related to accelerated depreciation for investments made in 2009.
- The Belgian Government has reduced VAT rate for new housing construction, from 21% to 6%.
- In France and Germany have been taken to support SME. Thus, from January 1, 2013, French companies such may take into account the losses incurred by foreign subsidiaries in determining income tax. On the other hand, Germany has raised the economic indicators by which a firm can enter the SME.
- Lithuania introduced a 20% flat tax, income and profits and all VAT of 20%.

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The Threat of Non-Performing Loans in China in Lights of the Recent Crisis

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Abstract

In the lights of the recent crisis, the monetary policy became the most important weapon that an economy must rely upon, considering that the banking system was the first one to be affected by the crisis and then the effects had spread upon the entire economy. In order to avoid lack of liquidity and therefore a major crisis of the banking system, China adopted a stimulus package through which inserted large amounts of money into the economy in order to stimulate loans. As previous crisis proved, a “credit boom” is dangerous because it eventually leads to a high number of nonperforming loans. Although its effects are visible after a period of time, precautionary measures have to be taken by the monetary authorities to avoid spreading an unhealthy financial system.

Key words: Banking system, monetary policy, nonperforming loans, crisis

J.E.L. classification: G15, G21, H81

Introduction

There are a lot of lessons that have to be learned from this recent economic crisis. One of them is the importance of credit boom and moreover the highest attention that has to be addressed to nonperforming loans. Due to the fact that banks are the reason that a lot of governments had to use large amounts of money in order to assure liquidity it is clear that nonperforming loans are a reflection of how useful the measures against the crisis

proved to be. And this indicator it is also in the end a reflection of how efficient was the monetary strategy used. It is difficult in this days to avoid that a loan becomes nonperforming because the general uncertainty. Mainly for the householders the threat of unemployment is real and an important incentive to avoid contracting loans. Taking into account the general unfavourable economic conditions it is also the case of firms and enterprises. In general, nonperforming loans are a reflection of how commercial banks learn to manage the losses that arise from nonperforming loans. If the ratio of nonperforming loans from the total loans is growing, it means that the problem is of the bank and it can be solved by helping this certain bank through tightening regulatory details. If the problem is generated at an entire group of banks, then it is a warning signal that the entire system is in need for a reform. The Central bank has to elaborate the best possible laws relating crediting in order to avoid nonperforming loans to become a national problem and a reflection of poor monetary policy tools implementation.

Overall, the main objective of China's monetary policy is, according to its Central

Bank “to maintain the stability of the currency value to advance economic growth” [1]

Even since 1953 China adopted a long time plan for achieving economic growth through a series of 5 year plans. Through this, the Central Government would elaborate the

economic strategies, plan investments and set the tool through which to gain economic

power. So it was obvious that the Central Bank had to

elaborate the monetary strategy in order to facilitate this economic growth

Only the last plan adopted in 2011 was created taking in mind the people, social consensus and consider solutions to reduce social inequality. But in the end it is safe to say that the ultimate plan still remains maintaining the impressive two figures growth in the years of 2000. Regarding the monetary policy, this plan aims at total liberalization of the interest rate and improving the transmission mechanism of the monetary policy. Through the years, since 1984 when Central Bank of China became solely responsible for the monetary policy, the monetary policy evolved considerably.

An analysis of nonperforming loans it is crucial because a high ratio of this loans will eventually threaten monetary expansion. And monetary expansion was the main weapon that China used in order to achieve the true goal of the monetary policy: economic growth. Although the monetary expansion was based on increasing money supply it was achieved by credit liberalization and granting loans indirectly through the Central Bank. It supplied liquidities through the state owned banks, many of the times at negative interest rate. More recently, we saw a jump from money supply to credit rationalization.[2]

A lot of voices state that this control strategy of monetary policy through monetary mass is not very efficient considering that most of the powerful countries use interest rate as the most important instrument of controlling monetary policy. Also, there are several other voices that state that the impact of the interest rate in China is not very useful, due to a lot of factors. First, we can state the lack of total liberalization of interest rate system, the interest rate on deposits and loans is dictated by the Central Bank. China's financial system is controlled by four commercial state owned bank that own 80% of the entire banking system assets. Moreover, they absorb 70% of the deposits and 80% of the total loans.[3]

It is obvious that this four banks form an oligopol and due to the different market segments they are addressed to, do not compete against each other. Due to this high rate of deposits they gain gives a high profit

rate so they are less sensitive to interest rate movements [4].

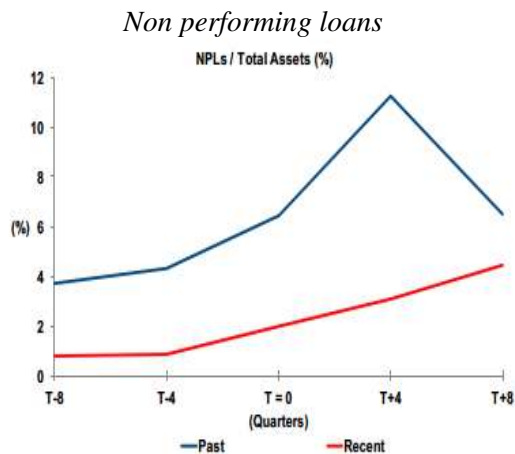
Another reason are consumption habits. This because the population of China is well known for their high savings rate, thus consumption is not sensitive to changes in investment rate. The lack of materialism, patriotism and the regime dictated this high savings trend. The economic theory suggest that a high consumption rate is directly connected with the increase in incomes. Consumption is expected to grow once the incomes are growing this is not the case of China.

There are a lot of voices that link this monetary policy that China conducted in the recent years with the crisis in 2007. The economists O'Brien and Brown (1992) stated that one of the crucial factors that led to a drop in monetary transactions is drop in the number of loans granted. This would eventually affect also the offer and the demand. Demand because the population will be self-effacing in acquiring new loans due to drop in purchasing power and the economic uncertainty in general. According to them, the offer will be affected by deteriorating price assets and the new regulations in granting the loans.

It is obvious that due to unfavorable economic conditions there will be an increase in non-performing loans. And this indicator reflects directly on the health of the financial and banking system. Another study was made by Maggi and Giuda in 2009. They tested the effects of nonperforming loans on the structure of costs of commercial banks. The study proved, by an econometric analysis that the threat that some loans could become nonperforming is highly dangerous and it is a reflection of the financial system in a country. And the effects will be on the entire banking system not only upon the bank that generated the loan itself. Another series of economists demonstrated this connections like Kwan and Eisenbeis (1994), Hughes and Moon (1995), Resti (1995), Barr and Sems (1994).

This threat that the increase in NPL will affect the entire banking system is proved by Hou and Dickinson in 2007. They called this phenomenon "credit crunch"- lending becomes more expensive and harder to get. Therefore, all these effects will be seen in a restrictive monetary policy and further on in a drop in economic growth.

Other studies were concentrated on proving a very real connection between macroeconomic uncertainty and bank loans. Baum Etal (2001) and then Calza Etal in the same year demonstrated a cointegration relation between GDP, interest rate and bank loans. This studies showed that in the long run there is a positive connection between the number of loans granted and GDP and also a negative relation between GDP and the interest rate on the short and long run.



Source: IMF, 2012

This crisis was not a typical one, if we consider this trend of nonperforming loans. As we can see above, before nonperforming loans rose sharply. This recent crisis overall has a different effect. We can see that NPL rose gradually and lower than in the past. There are several reasons for this. the inability to repay the loans started only when the crisis affected the real economy and households.

Another significant reason could be that, compared with other crisis, the expansionary monetary policy adopted by a lot of countries, including China supported banks and the interest rate was kept at a low level. In other crisis, the interest rate was the first to rise in case of risk of default.

In USA, the country that started the crisis, NPL increased from 1.8% to 2.6% in 2007 and 4.9% in 2008. According to Mwansa Nkusu in 2011, there are some relevant links and causes of a NPL increase shock such as[5]:

- If house prices increase by 6.1%, NPL increases by 0.3%, and after 4 years it is 1.5% higher than before the increase in house prices

- If inflation increases by 1.6%, NPL will increase by 0.3% and by 1.6% after 4 years

- If the credit ratio to GDP decreases by 1%, NPL will increase by 0.3% and with 1% after the fourth year

Moreover, the study proves that any deterioration in the macroeconomic environment that turns out into a lower economic growth or even a negative one, is usually associated with debt problems that directly translates into higher nonperforming loans. The crisis are the best way to analyze the overall effects of this indicator. There are several phases that past crises responded to[6]: first, containment, to deal with acute liquidity stress and to stabilize financial liabilities; second, resolution and balance sheet restructuring, which involves removing insolvent financial institutions from the system and recapitalizing viable ones; and, finally, operational restructuring to restore the financial soundness and profitability of viable institutions and asset management to rehabilitate nonperforming loans. The recent crises followed this pattern through the first phase, but subsequent policy responses have been less forceful, at least for the major countries.

It is difficult to make a proper analysis on China's real level on NPL because as the Central Bank president said, the number are not quite accurate and do not reveal the real number of NPL. This because some banks manage to restructure or roll-over bad loans before the 3 months period after which are classified as "non-performing"

According to Central Bank of China, nonperforming loans are[7]:

- Loans which repayment of principal or interest have been overdue for more than 3 months

- Any loan of which the principal debtors and surety have been sued for non-payment or the underlying collateral has been disposed, although the repayment of principal or interest have not been overdue for more than 3 months

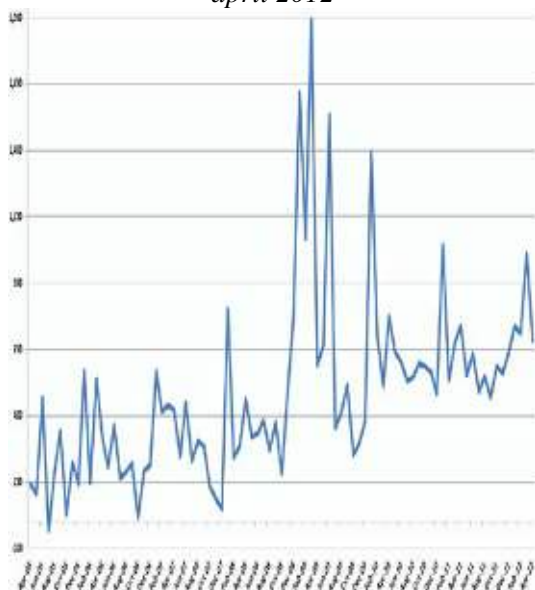
The most important year to look upon when performing an analysis on Chinese banking system and loans is 2009. This was the year when monetary mass increased tremendously. The economic stimulus package was a reaction to the global crisis

through which the government pumped huge amount of money in the economy- 4 trillion yuans. It was a measure of implementing trust in a global imbalance financial sistem. It was the most important tool that the government used as an anticrisis tool. The most important targets of the package were: infrastructure, science and technology and social security.

Considering that most of the money were granted through state owned banks its sufficient to say that this banks were in fact the end beneficiary of the money. The state council increased the credit quota for the Development Bank, Import – ecport Bank and Agricultural Bank as a measure of stimulating consumption. But there other state owned banks involved like the Construction Bank, Industrial and Commercial Bank for Development so it quickly became unclear which bank founded which program. In the end the constribution of the Central Bank to the entire stimulus package was in fact 1.18 trillion RMB.[8]

The difference was covered by bank. The state guarantees, the collaboration between this banks in order to found a big infrastructure project for instance became the most important tools in what quickly became an alarm system regarding the number of NPL thta could appear in the future. Below there is an evolution of bank loans in China from 2005:

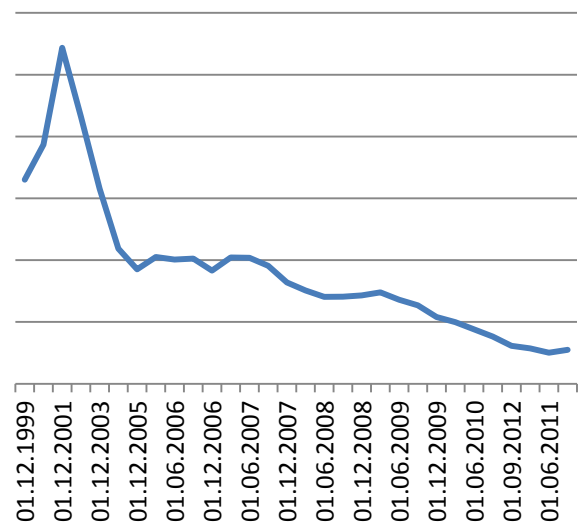
Evolution of bank loans in China april 2005- april 2012



Source: Tainted Aalpa, global macro perspectives

As it was expected, in the period just after the economic stimulus the number of bank loans exploded. So, in the first trimester of 2009 the entire value of the loans was 4.58 trillion yuan (more than 1 trillion a months- as a comparison in april 2012 trilion was 682 millions yuan). The threat of nonperforming loans started to appear. This fears were amplified because the majority of those who contracted the loans were state owned companies, the private ones could not get access that easily. For example, the respresentative of one the biggest private companies in China New Hope Grup, stated that state companies are priviledged in public auctions, alltough the overall costs proved to be higher. There were a lot of debates regarding the auction for building a new railway. For its construction they imported technology form Japan and Germany at very high cost, so naturally huge amount of loans were contracted.

Evolution of NPL % of total loans granted

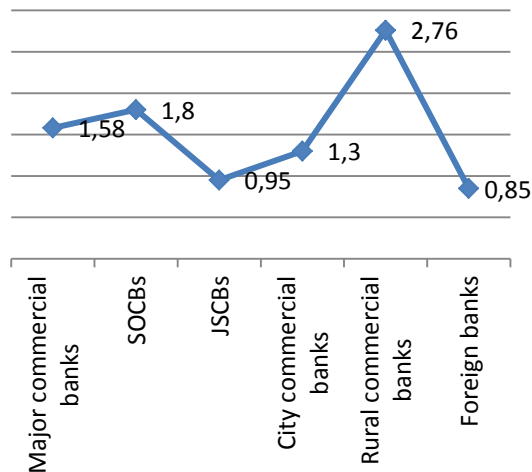


Source: China central bank

Alltough we see a drop in the evolution of nonperforming loans in China, looking at the overall number of loans that increased significantly, we might say that this drop is insignificant. Overall, there is a 2.27% ratio between the percentage of NPL and the percentage of total loans. The year of 2012 could be the first that will announce a significat increase in NPL. This year, 16 of the chinese banks reported an increase in non-performing loans ratio. Overdue loans

increased by 81.6 %, 63.2 %, and 62 % in the first six months of 2012, according to the interim reports.

NPL of commercial banks at the end of 2009



Source: China banking regulatory commission

Note: The commercial banks include the state-owned commercial banks, joint-stock commercial banks, city commercial banks, rural commercial banks and foreign banks. The major commercial banks include the state-owned commercial banks (SOCBs) and the joint stock commercial banks (JSCBs). The SOCBs include the Industrial and Commercial Bank of China (ICBC), the Agricultural Bank of China (ABC), the Bank of China (BOC), the China Construction Bank (CCB) and Bank of Communications (BOCOM). The JSCBs include CITIC Industrial Bank, Everbright Bank of China, Huaxia Bank, Guangdong Development Bank, Shenzhen Development Bank, China Merchants Bank, Shanghai Pudong Development Bank, Industrial Bank, China Minsheng Banking Co., Evergrowing Bank, China Zheshang Bank and China Bohai Bank[9].

We see a major role played by city commercial banks in the context of nonperforming loans. Due to a some kind privileges that the state owned banks appear to benefit from the state, it is safe to say that this banks face greater risks. According to a report of China Economic Weekly this banks face high non-performing loan ratios, poor capital adequacy ratio and limited market penetration. A significant amount of NPL are also accounted for by the four state owned banks, thus proving that this indicator could

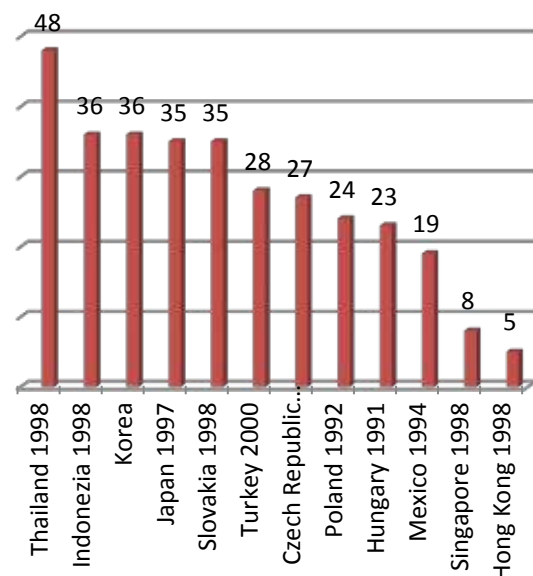
threaten in the future China's banking health and also the entire financial stability.

Conclusion

It is yet to see in the case of China how nonperforming the loans granted through the economic stimulus will turn out to be and what will the effects be on the monetary policy. To burden the economy with huge amount of money to avoid lack of liquidity for the banks was the main objective of the authorities in order to maintain the appearance of a safe financial environment and to create the illusion of a country with good economic growth in the overall economic instability around the globe.

In 2008, Laeven and Valencia analyzed 42 crisis episodes and the result was that average annual credit growth to GDP prior to the crisis was about 8.3%. Between 2009 and 2010, this ratio for China reached 27.8% and 20%.

Non-performing loans ratios in recent crisis



Source: Deutch Bank

According to this analysis, after a period of credit boom there are always, sooner or later a high number of nonperforming loans. The effects of NPL on the economy is quite real and poses a real threat. A lot of countries sufferend from it, maybe the most relevant example would be Japan. They started to suffer from the NPL in the early

1990. And the NPL ration started to peak only in 2002, after the damage to the banking system was already done. And the best example is Thailand that never quite recover after this huge NPL ratio.

The real effects of the nonperforming loans after the recent crisis in USA is yet to be seen, although some effects were obvious just after the lending. In this conditions, it is safe to say that China will see the downsize of the economic stimulus only when it will already be too late. By pumping money into the economy the monetary mass increased and so the Central Bank had to adopt measures of attracting liquidity into the financial system in order to prevent further accumulation of monetary mass due to massive foreign exchange acquisition.

Non-performing loans will directly reflect on Central Banks monetary policy strategy. This because the Central Bank sets the interest rate on deposits, on loans and by setting the reserve ratio it indirectly dictates the loans that commercial banks can give. And with all the voices that criticise monetary policy in China, this anticipated boom of nonperforming loans can do a lot of damages.

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Globalization and Mondialisation - A Conceptual Analysis

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Abstract

Definitely one of the most controversial terms in recent history, globalization (also spelt globalisation) was called “the most abused word of the 21st century” by The Economist. Many authors fear that it is bound to become the cliché of our times. The concept behind the word radiates such a multiplicity of phenomena that in time it has received a tremendous number of definitions given by various people in various contexts having various purposes in mind. The concept of globalization is relatively new compared to the process or historical trend of globalization which dates a long time back in the history of mankind. Thomas Friedman, author and New York Times columnist, perceives globalization as the chief force shaping and moulding the world today. Globalization is a word used in Anglo-Saxon literature. The Francophone literature uses another term – mondialisation. Though often treated as synonyms, in French, globalization is seen as a stage following mondialisation, a stage that implies the dissolution of national identities and the abolishment of borders inside the world network of economic exchanges.

Key words: globalization, mondialisation, market, multinational corporations.

J.E.L. classification: F60

1. Introduction

Human interaction and world commercial relationships over long distances have existed since forever. The earliest form of *globalization* began with the rise of trade links between different parts of the world in the third millennium BC, later continued during the time of Ancient Greece, the Roman Empire in Europe, the Persian Empire, the Han dynasty and the Mongol

Empire in Asia, the Muslim traders. The Silk Road is a marvelous example. The Silk Road or Silk Route is a modern term referring to a historical network of interlinking trade routes across the Afro-Eurasian landmass that connected East, South, and Western Asia with the Mediterranean and European world, as well as parts of North and East Africa. Extending 6,500 km) the Silk Road gets its name from the lucrative Chinese silk trade along it, which began during the Han Dynasty.

Later on came the rise of maritime European empires, in the 16th and 17th centuries, first the Portuguese and Spanish Empires, and later the Dutch and British Empires. The Age of Discovery, the two World Wars, the Great Depression, the Bretton Woods Conference, GATT and WTO are only several of the many landmarks in the long history of globalization.

International business, international trade, trade agreements, economic blocks and special trade zones, tax havens, global information system, the internet, international tourism, multilingualism, anti-globalization movement, international migration and global work-force are only some of the numerous aspects generated by globalization.

Globalization has many dimensions and many nuances once it ceases to be conceived as a single entity. We can, for example, speak of the globalization of education, of technology, of science, of medicine, of politics and culture, (that is why some authors prefer to talk about globalizations and not about globalization, or even about global system) and of world economic governing systems like liberalism and socialism.

2. Globalization and mondialisation – etymological differences

Globalization, mondialisation,
mundialisation, worldwide – out of these

four terms, *globalization* is the one you hear most often.

Globalization is a word that constructs itself naturally in the English language by combining the word "global" with the standard suffix "ization". It obviously must mean "to become global" or "to make global". A brief examination of the etymology of the word "global" establishes its root in the Latin word *globus* or "ball", thus suggesting inclusiveness and completion, conveying a sense of the earth as an all-encompassing whole. Global as an adjective has a geometrical and geographical sense. Globalization refers to the globe, to the shape of globe and hence, with regard to the earth, to the shape of the earth. Even though the term globe was coined as early as in 15th century, common usage of term such as globalization did not begin until about 1960.

Theodore Levitt, American economist, professor at Harvard Business School and editor of the Harvard Business Review, is widely credited with having coined the term globalization in one of his articles titled "Globalization of Markets" which was published in 1983.

However, the term was in use well before that. The word *globalization* entered the Oxford dictionary in the 1930s and the Merriam-Webster dictionary in the 1950s. "Undertaken entirely", this is the meaning attributed to the word global by Western languages. Besides, the term means "homogeneity" in French. Hence the term implies both "entirety" and "homogeneity". Derrida pointed out that the word globalization is itself becoming global to the point of imposing itself more and more, even in France, in the rhetoric of politicians and the media.

In the 1960s, the Canadian philosopher Herbert Marshall McLuhan coined the term "global village" to refer to the collective identity of humankind in the new age of electronic technology and instantaneous movement of information. Today the term is mostly used as a metaphor to describe the Internet and World Wide Web. Later on McLuhan started to use the term "global theater" to point out the shift from consumer to producer, from acquisition to involvement, from job holding to role playing.

But there are voices who raised the question (a tautological one at first sight) whether *globalization* is indeed global. Nobody can deny that there are regions of the world which are not touched and influenced by *globalization*. They are totally isolated and therefore excluded from today's global changes. So the world falls into one of the following two categories: players and passive observers in the game of *globalization*.

As a term, *mundialization* is often used in the same manner as *globalization* but it has different roots and so carries different connotations and denotations.

Mondialisation and *mundialization* take us back etymologically to the Latin *mundus* or "world", a word dense with social and religious meanings but lacking the geometric totality imparted by "globe" or "global". They refer to far more than spatial dimensions or geographic confines. They imply social and historical sense.

When we speak of "our world," we usually mean the manners and customs, ideas, language and the like which are in our particular community or communities of reference. It is not geographic at all, though place may be a part of it. When we speak of the world at large, we are referring to the peoples and cultures around the globe. With these connotations in mind, we can see that *mundialization* thus would mean that some aspect of some part of the world at large has been globalized, that is, has undergone some sort of transfer, and, most would agree, some sort of transformation in the process.

Mondialisation breaks down frontiers and brings forth harmony. It started as an attempt to widen industrial markets and to stretch them to the geo-political blocks, a process to extend capitalism to the rest of the world. It creates a web of connections between participants – countries, companies, individuals – to such an extent that decisions made in one part of the world echo to many other parts of this system. It is like a law which applies to all four corners of the world.

In conclusion, *mondialisation* can only imperfectly be translated as *globalization*. *Mondialisation* has richer connotations and a broader scope of meaning, implying an infinite process encompassing the whole world – micro- and macro-cosmos, the Earth and humanity. *Globalization* is a process that by comparison takes place at a smaller scale.

But they both revolve around the concept of world interdependence.

3. Globalization and mondialisation – conceptual differences

Whether we speak of *globalization* or of *mondialisation*, we speak in fact of a very natural process belonging to the societal nature of human beings. It is common wisdom to present *globalization* and *mondialisation* as something positive and closely associated with human progress. Though often imprecisely used to describe a set of complex processes and realities, they are nonetheless perceived as unavoidable or ineluctable and irreversible. Also, both indicate something in motion and development, in other words, a process.

The distinction between *globalization* and *mondialisation* is the way in which the latter may be said to provide the conditions of possibility for the former. *Mondialisation* refers to putting mankind in close contact and it is a natural phenomenon and *globalization* is a modern form of the somehow ancient *mondialisation*.

Planetary space does not result from the historical past but from new factors (energy, techniques, strategies, productive forces). *Globalisation* names a process which universalises technology, economy, politics, and even civilization and culture. But it remains somewhat empty. It is a kind of *mondialisation* without the world.

Globalization leads to a whole governed by the same rules. *Mondialisation* entails that when certain events happen and certain decisions are taken in one corner of the world, the consequences will be felt in another corner of the world. They refer to all those processes by which the peoples of the world are incorporated into a single world society, *globalization* retaining a mainly economic sense and *mondialisation* a mainly social one.

Globalization is about maintaining the logic of the local markets, while *mondialisation* implies the brutal inter-connection of the markets.

Globalization as ongoing process by which regional economies, societies, and cultures have become integrated, is first and foremost a process of bringing world economies closer to one another leading to

the emergence of an international network of social and economic systems. The term is used to describe a whole set of complex processes, such as the mutation of industrial functions, market growth, and the synchronism of financial centers.

Ultimately, anything can be globalized. The word most usually refers to different national economies becoming integrated through flows of goods and services, capital and labor – in other words, it depicts a global market. But the word *globalization* can also apply to global culture, global society, global community, global ideas, global beliefs, and so on. The number of possible definitions for *globalization* is virtually limitless.

Globalization is a consequence and a condition of the capitalist system. It makes *mondialisation* come under the influence of economics. *Globalization* is world economy, economic liberalism, modern capitalism, in other words a modern capitalist society which has a global scale. It goes along modernism and capitalism. It translates into economic liberalism being spread from developed countries to undeveloped or developing ones.

Already in 1848, Marx predicted that the mechanisms of the capitalist society would penetrate everyday life. Instead of a liberal focus on the local or the national, he foresaw the capitalist discourse weaving universal interdependence between nations. As such, the world market stands as a popular example for what we today call *globalization*. Marx viewed *globalization* as the exponential growth of the global market and an increase in interdependence, his view still being very much valid nowadays.

Globalization has also been defined through the perspective of multinational corporations. It has been said that it is nothing more than the product of these companies. In their quest for profit, these super-companies try to maximize profits by looking for cheaper labor, for example. For them, *globalization* can be defined as the freedom to invest where and when they please, to produce what they please, by getting supplies and selling where they please, and by having to put up with as few constraints as possible with regard to working rights and social conventions.

4. Conclusion

Globalization is beyond any doubt an extremely successful catchword to use when referring to the new development of contemporary societies all over the world. And a hot topic to write about.

Globalization is largely thought of as an intrinsic characteristic of the human evolution, in which geographical areas that are miles apart and different from many points of view are indissolubly intertwined.

After its heyday in 2000 and 2001, *globalization* started to take on positive meanings. Thus it lost its polemical status. And, as a consequence, it lost its appeal as a concept in such a way that many believe it is on its way out.

Globalization is seen as a stage following *mondialisation*, a stage that implies the dissolution of national identities and the abolishment of borders inside the world network of economic exchanges.

Furthermore, there are visible differences in terms of the connotations applied to these two words and the concepts behind them: generally speaking, more negative connotations are applied to *globalization* which is generally seen through a business lens (large multinational companies outsourcing labor where it is cheaper and where there are not as many regulations, or global warming, for example), rather than *mondialisation* seen through a government lens (government aid and international

cooperation between governments, for instance).

The fact is that, when analyzing the process of globalization, we conclude that the world is ever changing – the world is gradually becoming the only world and globalization begins to refer to agglomeration and has significant consequences on everyday life. There are authors who believe that the *globalization* model is cracking up at the moment and there is no new model to replace it in the future.

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Financial Stability in the Aftermath of the World Crisis – Looking for a New Framework

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Abstract

Effects of the worst crisis since the Great Depression are still being felt throughout the world. While emerging economies have found their way out, due to sound economic fundamentals, developed economies are still struggling. The crisis unfortunately proved the damages caused to real economy by a non-regulated global, interconnected financial system. This article aims assessing the performance of recent regulation measures and provides additional regulation paths enabling financial stability.

The first section briefly summarizes the factors having allowed the development of the current financial and economic crisis. The second section analyses the links between financial markets and real economy, both in developing countries and in advanced economies.

The third section addresses the necessity to regulate the financial system.

The forth section assesses the effectiveness of existing regulation policies, particularly the Basel III Recommendations and the Dodd-Frank Act, in the US.

The fifth section proposes different regulation solutions and concludes.

Key Words: financial crisis, regulation, liberalization, shadow banking

JEL Classification: G01, G38, E44, E32

Introduction

We are now reaching the end of the deregulation era that started more than thirty years ago in the United States. After the Second World War, souvenirs of the Great Depression started to fade, preparing a perfect playing field for debt accumulation. In the 1980s, with the election of Ronald Reagan at the White House, starts a

progressive retreat of the State Intervention in the economy. The movement had already been started by its predecessor, Jimmy Carter, who had deregulated sectors such as aviation, road transport, as well as oil and gas distribution. Ronald Reagan continued in this path with finance deregulation. The first law in this direction was the Monetary Control Act, adopted in 1980, lifting the ban on deposit remuneration by commercial banks. It was followed in 1982 by a new law, Garn St. Germain Act, relaxing restrictions on the types of credits that banks may consent, opening the path to increased competition, concentration and high risk taking among commercial banks. The final step was made under the Clinton presidency, when, in 1999, the Glass-Steagall Act, separating commercial from investment banks, was aborted [4]. Meanwhile, remaining rules were not updated to cope with new developments in finance and especially the soar of the "shadow banking", which had become, by 2008, more important than the traditional banking system (20 trillion against 11 trillion dollars) [7]. The same deregulation processes took place in other developed economies in Europe, though somehow later (excepting for the U.K.) and at a different pace.

Considering the impacts that the financial system has on governments, real economy and society in general, it is vital to reconsider the financial system's functioning and try to imagine the best ways to ensure global financial stability, a necessary condition for attaining long-term sustainable growth.

Section 1. Factors leading to the Financial Crisis

As mentioned in the Introduction, a deregulation process was deployed in developed countries starting with the 1980's. This movement was supported by politics,

but also by mainstream economics, which embraced the "market efficiency and auto-regulation" theory. Combined with some other factors, such as technological progress, very low inflation and loose monetary policies, the souvenirs of the Great Depression faded away and so did the aversion to risk-taking, both of banks, investors and private consumers.

Soon after the deregulation process started, the concentration of very large financial institution has reinforced. A BIS report shows that bank concentration, while having remained constant for almost 50 years, between 1930 and 1980, has since more than three folded [2].

Low risk aversion and moral hazard made financial institutions take more and more risks. At the down of the crisis, these highly concentrated and interlinked institutions had increased significantly their financial leverage. Between 2004 and 2007, the leverage ratio (total assets divided by common equity) increased from 27 to 33 in Europe and from 15 to 18 in the United States. Liquidity ratios were at historical levels (which make sense considering the abundance and low cost of liquidity in those years). Too big to fail financial institutions would now take huge risks as they know their impact on the rest of financial institutions and the real economy is so huge that governments will not afford no to come to their rescue.

However, when crisis do occur and governments are forced to intervene, bills tend to be very spicy, putting a strain on governments finances, particularly in those countries where financial institutions represent a large part of the country GDP. This is a vital issue, as the repeated government support to these institutions raises the question over the fairness of the system and the distribution of costs: while benefits go to stockholders and well paid traders, losses are socialized and paid by the taxpayers.

An economist that has finely developed a theory on debt accumulation and the subsequent crisis was Hermann Minsky. In the "financial instability hypothesis", he explained that long periods of economic stability favor debt accumulation, as agents are less risk-averse: investors embark in more risky projects and banks pay less attention to credit allocation. However, the excessive

debt ratio of the economy may become a vulnerability factor when things start going bad, because collective efforts to pay debts created a downward movement on assets prices and increases the debt value. Irving Fisher once said: "the more the debtor pays, the more he owes". If the process continues, impact may be felt in the real economy, as consumers cut their expenses to repay debt, economic activity declines, and unemployment rate raises, and deflation may gain the economy, increasing de facto the real debt value [4].

Section 2. Links between the financial system and the real economy

In order to apprehend the increased "role and impact of the financial system on macroeconomic decisions and on financial stability, it is useful to study the links through which financial crises may have negative impacts to the real economy.

In the advanced countries, the crisis started in the financial markets and gradually spread in the real economy. Banks' ill balanced sheets needed government rescue, thus increasing public deficits and public debt. Banks' troubles and increased risk aversion brought with them the "credit squeeze", spreading the financial crisis to the real economy (despite central banks efforts to provide banks with liquidity in order to support credit to the real economy). Firms started having financing problems, bankruptcies followed, as well as a depressed economic environment. Declining economic activity started raising unemployment and activating automatic stabilizers. Public deficits widened as the amount of fiscal taxes fell and unemployment and social benefits climbed. For developing countries, financial crisis usually takes the form of retreating capital flows from these markets, due to investors' risk aversion (this is what actually happened after the crisis burst in the developed world) or because of deteriorating fundamentals in the receiving country (Asian Crisis, Brazil, Argentina).

This distinction between financial channels in developed and developing countries is crucial in defining future regulation: while advanced economies should focus on regulating the "arm's length" part of

finance”, developing and emerging countries might pay more attention to capital controls.

Section 3. The need for regulation

Considering what we already know on the effects of the crisis on the world economy, the answer might seem obvious, and it actually is. But I think it is important, given the fact that less than five years ago, the world and economic thinking included was embracing the “efficient market theory”, to address the problem and deduct the logical solution. The Stiglitz Report (page 115 – French Edition) offers a simple solution to the problem.

Table 1. Regulators’ dilemma

	Bail-out	No bail-out
Regulation	A	B
No regulation	C	D

Source: [9] Rapport Stiglitz “Pour une vraie réforme du système monétaire et financier international après la crise mondiale”, 2012

Considering a big complex financial institution in difficulty, its bankruptcy would create important damages to the financial system and to the real economy. Two alternatives are possible before the crisis bursts: regulation or no regulation. Two alternatives are available after the crisis burst: bail-out or let die the institution.

A free market fundamentalist would choose the “D” option, no regulation and no “saving”. In real life, however, the “D” option is not a realistic one, as in almost every country there is a financial institution so big and complex that its disappearing will negatively affect the economy, so, de facto, government will come to its rescue. The remaining options are “A” and “C”. As the State cannot afford not to save these institutions, economic efficiency requires the choice of the “A” option, “regulate” and “save”.

This judgment is applicable for big complex institutions, but also for smaller ones, but interconnected, as their negative effect on the economy might prove important as well.

The Stiglitz Report raises another interesting point about regulation. It is true that regulation attracts innovation, as the financial system tries to counteract regulation. It makes an association with the fiscal

measures, which have the same functioning, as firms and private tax-payers do their most to counter these rules (usually called “fiscal optimization”). In fiscal matters, the State has not decided to stop taxing; instead, it deploys dynamic measures, which progress in the same time as the “innovation” in fiscal optimization.

That being said, regulation measures already exist and updates have recently been made, as we shall analyze in the next section, but succeeding the regulation process is a very difficult task because of the large perimeter and the rapid evolution in financial innovation.

Section 4. Recent regulation measures

The most notorious set of regulation measures are the Basel recommendations. The word “recommendation” has all its place, as the Basel Committee does not impose, but suggests sets of regulation measures, it is then up to each country to adopt, or not, the proposed rules. Historically, Basel rules imposed a capital adequacy on the engagements taken by banks, that is, blocking capital according to risk weighted assets.

Various critiques were addressed to these rules. Firstly, it only concerns the assets published in the balanced sheets. The securitization process escapes completely (it is true that securitization developed mostly after the first Basel rules adoption, nonetheless, these rules failed to rapidly adapt to the financial innovation). Next, Basel rules are criticized for their pro-cyclical bias, though Basel III has absorbed this critic and established counter-cyclical buffers. Indeed, these regulations put an emphasis on risk-sensitive models in which risk estimates are supposed to be based as much as possible on market developments [6].

Last but not least, Basel rules often came too late, not to mention the laps of time for their adoption and implementation by national regulatory bodies, when the implementation is decided. In the mean time, finance instruments evolved rapidly and regulation lagged behind.

Basel III rules did innovate with the two liquidity ratios proposal, the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR), asking banks to

increase their liquidity in order to resist to stress-test conditions. Banks will have until 2015 and 2018 respectively to adapt and fulfill these new obligations, if their national regulators adopt the recommendations.

However, regardless of the quality and efficiency of the Basel rules, supposing that the most advanced economies will all adopt them, which is far from being accomplished, the slowness of the process makes the implementation already inefficient. The crisis burst in 2008, first Basel rules updates came in 2010, Europe decided to implement the recommendations, here we are, end of 2012, 5 years after the first signs of financial crisis, with Basel texts waiting to be voted by the European Parliament and with no step made towards the implementation process. Basel III rules will become obsolete by the time they are actually implemented.

Supposing they will be implemented, the Basel III recommendations may have significant impact of banks' profitability and balance sheet structure. Undeniably, implementation will increase their resources cost, lowering profitability. In order to respect these ratios, banks will have to either recapitalize (difficult in a context of deceiving results and weakened market confidence), either restructure their activity portfolio, focusing on those activities that consume the least common equity possible. This strategic change of portfolio activities may take the form of asset selling (ex. Leasing activity sell-out), as well as a reduction of the trading activities and a slowing down in new projects development (from credit lines to external growth). These changes will most probably have very negative effects of small and medium enterprises, which already don't have access to market funding and will find themselves in a critical situation when banks will stop lending them as well.

The United States chose their own regulation process and, in 2010, The Dodd-Frank Act was signed, aiming at improving market transparency and reducing the risk of systemic default. It encompasses regulation beyond futures exchanges by including swaps, which become subject to clearing and exchange like trading. Furthermore, dealers and major participants to swap deals are subject to capital and margin requirements. Among the most important measures, is the

requirement for financial institutions to produce their own "living-wills" when there is no sensible procedure for shrinking them or reducing their complexity. The second idea is the introduction of a special resolution authority, in order to avoid too slow banking procedures or not taking into account externalities. This authority could intervene prior to a declaration of insolvency.

However, for the time being, the Dodd-Frank Act has encountered problems in implementation and discussions are still being held on various items.

The problem with these solutions is that they are local and aimed at strengthening existing rules or including some missing elements and pay no attention to the restructuring of the financial system.

Section 5. Additional propositions to re-regulate the financial system.

This section analyses some other solutions available to re-regulate but also argues for a stronger restructuring of the financial system in order to ensure financial stability and a solid playing field for sustainable economic growth.

Increasing capital requirements and liquidity standards, as realized in the Basel recommendations, are useful but very insufficient, especially for systemically important financial institutions. For the latter, accrued surveillance and a specific set of policy instruments are needed: the creation by financial institutions of living wills (to be used in case of a crisis blow up, update it and keep regulators informed about it), the creation of authorities entitled to intervene when liquidation procedures are considered too slow, in order to prevent contagion risks. Some other measures could include the automatic conversion of the "bail-in" debt into capital, the interdiction, when the institution goes bankrupt, to be bought by an even large institution and, of course, introduction of size caps, in absolute value or as a per cent of the GDP.

Some other studies focus on more macro prudential policies. Among the propositions made by the Stiglitz Report, the UNCTAD (Trade Development Report, 2011) but also some economists such as Allen (2011), the following ones seem appropriate and have a reasonable chance of being implemented.

For instance, a first suggestion is the diversification of the institutional framework, giving a larger role to public, regional and community banks [10]. Public banks have long been criticized for many years, as they had access to public resources, by opposition to private financial institutions. With the recent rescues of big private banks, the criticism is no longer true, and it may even be reversed, in the sense that private banks, while receiving aid from governments, have retained control over profits and management. Therefore, contrary to public ones, where government invest resources but also gets benefits, private banks proved to be a net loss for the public system. Allen has recently conducted an analysis that highlights three important advantages of having, in a diverse financial system, some public banks. The first one relates to the proven resilience in a context of crisis and their role in compensating for credit crunch. It is well known that small and medium firms suffered the most from this crisis, as banks cut their lending and this category was the first one to be touched, especially in Europe, where private equity is less developed. Even if efforts were made, notably by the European Central Bank, who lend billions of euros to the most important banks in the Euro Zone in order to stimulate credit in the economy, banks preferred to invest in government bonds or to place the liquidity in the deposit facilities with the ECB. The idea of public banks is gaining field, for instance, in France the "Banque Publique d'Investissement" is now being created. A second favourable aspect of publicly owned banks is that they support activities that bring much better social welfare than the private banks and provide wider access to financial services. Finally, they may also help promote competition in situations of oligopolistic private banking structures [1].

Shin, on the other hand, suggests limits on the liabilities side, especially on those resources that do not come from deposits, in order to prevent excessive credit growth [8].

Restructuring private banks is a very strong proposition, sustained both by the Stiglitz Report and some economists such as Reddy and De Grawe, but it presents more obstacles for real implementation, because of political pressures, conflicts of interest and powerful lobbying. Separating activities of

investment and commercial banks could be the next important step towards the restructuring the financial system, after the creation of public banks. The logic behind this idea is that financial institutions nowadays resemble a lot in their structure. Universal banks, which used to collect deposits and allocate credit to the economy and also ensure the payment system, became more and more involved in investment banking activities, becoming therefore, more fragile and more exposed to contagion. Two solutions are thus possible, impeding commercial banks to embark in trading activities, for its clients or on its own and, in order to overcome the too big to fail problem, dismantling very large financial institutions. Empirical evidence shows that, beyond 100 billion of assets, there are no economies of scale [3].

Last but not least, it is important that regulation be focused on activities and instruments rather than institutions. This way, including in the regulation framework the "shadow banking system" should be conceivable: money market mutual funds, asset backed securities markets financed with repos, they all function as banks, they all borrow short and lend long, assuring a transformation process.

Conclusions

The ongoing financial crisis has proved the powerful impacts that the current financial system, through its size and interconnectedness, has on the world economy. The crisis put on the table the need to restructure the financial system, in order to ensure financial stability. While some timid efforts have been made to re-regulate, no fundamental step has yet been taken in the way of restructuring the system. However, some broad conclusions can already be made.

First of all, in order to be efficient, the regulation perimeter must cover all institutions and instruments. Without an articulated and global regulation, regulation arbitrage will certainly emerge: activity will be progressively transferred towards the "shadow banking", markets with fewer or without regulation systems. These policies must be concentrated on activities, and instruments, on one hand, and on institutions of systemic importance, on the other hand.

Nevertheless, no one can guaranty the exhaustiveness of regulation measures and their force to reach the entire financial system. That is the reason why regulation must focus as well on transmitting the good incentives, aiming at restricting risky activities and limit the damaging consequences playing [8].

At the international level, a universal coverage of the regulation should enable limiting national financial systems' exposition to risks coming from countries that would fail to implement an efficient regulation policy. Additionally, attention should be paid to detect anti-loyal stratagems of developed financial centers to preserve their privileged positions.

In the second place, it is important, for succeeding in the financial stability objective, to reach international cooperation. A global integrated financial system cannot be regulated on a national basis. All countries are concerned by financial stability and regulation measures are only a part of it. Attention should also be provided to the flow of short term capital to developing and emerging countries, for their potential destabilizing effect on macroeconomic variables [5].

Until the problem won't be addressed globally and there is no real political willingness to tackle the problem, reforms, already timid, will stay local and a new financial crisis may hit again. It will maybe be the slap that will wake us up.

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Developing Countries in the Aftermath of the Financial Crisis – Constraints and Possible Outcomes

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Abstract

The on-going financial crisis, resulted from increased financial deregulation, easing monetary policy and a blind belief in financial markets' efficiency and auto-regulation, is still haunting the world economies. While the developed ones are still struggling to find growth, the impact on developing countries is mitigated. The purpose of this paper is to assess the economic and social impacts of the financial crisis fall-out on the developing countries.

The first section briefly summarizes the factors having allowed the burst of the crisis and its contagion to the real economy. The second one analyzes the transmission channels of the crisis: terms of trade, volatility in commodity prices, poverty climb and income inequality. The third section gives some insights on the capacities of developing economies to respond to such an adverse external shock and the outstanding pressure. Forth section suggests possible solutions while acknowledging the limits of a theoretical exercise. The fifth section concludes.

Key Words: financial crisis, developing countries, interconnectedness, capital flows

JEL Classification: E44, F32, F33, F43

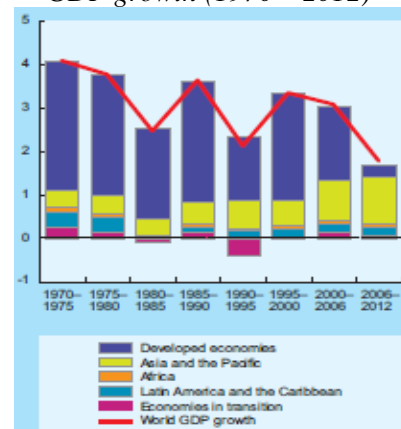
Introduction

In guise for the Introduction, I would like to explain the reasons for choosing to study the impact of the financial crisis on developing economies.

The first one is the increasing contribution of developing countries to world GDP growth. During the last 6 years, 74% of the world growth was due to developing countries, against 22% to the developed ones. This feature is in sharp contrast with their

respective contribution to global growth in previous decades, attesting for their increasing role on the world scene (these calculations include the BRICs):

Graphic 1. Regional contributions to world GDP growth (1970 – 2012)



Source: [8]. UNCTAD Trade and Development Report, p. 4

Secondly, developing economies suffered from an exogenous adverse shock, by contagion from advanced economies. Having specific macroeconomic features, different from the developed world, the channels through which developed countries' crisis affects them are specific, and so are their subsequent responses.

Last but not least, assessing the facets of the interconnection between advanced and developing economies provides a useful insight in identifying solutions to support global financial stability and growth.

Section 1 – Financial Crisis genesis

The financial crisis that started on the US housing market carried the developed world into the worst recession since the Great Depression. Advanced economies' recession weakened global demand and influenced the

world terms of trade, thus spreading the initially local crisis throughout the world.

The last forty years were marked by a significant deregulation process, product innovation and technological revolution; all comprehended in the general belief in the “market efficiency theory”. Low inflation, abundant and cheap liquidity and blunt confidence into the efficient and auto-regulated financial markets, all competed in the emergence of a general perception of low risk, thus pushing investors and speculators to more and more risk-taking [6]. The crisis’ burst wiped-out well accepted fundamentals, calling into question economic theories, financial institutions, governments and macroeconomic thinking in general.

Despite irrefutable benefits of the financial system – principally the improved access to borrowing, available to more far-away markets, at competitive costs – the risks carried by the systemic nature of the financial sector have proved pitiless. Through its interconnectedness with the real economy, financial distress may have long lasting effects on economic performance [6].

The common sense suggests that financial stability should be a continuous concern for the developed economies and international institutions, such as the IMF. This concern could translate into a better incorporation of the linkages between financial system and the real economy, as well as of the impacts that policies and developments in other economies may have on the domestic and financial sectors [1].

Section 2 – From the financial to the economic crisis, from local to global: transmission channels

In advanced economies, the crisis started in financial markets and gradually attained the real economy. Banks’ ill balanced sheets needed government rescue, thus increasing national public deficits and exploding public debt. Banks’ difficulties and increased risk aversion translated into a “credit squeeze”, spreading the financial crisis to the real economy. Firms started having financing problems, bankruptcies followed, as well as the emergence of a gloomy economic environment. Declining economic activity caused raising unemployment and activated automatic stabilizers. Public deficits widened

as fiscal taxes dropped and unemployment and social benefits amplified.

In most developing countries, the crisis was initially felt in the real economic sector and then spread to the financial sector, except for those which benefitted from significant capital flows from foreign investors.

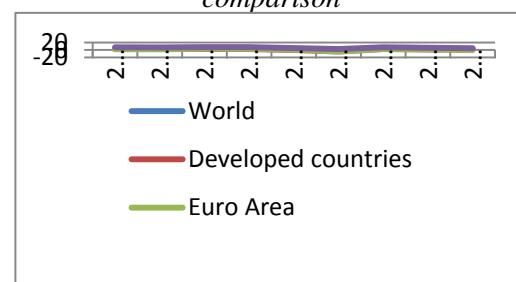
The main channels through which the crisis spread throughout the world were the following:

- Direct Financial Channels: while very important for developed economies, with widely developed financial markets and a high degree of financial integration, this channel was less powerful for developing countries.

- Indirect financial channels: most of the developing countries, excepting a few emerging economies, have limited borrowing capacity on international financial markets. In the aftermath of the crisis, in a context of squeezing market liquidity and high risk aversion, developing countries access to international markets, if available, was accompanied by high interest rates, damaging to the macroeconomic fundamentals such as fiscal balance and public debt. Another important indirect financial channel, especially for emerging markets, is the sudden switch in foreign capital flows, as well as foreign banks’ willingness to continue financing credit in these markets, while they suffer pressure from their own domestic markets.

- Economic channels: the advanced economies’ recession weakened global demand, which had negative impacts on developing countries, especially exporting ones. The following chart illustrates the crisis effects on the world economy GDP in the aftermath of the crisis fall-out.

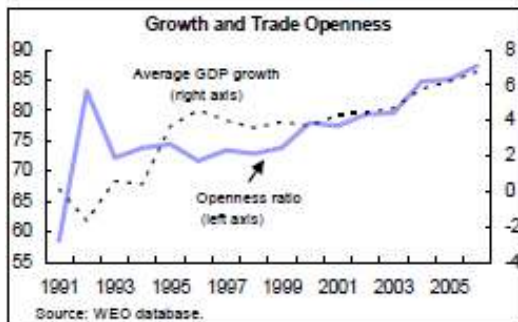
Graphic 2. GDP trend, international comparison



Source: Author calculations, UNCTAD database

Indeed, the last twenty years have witnessed an increased liberalization of trade, making developing countries more interconnected with the world economy. Trade openness, calculated as the ratio of the sum of exports and imports to GDP, has increased substantially since 1991 and has been accompanied by an acceleration of growth.

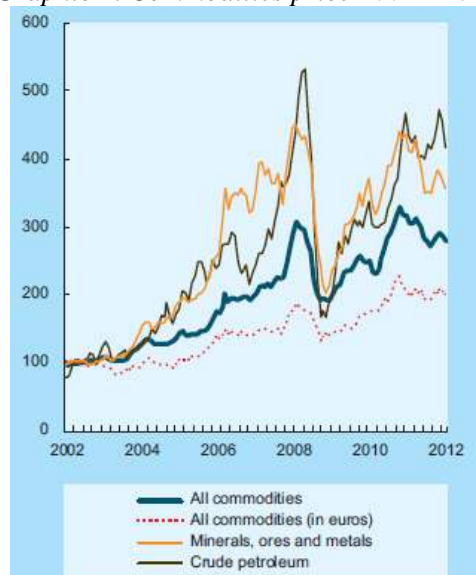
Graphic 3. Growth and trade openness – developing countries



Source : WEO database

Commodity exporters are generally twofold affected, through a lowering global demand and falling commodity prices, triggering an important reduction in their revenues and GDP.

Graphic 4. Commodities price 2002 - 2012



Source :Unctad

World Development Report 2012

The strong volatility observed in commodity prices is striking. In the aftermath of the global crisis, the decline in commodity

prices had negative effects on export countries, both through the terms of trade deterioration and the fall in external demand.

Furthermore, while export developing countries are sometimes equipped with fiscal redistributive policies aimed at helping the poorest, commodity-importing countries suffer from rising import bills, particularly for food and fuel, thus limiting their development capacity but, most of all, inducing damaging effects on household budgets. It is well known that food and fuel represent more than 80% in certain developing countries households' budget. This feature makes them dependant on commodity price evolution and aggravates the already large income inequality.

Not the least, recession in advanced economies may generate a drop in remittances and in financial aid, especially those intended to low income countries.

Section 3 – Developing countries responses, threatens and opportunities

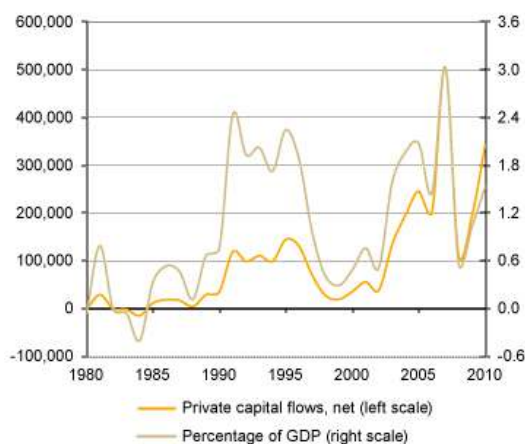
Compared to advanced economies, developing countries, except for some emerging economies, cannot afford to implement policy instruments necessary to counteract an adverse external shock, for various reasons.

Firstly, people have fewer resources to face crisis, income inequality is more stringent, and poverty touches important parts of the population, so the poorest are immediately touched in the case of an adverse negative shock. Secondly, automatic stabilizers are weak or inexistent, as social protection systems are embryonic, which intensifies the already negative impact outlined in the first point [4]. Thirdly, the weak borrowing capacity on international financial markets limits their capacity of implementation of counter cyclical policies. Therefore, various countries are constrained, for instance, to adopt cyclical fiscal policies as their fiscal revenues diminish during recession time and they cannot benefit from adequate financing for maintaining existing public expenses, not to mention expanding them. Meanwhile, entrepreneurs and private investors are confronted with credit constraints and a climb in borrowing costs. [7]

Fourthly, financial interconnectedness plays a crucial role in exacerbating already existing risks. Countries having totally liberalized their capital accounts and borrowing on international financial markets are the ones the most touched by external shocks. [7]

Capital account liberalization is a thorn-bush issue, as many developing countries have been constrained by international institutions, IMF included, to liberalize their capital account in exchange for support programs [3]. While capital account liberalization may have significant benefits for the receiving country, such as enforced access to capital and capital investment endorsement, it also poses some risks, such as pressures on currency appreciation (eroding the economy's competitiveness at exports), asset bubbles and capital inflows volatility, i.e. drastic reverse when a switch in international investors' risk appetite occurs.

Graphic 5. Net private capital flows towards developing and transition economies, 1980-2010 (\$ millions and as percentage of recipient countries' GDP)



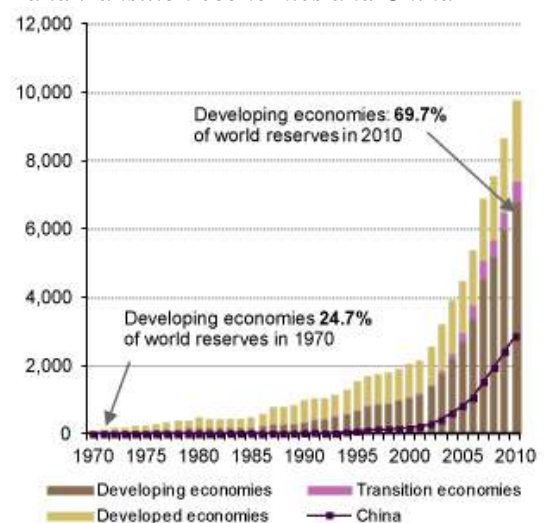
Author calculations, World Economic Outlook 2011 database

As we can observe in the figure above, the financial crisis caused an abrupt shift in net flows towards developing countries. However, once the turmoil calmed down, sound fundamentals (notably in emerging markets), health sovereign and balance sheets and low US real interest rates contributed to drawing inflows to developing countries again. While inflows are recovering at a fast pace, their volatility and composition (portfolio inflows gain place against foreign

direct investment and bank lending [5]) requires increased consideration and fine-tuning macro-economic management. These developments in the inflows trend make a point in adopting capital account controls, even if IMF historically prohibited capital account controls and recently shifted towards a softer view [1,5], issuing a set of capital account measures applicable under special circumstances and for a limited period. (That being said, its work was not well received by emerging markets, which plead for independent macroeconomic policies implementations).

Another feature of the developing countries, most specifically emerging economies, is a significant current account surplus position, as they are net exporters on world markets. This allows them to either reduce foreign debt or accumulate foreign assets, including international reserves. After having gradually reduced their foreign debt ratio, emerging economies used their current account positions to accumulate huge amounts of international reserves. While concentrated in China, the unprecedented rise in international reserves has been a widespread phenomenon in the developing world, especially after the asian crises in the 1990s, aimed at preventing currency appreciation, especially in the case of volatile capital flows.

Graphic 6. Reserves of developing developed and transition economies and China



Source :World Economic Outlook 2011 database

Despite widely improved external positions, emerging countries proved vulnerable in the global crisis because of greater integration and interconnectedness in unconstrained global finance. They were definitely less impacted than developed countries, due to their sound economic fundamentals, low debt ratios and important foreign reserves, but still, the GDP and trade slowdown in the aftermath of the crisis testify for the increasing interconnectedness of the world's economies.

Conclusions

The current crisis has highlighted the increasing interconnectedness between finance and real economy, as well as between different economies around the world.

While the negative effects of the Western Crisis to the Developing Countries are rather obvious, the solutions are less obvious, for various reasons.

Firstly, developed countries, while having officially escaped from recession, are still facing difficulties to return to economic growth. Europe's case is even more worrying; caught out in a political and economic crisis, growth is weak, economic climate is gloomy and unemployment has reached historical peaks. Countercyclical policies have worked rather well in the aftermath of the crisis, but left behind important public deficits and debt ratios. This actually made politicians embark into austerity policies, hindering the already weak signs of recovery and aggregate demand. Notwithstanding, Europe also faces structural deficit problems: health and retirement expenses should hike by 2030 as the "baby boom" generation grows old, thus requiring important and painful reforms.

Today's Europe has its hands tied up, at least until a political consensus is reached. At the moment, Europe is not talking with one voice, so it is rather utopian to think that Europe will embark in discussions on world economic development, while it's hard for it even to look after its own problems.

We talk about the nonsense of the pro cyclical policies imposed to developing countries. The Euro Zone actually applies the same treatment to its suffering members, conditioning help packages on governments' engagement to apply restrictive policies in

order to reduce public deficits and debt ratios. But everyone knows that the debt ratio is dependant on two factors: the public deficit accumulation and the GDP growth. Cutting expenses in a moribund economy will only worsen the situation, as aggregate demand falls and brings with it GDP losses. While governments must implement optimal expenses and avert waste, it has to be very careful not to further depress an already suffering economy.

Given the degree of globalization of the economy, the strong links between most of the economies in the world and the increasing role of international finance, the only solution to ensure global financial stability and sound growth is a world-wide negotiation of a financial reform. It seems maybe unrealistic, but, for the moment, no other solution has proved useful.

This leads us to the obvious conclusion that financial stability should be a continuous concern to developed, developing and least developed economies, as well as international institutions, because, in an integrated world economy, one's actions may have important spillovers on the rest of the world. This concern should translate into a better incorporation of the linkages between the real economy and the financial system, as well as the impacts that policies and developments in other economies may have on the domestic and financial sectors.

While developed countries will probably try to make progress financial activities and financial markets regulation – though, for the moment, the starting block is rather disappointing –, developing countries should support initiatives in that direction, because they are indirectly impacted, but they should also push for an agenda that helps them deal with problems specific to developing countries and for which advanced economies are not completely irresponsible. Among these problems, let us note the exchange rate policy, the management of the balance of payments and the stock of foreign exchange reserves, management of capital flows in order not to shatter its financial and real sectors when capital flows abruptly fly off, resulting from a change in the investors' risk perception.

Global cooperation should enable address developed world's problems – vast interconnected, non-regulated financial

system, less prospects for high growth and aging population –, those of emerging economies – capital flows management, exchange rate policies, reserves accumulation and not to forget the least developed countries, the most vulnerable in the economic process, for which supporting programs must be provided as well as specific aid, especially when they suffer from exogenous adverse shocks[2].

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Foreign Direct Investments and Human Capital Accumulation. The Case of Romania

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Abstract

The paper explores the effects of foreign direct investments on the human capital accumulation in the case of the Romanian economy. Using data for 1995-2010, the study shows that it is strong relation between FDI flow and the share of the tertiary educated people in the population aged 20-24. This is suggesting that there is a beneficial effect of the FDI flow in the economy, stimulating the demand for a high quality human capital.

Key words: foreign direct investments, human capital, education demand

J.E.L. classification: E 22, J24, I25.

1. Introduction

The flows of foreign direct investments (FDI) are the largest and the most stable sources of private capital for developing countries and economies in transition.

It is very well recognised among the economists the beneficial effects for the economic growth, employment, national productivity.

There are several channels through which the flows of FDI into developing countries may increase economic growth. An example is via technology transfer [10], [9]. Another is the raise of the plant productivity in the host countries [1], [6]. Furthermore, FDI may increase the relative demand for skilled labor and lead to a rise in the skilled labor share of total wages, as multinational firms are often more skilled-labor-intensive than the rest of the economy [18].

The above considerations are suggesting that there is possible a causal relationship between FDI and human capital accumulation. From the perspective of host countries, especially in the developing world,

FDI is typically considered by several authors as an essential deliverable package of capital, technology, management skill, and know-how.

The present study aims to explore the impact of the foreign direct investments on the human capital accumulation in the Romanian economy.

The paper is organised as follows: after a short literature review on the relation between FDI and accumulation of human capital, the methodology and data are described and the main findings are exposed. The final section is dedicated to conclusions.

2. FDI and human capital accumulation: a short literature review

There are several aspects of the FDI impact on the host countries analysed in the empirical studies.

First of all, FDI has a favourable impact on the rate of growth [7],[8],[12],[13],[15],[22],[16].

Positive effects of FDI on growth or productivity spillovers are attributed to De Gregorio (1992) Blomström et al. (1992, 1994), Bende-Nabende and Ford (1998) Zhang (2001) for the majority of East-Asian economies and Latin America and Baldwin et al. (2005) for nine OECD countries.

Furthermore, the inflows of FDI add to total capital stock in host countries and raise the marginal product of skilled labor relative to unskilled labor. As foreign affiliates are typically more skill intensive than domestic firms in developing countries, the increase in foreign investment may enhance the demand for skilled labor. Furthermore, if foreign firms introduce new products or processes to the domestic market, domestic firms may benefit from the accelerated diffusion of new

technology [21] and the resulting rise in labor productivity further enhances the need for skilled labor. Due to the lack of well-educated workers in developing countries, the higher demand for skilled labor accompanied with the inflows of FDI leads to higher wages of skilled versus unskilled labor that raises a worker's incentive to acquire more education.

The relation between education and FDI is studied by several authors. Hoffman (2003) constructs a general equilibrium model and theoretically shows that an education subsidy under investment liberalization can lead to equilibrium with a much higher level of skilled labor in the economy.

Egger et al (2005) uses cross-sectional data of 79 countries and finds that net inflows of foreign direct investment raise participation in higher education.

As analysing method, a crosssectional time-series analysis is more likely to fully characterize the effect of FDI on human capital accumulation, because it takes time for FDI to affect the return to education and labor earnings and therefore the individual's educational choice. It follows that data including time series variation in FDI and education are likely to be able to show the relationship between them.

Furthermore, the causal relation may go from education attainment to foreign investment, because regions with better educated population maybe more attractive to multinational companies. There is an array of works that stress the positive role of FDI conditioned on adequate local factors especially human capital. For example, Borenztein et al. (1998) in their study of 69 developing economies for 1970–1989 concluded that the effect of FDI is dependent on the human capital stock. Bengoa and Sanchez-Robles (2003) reached the same conclusion for Latin America based on economic stability and liberalized financial markets. We can conclude that human capital is a factor of the "absorptive capacity" of FDI in the economy.

We can conclude so far that when we discuss the relationship between human capital and FDI flow in the host economies, human capital plays a dual role: as determinant of the FDI flow (a factor of attractivity for FDI) and as effect of the FDI flow, through the mechanism of economic growth. It is demonstrated by several empirical studies that economic growth stimulates the demand for education which leads to accumulation of human capital and increase of the human capital stock in the economy [5].

There are some empirical studies demonstrating that the proportion of higher educated people is influencing significantly the economic output in Romania. The composition of human capital in the economy is important for growth, meaning that the tertiary education as a measure of the quality of human capital is an determinant of the economic output and its dynamic [20].

Summarising the above considerations, the paper aims to demonstrate that FDI flow has a positive influence on the human capital accumulation and the economic growth is determined by FDI flow and human capital stock in Romania.

3. Theoretical approach, methodology and data

We explore the effects of FDI on the human capital accumulation in the Romanian economy, using the following variables: FDI flow, GDP per capita and human capital. Human capital is expressed by the percentage of tertiary educated people (ISCED levels 5-6), data for 1995-2010, from EUROSTAT data base. The values for FDI flow and GDP per capita are collected from UNCTAD data.

We assume that the human capital is positively influenced by the flow of ISD.

$$EDU_SUP = f(ISD) \quad (1)$$

Assuming that (1) is a linear dependence, all other factors being constant, the regression equation use could be:

$$EDU_SUP = \beta_0 + \beta_1 ISD + \varepsilon \quad (2)$$

where: β_0 is a constant, β_1 is the regression coefficient and ε is the standard error.

Assuming that there is a time lag when the educational stock increases as a consequence of a increased level of FDI flow, the equation (2) is re-written as follows:

$$EDU_SUP_t = \beta_0 + \beta_1 ISD_{t-1} + \varepsilon \quad (3)$$

where t is time.

If we check the joint effects of FDI flow and human capital on the economic growth, we use the following regression equation:

$$PIBC = \beta_0 + \beta_1 ISD + \beta_2 EDU_SUP + \varepsilon \quad (4)$$

where PIBC is GDP per capita.

4. Main findings

As we can see in the Table 1 there is strong correlation between the share of the tertiary educated people in the population aged 20-24 and the flow of ISD. The model is statistically validated due to the fact that the p-value is lower than 0,05(the significance threshold).

Table 1

Human capital as dependent variable of FDI

SUMMARY OUTPUT	
Regression Statistics	
Multiple R	0,66
R Square	0,44
Adjusted R Square	0,40
Standard Error	3,10
Observations	16

ANOVA					
	df	SS	MS	F	Significance F
Regression	1	105,35	105,35	10,98	0,005
Residual	14	134,27	9,59		
Total	15	239,61			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%
Intercept	4,541	1,0940	4,15	0,001	2,19	6,88
ISD	0,000	0,0002	3,31	0,005	0,00	0,00

Source: authors calculations using Excel Data Analysis application

The three variables: human capital and FDI flow and GDP per capita are very strong and positively correlated.

Table 2

	Simple correlation coefficients
Human capital-FDI flow	0,66
Human capital -GDP per capita	0,95
FDI flow -GDP per capita	0,80

Source: author's calculations

Using the regression equation 3, with a time lag of 1 year, considering that in one year the impact of the FDI flow's growth can be captured in an increase of the education demand, we obtained the results presented in the Table 2.

Table 3

Human capital as dependent variable of FDI for the previous year

Regression Statistics	
Multiple R	0,863
R Square	0,7448
Adjusted R Square	0,7251
Standard Error	2,0921
Observations	15

ANOVA					
	df	SS	MS	F	Significance F
Regression	1	166,04	166,04	37,93	3E-05
Residual	13	56,902	4,38		
Total	14	222,94			

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%
Intercept	4,0787	0,7595	5,37	1E-04	2,44	5,72
ISD	0,0008	0,0001	6,16	3E-05	5E-04	0,001

Source: authors calculations using Excel Data Analysis Application

The econometric model can be validated, as the SignF is lower than 0,05(the significance threshold).

When FDI flow increases with 1 dolar, the share of higher educated people increases next year with 0,0007 percentage points. It is not a spectacular increasement, but is a positive effect, statistically validated (p-value is lower than 0,05 (the significance threshold)).

If we check the joint effects of the FDI flow and the human capital on the economic growth, the findings show (Table 3) that they are beneficial to the evolution of GDP per capita in the case of Romania.

The econometric model is statistically

validated, due to the fact that sign F is lower than 0,05 (the significance threshold).

Table 4
GDP per capita, as dependent variable of FDI and human capital

SUMMARY OUTPUT

Regression Statistics						
Multiple R	0,9847					
R Square	0,9696					
Adjusted R Square	0,9649					
Standard Error	523,09					
Observations	16					

ANOVA						
	df	SS	MS	F	Significance F	
Regression	2	1E+08	6E+07	207,1	1E-10	
Residual	13	4E+06	273625			
Total	15	1E+08				

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%
Intercept	-641,9	276	-2,326	0,037	-1238	-45,6
ISD	0,2026	0,042	4,8219	3E-04	0,112	0,293
EDU_SUP	523,9	45,144	11,605	3E-08	426,4	621,4

Source: authors calculations using Excel Data Analysis Application

Based on the above findings, the main conclusion is that in virtuous circle of growth, the FDI flow induce economic growth, wich stimulates the demand for high quality human capital and this lead to the accumulation of human capital in the economy. Further, an increased level of human capital in the economy is leading to a higher level of the absorptive capacity of FDI in that economy:

5. Conclusions

Human capital, expressed by the percentage of the higher educated people in the population aged 20-24, is positively influenced by the FDI flow, the relationship being statistically validated. This influence is transmitted through the mechanism of economic growth.

As determinant of economic growth, the FDI flow stimulates the demand for tertiary education and accumulation of high quality human capital.

The findings of the study confirm the general results regarding the positive effect of FDI flow on human capital accumulation.

We have to mention the limits of the study, especially the low number of observations and the omission of other factors that can influence the results (economic, absorptive capacity of the economy, economic recession and wider time lags in the technology transfer).

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RUSSIA – The Clay Feet Giant in World Economy. A Forerunner Image of the Economic Crisis

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Abstract

Until recently the Russian economy was one of the fastest growing economies in the world. The economic growth brought an improvement in the standard of living of the average Russian citizen and also brought an economic stability that Russia had not experienced in at least a decade. This strong economic performance had been a major factor in the popular support that the Russian leadership enjoyed and was also arguably a factor in the boldness with which that leadership reasserted Russia's status as a world power, challenging the United States, Europe, the neighboring former Soviet states in economic and national security areas. However, as it has been the case with most of the world's economies, the Russian economy has been hit hard by the global financial crisis and the recession.

Cuvinte cheie: Economic Development; Foreign Trade; Inflation; Weaknesses.

Clasificare J.E.L.F5; O1; O4;

1. Introduction

Considering the situation ‘on surface’ we see that Russia has some of the world's largest reserves of oil, natural gas and other raw materials, many of which are critical to industrialized countries. Many European countries and former Soviet states are highly dependent on Russian natural gas. Russia is a significant player in a number of issues critical to the United States, such as nuclear proliferation by Iran and North Korea.[1]

Russia is also a member of the G-8, group of highly developed economies and has been a member of World Trade Organization - WTO since 22 August 2012, becomes the 156th WTO member. [2]

While the U.S. exports to Russia are still relatively small, Russia is an important market to the U.S. exporters of poultry, energy equipment, and technology. Russia is also an important supplier of a number of raw materials that are critical to the U.S. manufacturers.

Despite all these facts, the crisis has deeply affected the Russian economy. To better understand the internal mechanisms of the crisis processes[3] it is important to look more closely at the model of growth that evolved in Russia in 1998-2007 and on fundamental problems of the Russian economy, given that at present, growth is based on increasing the amount of knowledge and the number of innovations per adapt them rapidly and widely available.[4]

2. Economic Development: 2001-2008

The Russian economy bounced back quickly from the 1998 crisis and enjoyed over 9 years of sustained growth averaging about 7% due to a devalued ruble, implementation of key economic reforms (tax, banking, labor and land codes), tight fiscal policy, and favorable commodities prices. Real GDP has increased 6.9% on average per year in contrast to an average annual decline in GDP of 6.8% during the previous seven years (1992-1998). The positive GDP trends are reflected in other measurements that point to an improved Russian standard of living throughout the period.

Table 1. Selected indicators of the Russian economic development 2000-2008

	2000	2001	2002	2003	2004	2005	2006	2007	2008
GDP, %	10	5,1	4,7	7,3	7,2	6,4	7,7	8,1	5,6

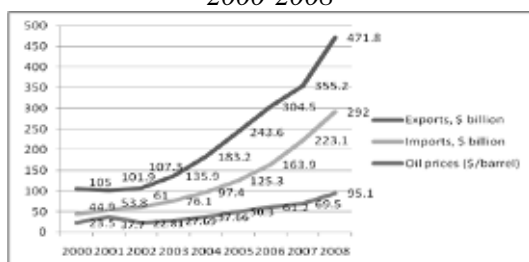
Industrial production, %	8,1	2,9	3,1	8,9	8,0	5,1	6,3	6,8	2,1
Fixed capital investment, %	17,4	10	2,8	12,5	13,7	10,9	16,7	21,1	9,8
Federal government balance, %GDP	0,8	3	1,4	1,7	4,4	7,5	7,4	5,5	4,0
Inflation %	20,2	18,6	15,1	12	11,7	10,9	9,0	11,9	13,3
Current account, billions of \$	46,8	33,9	29,1	35,4	59,5	84,4	95,6	76,6	98,9
Unemployment, %	10,5	9,0	8,1	8,6	8,2	7,6	7,2	6,1	6,3
Oil prices (\$/barrel)	23,5	37,7	22,8	27,6	37,6	50,3	61,2	69,5	95,1
Reserves (including gold), billions of \$	28,0	36,6	47,5	76,9	124,5	182,2	303,7	478,8	427,1

Source: BOFIT Russia Statistics[5],
Historical Crude Oil Prices [6]

Average real wages in Russia increased 10.5% per year from 1999-2008. In addition, real disposable income (the income that the average Russian resident has available from all sources after taxes) grew 7.9% from 1999 to 2008. The Russian unemployment rate also declined during the 1999-2008 period, from 12.6% to 6.3%.

Household consumption and fixed capital investments both grew by about 10% per year during this period and replaced net exports as the main drivers of demand. Inflation and exchange rates stabilized due to a prudent fiscal policy (Russia ran a budget surplus from 2001-2008).

*Graphic1. Exports driven by oil price
2000-2008*



Source: Constructed according to Russian Statistics Agency data [7]

Russia's foreign trade has increased sharply in the last ten years (1999-2008). During that period Russian exports grew close to 525%, from \$75.5 billion to \$471.6 billion and Russian imports rose close to 640%, from \$39.5 billion to \$291.6 billion. As a result, Russia has experienced rapidly increasing trade surpluses. Its merchandise trade surplus rose from \$36.0 billion in 1999

to \$179.7 billion in 2008. Russia's current account balance (which includes balances on merchandise trade, trade in services, investment income and unilateral transfers) increased substantially, from \$24.6 billion in 1999 to \$102.3 billion in 2008. As a result, Russia accumulated one of the world's largest foreign reserve holdings that have skyrocketed from \$12.5 billion in 1999 to \$427.1 billion at the end of 2008.

3. Weaknesses of the Russian Economy

Unfortunately, the Russian achievements of the recent years were based on weak foundations. Russia was unable to properly cope with the growing stream of petrodollars.

Despite the favorable picture, Russia has been plagued by continuing problems. The dramatic improvements in the performance of the Russian economy initially occurred not because of the right policy, but despite the lack of it. Inflation, while down from the sky-high rates of the 1990s, inflation rates remained high. From 2006 to 2008, the consumer price index rose by 9.0%, 11.9% and 13.3%, respectively. The life expectancy of the average Russian citizen, particularly males, remains low for a developed country. In 2006, it was 73.2 years for a Russian woman and 60.4 years for a Russian male. Increases in alcoholism and other diseases, such as tuberculosis and others which have been nearly eradicated in developed countries, have contributed to the relatively low life span, especially for males. It is also explained by the poor and deteriorating health system which has been slow to adjust to the transition from central planning.

It must be noted that Russia's economic growth was largely concentrated in a few sectors. Nor were the benefits of growth widely distributed throughout the society. More than one-third of the population of the Russian Federation continued to live below the poverty line. The Russian economy faced several weaknesses:

3.1. An overvalued exchange rate.

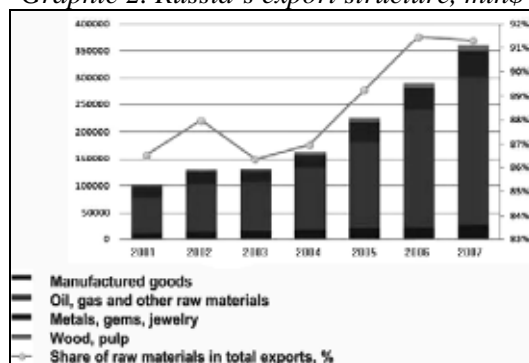
In recent years Russia has suffered from the "Dutch disease" – a dramatic appreciation of the real exchange rate of the ruble that undermined the growth of all industries except for those in the resource sector. The

Russian Central Bank was doing the right thing by going against the grain and accumulating foreign exchange reserves to prevent the appreciation of the ruble, but it did not do it fast enough, which resulted in the growing ratio of Russian prices to foreign prices. As a result, the Russian non-fuel industries could not compete with the foreign producers, so imports in real terms grew faster than anything else in the national economy. The growing trade surplus of recent years is mostly due to constantly increasing fuel prices, whereas the growth of the physical volume of imports (fivefold in real terms in 1999–2008) greatly outpaced the growth of exports in real terms.

3.2. Poorly diversified economy and export structure.

The Russian economy is too dependent on the oil and gas exports that account for one-half to two-thirds (depending on world fuel prices) of total Russian exports. The prosperity of recent years was mostly based on growing world fuel prices. A simple calculation shows the importance of the windfall oil revenues for Russia: the Russian GDP at the official exchange rate was about \$1 trillion in 2007, whereas the production of the oil and gas sector, which employs less than 1 million workers, is valued at about \$500 billion at world oil prices of \$80 per barrel. When oil was priced at \$15 a barrel in 1999, Russian oil and gas output had a value of less than \$100 billion. The difference, \$400 billion, is the fuel windfall profit that literally fell on Russia from the skies.

Graphic 2. Russia's export structure, mln\$



Source: Constructed according to the Russian Statistics Agency data [8]

3.3. Low spending for investment and public goods.

The government failed to channel the stream of ‘petrodollars’ into repairing the “weakest link” of the national economy – provision of public goods and investment into non-resource industries. Investment and government consumption amounted to about 50% of GDP in the early 1990s, fell to below 30% of GDP in 1999 (right after the 1998 currency crisis), and recovered only partially afterwards – to about 40% of GDP in 2007. Instead of using windfall petrodollars to repair the weakest link – state capacity to provide public goods – the government, on the one hand, decreased tax rates, allowing petrodollars to leak into personal incomes, and, on the other, maintained a budget surplus that expanded to nearly 10% of GDP and was used to finance the accumulation of foreign exchange reserves in the Central Bank and the Stabilization Fund.

3.4. High income inequalities.

Before the collapse of the Soviet Union, the richest 20% of the Russian population accounted for 30.7% of Russian income, while the poorest 20% accounted for 11.9%. In 2006, the richest 20% held 46.8% of the income, while the poorest 20%’s share had declined to 5.4%. The middle 60% of the population’s share had declined from 57.4% in 1992 to 47.8% in 2006. The two sets of income distribution measurements mean that while the Russian standard of living has improved, a small segment of the population is enjoying close to half of the benefits. In 1995 there was no person in Russia worth over \$1 billion, in 2007, according to Forbes, Russia had 53 billionaires, which propelled the country to the second/third place in the world after the US (415) and Germany (55) – Russia had 2 billionaires fewer than Germany, but they were worth \$282 billion (\$37 billion more than Germany’s richest). In 2008 the number of billionaires in Russia increased to 86 with a total worth of over \$500 billion – *one-third of the country’s GDP*.

Conclusions:

These weaknesses – an overvalued exchange rate, poorly diversified economy and export structure, low spending for investment and public goods, and high income inequalities – were partially concealed by high oil and gas prices in 2000–08, but were revealed during the Global economic crisis, as oil prices fall. Foreign exchange reserves of over \$550 billion (as of early October 2008) provide some room for maneuver and a chance for a “soft landing.” At the current rate of depletion (\$20 billion a month), Russia still has some time to adjust to the terms-of-trade shock. But even if oil prices do not fall faster, at the end of the day, there is no way to avoid devaluation and real restructuring in order to tackle the root problems rather than their symptoms. It is a paradox, however, that the need to deal with these weaknesses becomes more acute with the depletion of the required financial resources.

In fact, the right question to ask about the recent performance of the Russian economy is why Russian growth rates lagged behind the growth rates of other countries and were not even higher in 2000–2008 despite a nearly fivefold increase in average annual oil prices. The answer may be disappointing, but is hardly disputable – Russia did not manage to use its growing resource rents in the best possible way.

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Russia Under the Impact of the Global Economic Crisis

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Abstract

The global financial crisis, brewing for a while, really started to show its effects in the middle of 2007 and in 2008. Around the world stock markets have fallen, large financial institutions have collapsed or been bought out, and governments in even the wealthiest nations have had to come up with rescue packages to bail out their financial systems. Despite official attempts to designate Russia as a safe-haven in the stormy sea of the global financial crisis, the crisis has deeply affected the Russian economy.

Russia's fiscal decline –from an average of 7 percent annual growth before the crisis to a loss of 7.9 percent GDP in 2009 – is the highest figure among G20 countries.

Cuvinte cheie: Global Economic Crisis; Anti-crisis Policy; Business; Inflation.

Clasificare J.E.L.F2; O1; E6;

1. Introduction

As the case with most of the world's economies, the Russian economy has been hit hard by the global economic crisis and resulting recession, the effects of which have been apparent since the

last quarter of 2008. Even before the financial crisis, Russia was showing signs of economic problems when world oil prices plummeted sharply around the middle of 2008, diminishing a critical source of Russian export revenues and government funding.

In 2008, it faced a triple threat with the financial crisis coinciding with a rapid decline in the price of oil and the aftermath of the country's military confrontation in August 2008 with Georgia over the break-away areas of South Ossetia and Abkhazia. These events exposed three fundamental weaknesses in the Russian economy: substantial dependence on oil and gas sales

for export revenues and government revenues; a decline in investor confidence in the Russian economy; and a weak banking system. Europe's decision to temporarily suspend deliveries from Russia – after Moscow's January 2009 dispute with Ukraine – also drove prices down.

2. Effects of the Economic Crisis

The rapid decline in world oil prices discussed earlier has been a major factor in the overall decline in Russia's economy. Russian government revenues are expected to be adversely affected because of the drop in oil revenues, but also because of the decline in income tax revenues, which will cause the Russian government to incur a budget deficit for the first time in ten years, a deficit of perhaps 8% of GDP. Russia has also been adversely affected by the world-wide credit crunch that ostensibly began with the proliferation of subprime mortgages in the United States and the subsequent burst of the real estate bubble. Because low interest credit was not available domestically, many Russian firms and banks depended on foreign loans to finance investments. As credit tightened, foreign loans[1] became harder to obtain.

Table 1. Selected indicators of the Russian economic development 2006-2009 Q1

	2006	2007	2008	2009 Q1
GDP, %	7,7	8,1	5,6	-9,8
Industrial production, %	6,3	6,8	2,1	-14,3
Fixed capital investment, %	16,7	21,1	9,8	-15,6
Federal government balance, %GDP	7,4	5,5	4,0	-0,6
Inflation %	9,0	11,9	13,3	5,4
Current account, billions of \$	95,6	76,6	98,9	11,1
Unemployment, %	7,2	6,1	6,3	9,4

Oil prices (\$/barrel)	61,2	69,5	95,1	44,1
Reserves (including gold), billions of \$	303,7	478,8	427,1	383,9

Source: BOFIT Russia Statistics [2],
Historical Crude Oil Prices [3]

The economic downturn is showing up in Russia's performance indicators. Although Russia's real GDP increased by 5.6% in 2008 as a whole, it increased more slowly than it did in 2007 (8.1%) and grew only by 1.2% in the fourth quarter of 2008.

In 2008, Russia's real GDP was only 8th among the 15 former Soviet states (Azerbaijan's GDP increased 10.8%, Armenia 10.0%, Uzbekistan 9.0%, Tajikistan 7.9%; Kyrgyz Republic 7.6%; Moldova 7.2%; and Armenia 6.8%).[4]

The economic slowdown has been reflected in the Russian ruble exchange rate as well. The ruble has been declining in nominal terms because foreign investors have been pulling capital out of the market to shore up domestic reserves, putting downward pressure on the ruble. The ruble had declined as much as 45.6% between July 29, 2008 and April 21, 2009; it has recovered somewhat so, that by June 5, 2009, it had depreciated 31.8% since July 29. Russian official reserves have declined substantially in part because of Russian Central Bank has intervened to defend the ruble and current account surpluses have shrunk. Russian official reserves declined from \$597 billion at the end of July 2008 to \$384 billion at the end of February 2009, although they have increased to \$404 billion by the end of May 2009. Another sign of financial trouble for Russia was a rapid decline in stock prices on the Russian stock exchanges. At the close of business on May 10, 2009, the RTS index [5] had lost 62% of its value from its peak reached on May 19, 2008, although the index has shown signs of rising recently. (The RTS Index is a free-float capitalization-weighted index of 50 Russian stocks traded on the MICEX-RTS Stock Exchange in Moscow, Russia. The list of stocks is reviewed every three months by the RTS Information Committee).

3. Russia's Anti-crisis Policy

The major peculiarity of the Russian anti-crisis policies was the decision by its leaders to gradually devalue its currency—known as stepwise devaluation—after months of expectation in November of 2008. Such devaluations are rarely recommended. They tend to create expectations of a continuous cycle of currency depreciation, and consequently, a vicious cycle easily arises leading to excessive depreciation of the currency.

Observers believe that the Prime Minister Putin adopted the stepwise devaluation policy over the objections of practically all others involved. He apparently based it on arguments that it would maintain the currency's stability, whereas a one-off devaluation – usually the preferred alternative – might have led to difficult-to-forecast reactions of the public. At the same time, gradual devaluation gave economic agents ample time to adjust their assets through the privatization of currency reserves. This meant that the authorities did not have to fulfill their initial promises to provide foreign currency support to all companies and banks with foreign debt.

Apart that, the Russian government has responded to the crisis with various measures to prop up the stock market and the banks. The packages, valued at around \$180 billion, are proportionally larger in terms of GDP than the U.S. package that Congress approved in September 2008. In mid September, the government made available \$44 billion in funds to Russia's three largest stateowned banks to boost lending and another \$16 billion to the next 25 largest banks. It also lowered taxes on oil exports to reduce costs to oil companies and made available \$20 billion for the government to purchase stocks on the stock market. In late September, the government announced that an additional \$50 billion would be available to banks and Russian companies to pay off foreign debts coming due by the end of the year. On October 7, 2008, the government announced another package of \$36.4 billion in credits to banks. In 2009, the government changed strategies by focusing on macroeconomic measures rather than measures to assist specific industries or firms. For example, the government reduced

the corporate tax rate from 24% to 20% and the tax rate on small companies to try to stimulate investment. The government expects to rein in expenditures as it anticipates lower revenues but still anticipates its first budget deficit in 10 years, which the government will be able to finance at least for the time-being from accumulated reserves. While cutting expenditures might be considered fiscally responsible on the one hand, it could retard government investment in obsolete infrastructure and expenditures on pensions and other social income transfers, contributing to a drag on the rest of the economy.

4. Present Situation

4.1. Export.

Economic recovery was primarily export-driven in the second half of 2009. Resumed growth in Russian exports correlated with a recovery of global trade. Yet even though exports grew, they only reached, but did not exceed, the pre-crisis level. While in normal economic conditions a small increase in exports might have triggered economic growth, in the current post-recession economy exports alone are insufficient to support Russia's recovery.

4.2. Industry.

Industry, a critical component of the Russian economy, is performing below its pre-crisis level as well. The only growth of note has been in those industries that benefited directly from the boost in foreign trade.

4.3. Household Income.

Unemployment remains high, with the official numbers skewed because they fail to include many unregistered foreign workers, who dominate the construction and retail industries. Yet, despite high unemployment rates, household income has grown in the past two years due to increased government spending on wages and pensions. This growth in income contributed to an increased flow of imports into Russia, affecting Russia's trade balance. The crisis also

changed Russia's position in terms of attracting foreign direct investment (FDI). Surprisingly, Russia is among the top five developing countries in terms of attracting FDI. [6]

Table 2. Selected indicators of the Russian economic development 2009-2011

	2009	2010	2011
GDP, %	-7,8	4,3	4,3
Industrial production, %	-9,3	8,2	4,7
Fixed capital investment, %	-15,7	6,0	8,3
Federal government balance, %GDP	-5,9	-4,1	0,8
Inflation %	8,8	8,8	6,1
Current account, billions of \$	48,6	71,1	98,8
Unemployment, %	8,2	7,2	6,1
Oil prices (\$/barrel)	53,48	71,21	87,04
Reserves (including gold), billions of \$	439,0	479,4	498,6

Source: BOFIT Russia Statistics [7],
Historical Crude Oil Prices [8]

Despite its deficiencies, Russia successfully responded to the global crisis, and as oil prices are rising again, it does not face any serious problems in the immediate future. But the global crisis has exposed the severe structural problems that have been plaguing the Russian economy for decades. For the country to enjoy again the growth it had before the global crisis, it urgently needs a comprehensive reform. The current system is no longer suitable for the challenges ahead and is facing a dead end; it is not sustainable in the long run and must change. But, as it is typical of a country suffering from a resource curse, the Russian leadership will likely delay reforms as long as oil prices stay high. Reliance on energy rents to once again fuel Prosperity while ignoring fundamental reforms will only slow growth in the long run and eventually lead to bankruptcy. How long will the Russian society be willing to live with low growth, which is inevitable without serious reforms? Will the government remain

popular if real disposable income rises at 1 to 2 percent per year rather than 9 to 10 percent?

Among the severe structural problems are poor infrastructure; excessive regulations; energy inefficiency; high public spending, especially on pensions; heavy dependence on commodities, especially oil and gas; and widespread corruption and weak rule of law. Even without the global crisis, these problems would have inevitably led to an economic collapse (or at least a significant slowdown) by the end of the decade. Many economists note that a slowdown in some important sectors began well before the crisis, and the causes were purely domestic, having nothing to do with the global environment. [9]

Russia is an important international power, but it does not have sufficient resources to be a global superpower. Russia's conventional forces, even when they are eventually reformed will have only a limited capacity to act beyond the country's borders. More importantly, the Russian defense-industrial base will have to be fundamentally restructured to support even that capacity.

As the economic crisis has demonstrated, the model Russia's present leaders have chosen – growth without development, capitalism without democracy, and great power foreign policy without international appeal – can run only so far. Unless the country modernizes, Russia will further marginalize its position in global affairs. Russia's foreign policy is as much in need of a fundamental overhaul as are its economy and social and political systems. Instead of pursuing a separate course, Russia should aspire to integrating itself into the world economy.

The Russian leadership has a great opportunity to change things for the better. On the one hand, it is evident that the current economic model cannot deliver sufficient growth in the next several years. On the other, the Russian regime does not face any apparent immediate internal or external problems. Therefore, the Russian government can launch reforms if it so desires. The president of Russia himself has expressed the enormous challenges his country faces in his September 2009 manifesto-article, "Go Russia!" – "Should a primitive economy based on raw materials and endemic corruption accompany us into the future?" he asks.

Only time will tell if this stark analysis of Russia's structural challenges will prompt the leadership to pursue the much-needed reforms.

Conclusions:

Russia rises and falls with oil prices, which have a huge impact on the real, external, fiscal and monetary developments. It is open whether Russia will be able to reduce its vulnerability to oil price fluctuations by generating non-oil growth. Russia's unfavourable business climate remains a serious impediment for non-commodity and commodity sector development alike. In fact, global economic crisis revealed those weaknesses of the Russian economy:

- An overvalued exchange rate;
- Poorly diversified economy and export structure;
- Low spending for investment and public goods;
- High income inequalities.

Keeping in mind that the government did not take any measures and did not held any reforms, the effects of the crisis were quite dramatic. Crisis resulted in:

- Loss of 7.9 percent GDP in 2008;
- Drop in export prices;
- Decline in some export volumes;
- Massive outflows of portfolio investment and capital flight.

In fact, Russia managed to survive and to respond to the global crisis, basic indicators are growing again and even if Russia is not able to develop a healthier model for sustained catch-up growth based on investment, innovation and human capital accumulation, and continues to rely on commodity exports, this would still be a reasonable basis for economic growth, provided commodity prices remain sufficiently high and Russia's natural resources are skillfully managed.

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Psychological Effects of Economic and Financial Crises on the Behaviour and Mental Health of Individuals

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Abstract

The present paper brings forward the psychological effects of the financial and economic crisis upon individuals. Following the empirical research as well as the specific literature, we discovered that the greatest psychological effect of the financial crisis upon individuals is created by the financial stress. Moreover, the study shows that the financial stress, as a psychological effect of the financial crisis, is associated with the fear of not being able to accomplish the financial needs, the impossibility to have a high standard of living, a lower self-respect and the withdrawal from former social groups.

Key words: psychological effects, financial and economic crisis, behaviour, financial stress, mental health.

J.E.L. Classification: F 650

1. Globalisation and financial crises

The moment when globalisation exacerbated, financial crises appeared. These crises reveal the price instability on the financial markets, as well as the "lack of cash", without which the geo-economic system cannot function. Throughout history, examples of economic crises are numerous and unpleasant, but the world economy "memory" has only kept the following: the great stock market crash (The Wall Street Crash) in 1929 which triggered "the great recession" that lasted until 1933; the stock market crash in 1987, which was the greatest crash recorded in a single day, and then there are the emergent markets crises of the 90's

which involved significant geopolitical and economic repercussions.

At the moment we are in the middle of the most serious financial crisis compared to the great 1929-1933 crisis. At a glance, this crisis, which started in the USA, resembles the others very much, but there is also one significant element which makes the difference: it designates the end of an era of credit expansion, which has the dollar as a currency reference [1]. The US government wish for the Americans to be able to buy a house has forced FED to cut the refinancing interest rate of commercial banks by 1% a year since the 90's. Given these facts, banks granted credits with an interest rate of 2-4% a year, which led to an unprecedented "real-estate boom". Since 2000 and until 2005 we assisted at a real-estate frenzy that was supported by a market quota increase of over 50%. This overwhelming increase actually favoured speculations on the value of both the houses and the loans. Thus, when we expect the house value to be higher than the loan, the tendency is to purchase as many estates as possible (in 2005 more than 40% of the real estates were holiday residences or investments). Since 2005, the inflation danger which was threatening the USA, forced FED to increase the interest rate up to 5% a year. Therefore, commercial banks operated an interest rate rise of 6-8% a year. These doubled or even tripled interest rates have led to the impossibility of instalment payments and to foreclosures [2]. Thus, millions of people couldn't cope with FED's new interest rates, and banks suddenly found themselves in the possession of an impressive number of houses, which they tried to auction, thus unbalancing the interbanking relations. The major cause that created the crash in the international banking relations

was the fact that American banks succeeded their refinancing by selling the high risk real estate contracts (the contracts with a low payment capacity of the population) to other worldwide investment banks (UBS-Switzerland, Deutsche Bank - Germany). *What did the other countries hope for regarding the crisis?* The answer is simple. They wished to avoid contagion, which developed during the crises in the 90's. But the story seems to have repeated, and the whole world economy "is catching the American flu". Contagion, or the domino effect seems to function really well [3]. In the US, the economic crisis started in 2007, while the European and the continental economies were perfectly going on. Now, after five years, the international media announces significant downsizing in many states and on different continents.

2. Psychology and human behaviour

Psychology is a developing science with the goal to understand, discover and explain human nature – the mental process and the behaviour which make us what we are and separates us from other beings. Personality psychology, which is part of social psychology, studies the influences of information, situations and of other individuals on people and tries to understand the changes of personality caused by them. That is, personality psychology investigates the individuals' ideas, feelings and behaviour.

Behaviour is the externally observable response of a person to an environmental stimulus. According to psychology, behaviour presents an intellectual feature, as well as an intentional and an emotional one [4].

Behaviour, which depends both on the individual and on the environment, but mostly on the economic environment, always makes sense. It corresponds to seeking a solution or an object likely to reduce the needs of the individual. In the economic literature, classical and neoclassical theories describe man as rational and able to make the best decision. This "perfect man" was called *Homo economicus* [5]. Meanwhile, research determined *homo economicus* "to change his style", which led to the dissolution of a rational *Homo Economicus*. The change of

style was supported by the development of the *limited rationality* that considers human beings as unable to make efficient decisions because they cannot have all the data and do not efficiently anticipate the outcome. Thus, if we take limited rationality into account, we may say that the greatest psychological effect of the crisis upon the individuals is the financial stress.

3. Financial stress

According to the *American Psychological Association*, the most common source of stress is money, or the lack of money [6]. Is present in people's life from all social classes and it appears where the individual cannot cope with changes.

Generally, stress may be defined as an unpleasant feeling that appears with the fear of loss or when threatened by something such as economic and financial crises, which are external stress factors to individuals. More precisely, financial stress may be perceived as breach in the daily program of both the individuals and the financial markets [7].

According to Chinese culture, risk has a double meaning, being a combination between danger (crisis) and opportunity. Following this line, we may interpret financial stress in the same dimension.

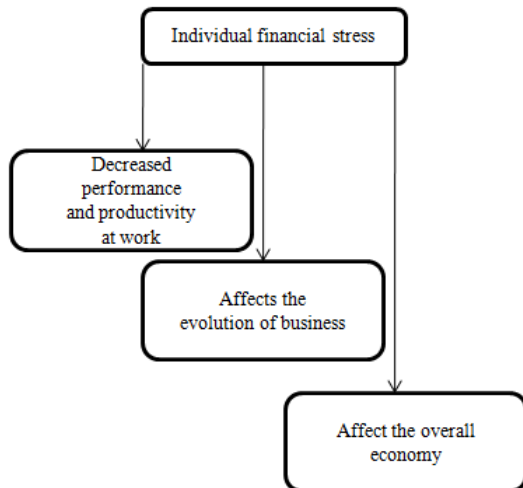
- *Financial stress as danger.* Financial stress is different from one person to another and it may appear under several forms, starting with the threat to lose one's job. Such features are: the fear of being unable to meet one's financial needs, a lower standard of living, a lower self-respect and the withdrawal from former social groups when financial stress appears.
- *Financial stress as opportunity.* Financial stress may also lead to positive changes in one's life: finding a job, or improving the ability to manage personal finances.

The intensity of the financial stress is mostly measured by the lapse of time which postpones the purchase of household appliances, the rhythmic payment of bills (a major stress factor), the decrease of the living standard, the lack of cash flow, the possibility to lose one's job [8].

Generally, it is very difficult to assess the cost of financial stress for both the individual and the society as a whole. However, the cost

may be set according to the effects that financial stress has upon the individual mental health, as well as upon the economy. Within the economy, financial stress may reduce job performance and productivity, thus creating a gap within the business development and the general economic system.

Figure 1. The individual financial stress outcome



Source: Authors' research

4. The impact of the economic crisis upon the individuals' mental health

Sanity is very important as it allows the individuals' personal development in the emotional, psychological, intellectual and social dimensions. Moreover, it is beneficial for the job atmosphere, in order to determine an economic growth and a social development.

It is expected that an economic crisis affect the mental health of the individuals. Sanity problems caused by the economic crises produce chaos in the community, within the country, and at the level of world economy.

Table 1. The significant element of the population's sanity

Protection factors	Risk factors
Social capital and social protection	Poorness and high debts
Children's health before and after birth	Unhealthy food, mental health heredity

Balance at work and at home	Unemployment, job insecurity, stress at work
Healthy life style	Alcohol and drug addiction

Source: World Health Organization, *Impact of economic crisis on mental health, 2011*

The different personality features of individuals make them react differently when facing the economic crisis. Thus, they may experiment a constant search to find solutions to overpass the crisis, they may ask for extra state incentives or social protection, or they may increase consumption and ignore the crisis. On the other hand, they may develop anxiety issues and display nervous breakdowns due to a constant feeling of helplessness.

The world economic situation demonstrates that the crisis started in 2007 affected the population on three different channels:

- *Channel 1 – the stock exchange and the real-estate market* (this level has affected the investors who had resources and invested in securities or over-the-counter derivatives, but also on the estate market);
- *Channel 2 – banks* (this category includes people who have financed their purchases by obtaining bank loans);
- *Channel 3 – pay cuts and layoffs* (it affected people whose salaries decreased and those who lost their jobs due to downsizing or to bankruptcy) [9].

According to World Health Organization studies, the present crisis has significantly affected Europe. Thus, Europeans lost their jobs and the vulnerable groups, such as people with low incomes and very poor people, were socially excluded. World Health Organization includes children, single parent families, unemployed people, ethnic minorities and old people among the vulnerable groups. Poorness affects children in their cognitive, emotional and physical development, as well as their life-long health and wealth [10].

Besides the negative effects of the economic crisis on the individuals' mental health, there is also the opportunity to strengthen economic policies of social support.

The health system cannot assure the individuals' sanity without the help of the

state. Thus, the side effects of the economic crisis may be diminished by economic policy measures:

- creating active programs for the labour market (programs to keep jobs, or requalification programs to reintegrate people on the labour market, special programs for young, unemployed or disabled people);
- family support programs (support for further study, for maternity leave and for the child-raising leave);
- a significant increase of the alcohol price, as well as lower distribution, which determines a decrease of alcohol consumption;
- medical assistance for people with a high risk of mental health problems;
- programs to cut people's debts to the state.

5. The psychological impact of the economic crisis upon the Romanians

Nowadays, Romania – an emergent economy with severe systemic problems (inflation, unemployment, corruption, education, EU funds absorption, infrastructure, and loan-dependent) which is open to the external market – was deeply affected by the present unfavourable economic situation.

Connecting the Romanian economy to the international economic flows favoured the development of contagion (generated by the US sub-prime crisis) inside Romania. The moment the sub-prime crisis burst continues the *timeline design* of the other economic and financial crises.

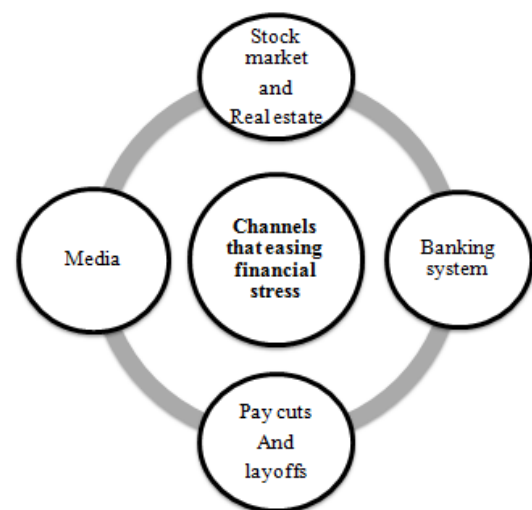
According to the *Oxford Dictionary*, the term “contagion” is defined as the communication of disease from one person to another by close contact. However, the word comes from Latin and is made up of *con* (with) and *tangere* (touch) [11]. *The theory of contagion* which was developed by Mori Kogid și Kok Sook Ching in 2009, demonstrates that no country in the affected region cannot avoid contagion of such an economic crisis... [12].

After 8 years of economic (2000 - 2008) and very sure on itself, Romania is now dealing with the reverse situation which has a major psychological impact upon Romanian consumers and investors. Thus, due to a long

lapse of economic growth, the present economic crisis is psychologically difficult and rather impossible to accept for the Romanians.

The channel that favoured the appearance of the financial stress in the case of Romanian consumers and investors are the same (the stock exchange, the real-estate market, the pay cuts and layoffs). However, we wish to add a fourth level that has a major psychological impact on the Romanian population, and that is *the media*.

Figure 2. The channels that send financial stress



Source: Authors' research

The year 2008 came with the same crisis situation for the Romanian Stock Exchange and determined the decline of the equity market. The equity market faced two important phenomena that had a negative impact on the investors:

- institution investors were out of the market until the emergence of positive signals on the market evolution;
- risk aversion, Romanian investors preferring to protect themselves against any risk which could threaten their investment.

The investments on the real-estate market that were based on *buy cheap, sell expensive* have worked until mid-2009, when investors considered them *a free lunch*. Starting with June 2009 and until June 2010, real estate investments started to record a major decrease, with a 30-40% loss of the investment.

Banks represented the second channel that

had a psychological impact on the population. Actually, this channel is closely connected to the third one, which deals with pay cuts and layoffs. Most Romanians have asked for bank loans in order to purchase real estates or household equipment. Pay cuts and layoffs do nothing but higher the risk of default of borrowers to banks, thus causing losses on both sides: borrowers are left without estates or purchased goods, and banks face foreclosure.

Just as the economic crisis, the media is a constant figure in people's lives and it has a significant psychological effect on the population, because the human brain processes the information according to word utterance, attitude and voice volume. In the article "What are the psychological effects of the financial crisis?" published in Psychologies Magazine, Radu Crăciun, investment manager at Eureko Pensions, considers that: "there is a terrible "noise" in the media regarding the crisis. It is a situation where professional opinions, rational and non-biased voices cannot be heard at all. Unfortunately, people look for the extreme and farcical opinions, as the decent ones are not "spicy" enough for the audience. This media bombardment artificially augments the stress factor and creates misinformation".

6. Conclusions

The effects of the economic crisis are numerous and omnipresent, thus creating vulnerability within the daily activities. Therefore, we can say the appearance of an economic crisis triggers important changes for the individuals on the one hand, and represents a major challenge for the governments dealing with the crisis. Hence, it is very important to model efficient measures in order to overcome the economic crisis (creating active programs for the labour market, medical assistance for people with a high risk of mental health problems, programs to cut people's debts to the state, reintegrating the unemployed on the labour market). Moreover, there are other important measures that help people to overpass the economic crisis, such as promoting stress management by psychological support as well as professional career guidance systems.

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The Evolution of Foreign Exchange Policy and its Impact upon Romanian Trade Competitiveness with European Union

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Abstract

In the five years since the accession to the EU in Romania's foreign trade occurred significant changes, particularly complex. The instrument of accession of Romania became part of an economic and customs union, the prospect of European monetary union membership. Opportunities offered by free access to European markets were accompanied by threats of increased competition for foreign domestic products.

Keywords: foreign exchange policy, competitiveness, European Union, Romania's foreign trade, volatile exchange rates

Jel Code: F50, F59

1. Introduction

This paper presents the evolution of foreign exchange policy and its impact upon Romanian trade competitiveness with European Union and is structured into 6 sections. In first section is presented the subject of the paper, section 2 is a review of of the relevant literature of international trade and the factors that influenced its evolution. Section 3 presents some characteristics of the Romanian foreign policy, developing VAR model and analyzing the interactions between exchange rate volatility and exports to the Euro zone. In section 4 is presented the analysis of the impact of exchange rate volatility on Romanian exports to the Euro zone and in section 5 the prospects of Euro adoption. The paper ends with some conclusions.

2. Literature review

Factors of a country's foreign trade development have been approached in several theoretical works. Ricardian model, of the nineteenth century, proposed specialization of a country for those goods in which it has comparative advantage. Hecsher-Ohlin model, in the first half the last century, states that a country should export those goods that can be achieved with inputs which are in abundance, instead importing goods which consume rare and expensive inputs. Rybczynski made a few decades later, the theorem which bears his name and which revealed the role that trade plays in performance-intensive inputs. Stolper-Samuelson theorem stated that an increase in the relative price of a good will increase the efficiency of factor used intensively efficiency while decreasing other factors. Krugman and Obstfeld approached the mechanisms through which FDI can help a country's export growth: the transfer of modern technologies, taking advantage of multinational experience in foreign markets. Dornbusch and Fischer explained the role that exchange rates, both nominal and real ones, exercise in analyzing a country's exports. Currency depreciation leads to cheaper exports that become more competitive, while strengthening the national currency make them more expensive and thus causes loss of competitiveness of exports.

3. Characteristics of the Romanian foreign policy

The literature has highlighted the impact that developments in exchange rates may have on trade. A very strong currency reduces the competitiveness of local producers, encouraging imports and discouraging exports. In contrast, a weak currency cheaper domestic products, increasing their competitiveness. Sometimes, states face substantial current account deficits resort to currency devaluation to stimulate net exports. However, this measure has some major drawbacks, the effects of inflation and that impact on competitiveness can be decreased with the increased price of imported raw materials.

Using foreign policy to increase foreign trade competitiveness has some features the exchange rate regime.

In 2005 the central bank formally adopted a new policy on money, based on inflation targeting. In principle, this arrangement requires that the central bank to refrain from massive intervention in the forex market, acting only when the exchange rates reach levels that threaten to jeopardize the macroeconomic balance.

In practice, inflation targeting has brought significant changes in foreign policy, central bank interventions still remain crucial for the formation of exchange rates.

In general, exports and imports Romania reacted substantially to the strengthening or weakening national currency, which would justify consideration of the application of active foreign policy towards current account balance. However, currency depreciation has had significant impact on prices, which could jeopardize the National Bank of Romania (NBR) anti-inflationary policies. In addition, designing foreign policy and other constraints involved:

- major differences between real interest rates prevailing internal and external;
- presence of massive speculative currency market in Romania;
- substantial funds sent the country of foreign nationals working abroad;
- foreign capital inflows.

In developing foreign policy should be considered and the prospects of euro adoption, obligation assumed by Romania's EU accession. This process requires certain

conditions, some of which are difficult to follow for the Romanian economy. However, even where the criteria for joining the euro zone could be met in order for euro adoption issues involved potential effects on trade. It can be assumed that the euro introduction will substantially reduce international transaction costs and bring more stability to exchange rates. However, besides these beneficial effects for exporters, joining the euro zone could encourage imports.

4. Analysis of the impact of exchange rate volatility on Romanian exports to the Euro zone

In recent years Romania's exports to the Euro zone rose steadily, becoming one of the main components of trade balance. In assessing the consequences of joining the euro area is important to analyze how the volatility of exchange rates influenced, so far, exports to the Euro zone.

The literature can be found in particular views about the effects of exchange rate volatility on exports, among which we mention: a model in which managers of export firms, with risk aversion, decide to reduce their production conditions instability in exchange rates or a model where the conditions of volatile exchange rates managers exporting firms will increase production to ensure that they obtain the necessary foreign funds.

Based on a VAR model, we analyze the interactions between exchange rate volatility and exports to the Euro zone. Using the following variables:

- RX = logarithmic value of monthly exports real, seasonally adjusted;
- RSTD = logarithmic least square values of the monthly real exchange rate (based on Baum method);- d_RX = first differences RX;
- d_RSTD = first differences RSTD.

Stationarity of the variables was analyzed based on the ADF test and Lann Saikkonen test. Based on the graphic representation was decided to use as a deterministic trend component and a constant if and only variables to a constant level for the first differences (Figure 1).

In Table 1 ADF test results for level variables. A result that may be considered as stationary RSTD for all four criteria for

choosing the lag number of sites, while in the case of RX non-stationarity null hypothesis can be rejected only the three criteria.

The results of Augmented Dickey Fuller stationarity level values of two variables (with a constant and a variable trend as deterministic terms)

Table

no. 1

Variable	Number of lags	Test value
RSTD	AIC, FPE: 3	- 4.9467***
	HQC, SC: 0	- 7.5405***
RX	AIC, FPE, HQC : 6	- 3.6653**
	SC: 3	- 2.3572

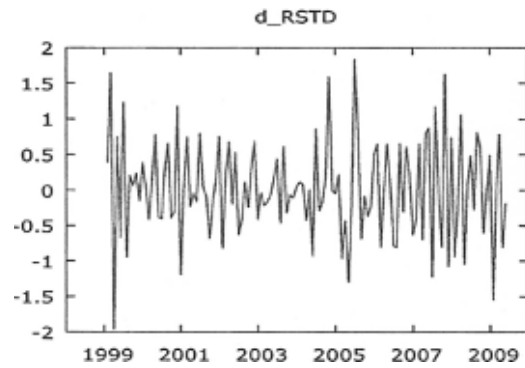
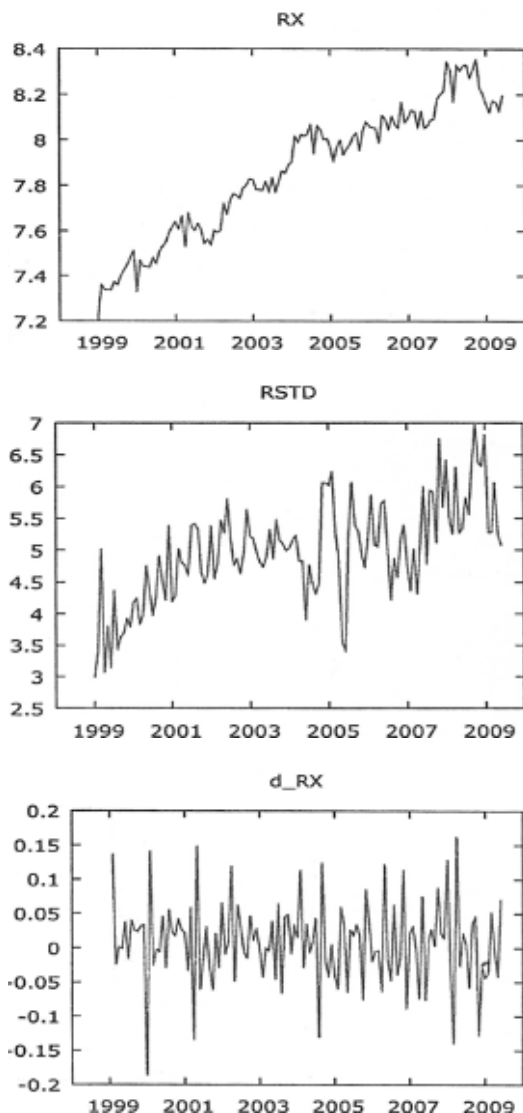


Figure no. 1 Evolution of RX, RSTD, d_RX and d_RSTD

Lanne-Saikkonen test gives an ambiguous image on two variables at stationarity level (Table 2).

The results of Lanne-Saikkonen stationarity test - values level of two variables (with a constant and a variable trend as deterministic terms)

Table no. 2

Variable	Shift Function	Structural change	Number of lags	Test value
RSTD	Impulse	2005 M5	AIC, FPE: 3	- 4.5723***
		2005 M5	HQC, SC: 0	- 7.5164***
	Shift	2005 M7	AIC, FPE: 3	- 2.4721
		2005 M7	HQC, SC: 0	- 4.4259***
RX	Impulse	2008 M3	AIC, FPE, HQC, SC: 6	- 4.0068***
		2008 M12	AIC, FPE: 6	- 3.8158***
	Shift	2008 M12	HQC: 3	- 2.8543*
		2008 M12	SC: 2	- 2.3717

For variables d_RSTD and d_RX, ADF tests showed unequivocally reject of the non-stationarity null hypothesis (Table 3).

The results of Augmented Dickey Fuller stationarity test for the first differences of the two variables (with a constant as deterministic terms)

Table no. 3

Variable	Number of lags	Test value
d_RSTD	AIC, FPE: 8	- 6.1770***
	HQC: 5	- 7.2912***
	SC: 3	- 8.0247***
d_RX	AIC, FPE: 7	- 4.7679***
	HQC, SC: 1	- 12.0347***

The stationarity for the first differences was confirmed by the Lanne-Saikkonen test (Table 4).

The results of Lanne-Saikkonen stationarity test for the first differences of the two variables (with a constant as deterministic terms and with a Impulse Shift Function)

Table no. 4

Variable	Structural change	Number of lags	Test value
d_RSTD	2005 M7	AIC, FPE: 8	- 5.3606***
	2005 M7	HQC: 3	- 6.2018***
	2005 M7	SC: 1	-11.2864***
d_RX	2008 M3	AIC, FPE: 7	- 4.9728***
	2008 M3	HQC: 2	- 6.0692***
	2008 M3	SC: 1	-10.8703***

Stationarity analysis results led to the use of first differences in a VAR model. Equations parameters that model are given in Table 5. Based on correlation coefficients can be appreciated that interactions between the two variables are quite weak.

Interaction between d_RX and d_RSTD determined on a VAR model

Table no. 5

Equation 1: d_RX

Variable	Coefficient	Standard Error	t Test	p Value
const	0.0100491	0.00488363	2.0577	0.04177**
d_RX_1	- 0.441996	0.0763952	- 5.7857	0.00001***
d_RSTD_1	- 0.00401658	0.00623557	- 0.6441	0.52070

Average dependent variable	0.006755	Deviation of dependent variable	0.059106
Total squared residual values	0.339347	Regression standard error	0.052958
R ²	0.210262	Adjusted R ²	0.197209
F(2, 121) Test	16.96924	p Value of F Test	3.19e-07
Rho Coefficient	-	Durbin - Watson Test	2.230205

Equation 2: d_RSTD

Variable	Coefficient	Standard Error	t Test	p Value
const	0.0138883	0.057023	0.2436	0.80799
d_RX_1	0.902171	1.01924	0.8851	0.37784
d_RSTD_1	- 0.367713	0.0972494	- 3.7811	0.00024***

Average dependent variable	0.013699	Deviation of dependent variable	0.677364
Total squared residual values	48.99073	Regression standard error	0.636303
R ²	0.131910	Adjusted R ²	0.117562
F(2, 121) Test	7.149741	p Value of F Test	0.001162
Rho Coefficient	-	Durbin - Watson Test	2.134341

Analysis of "impulse - response" performed on the VAR model showed that

increased exchange rate volatility leads to lower exports, while export growth increases the volatility of exchange rates (Figure 2).

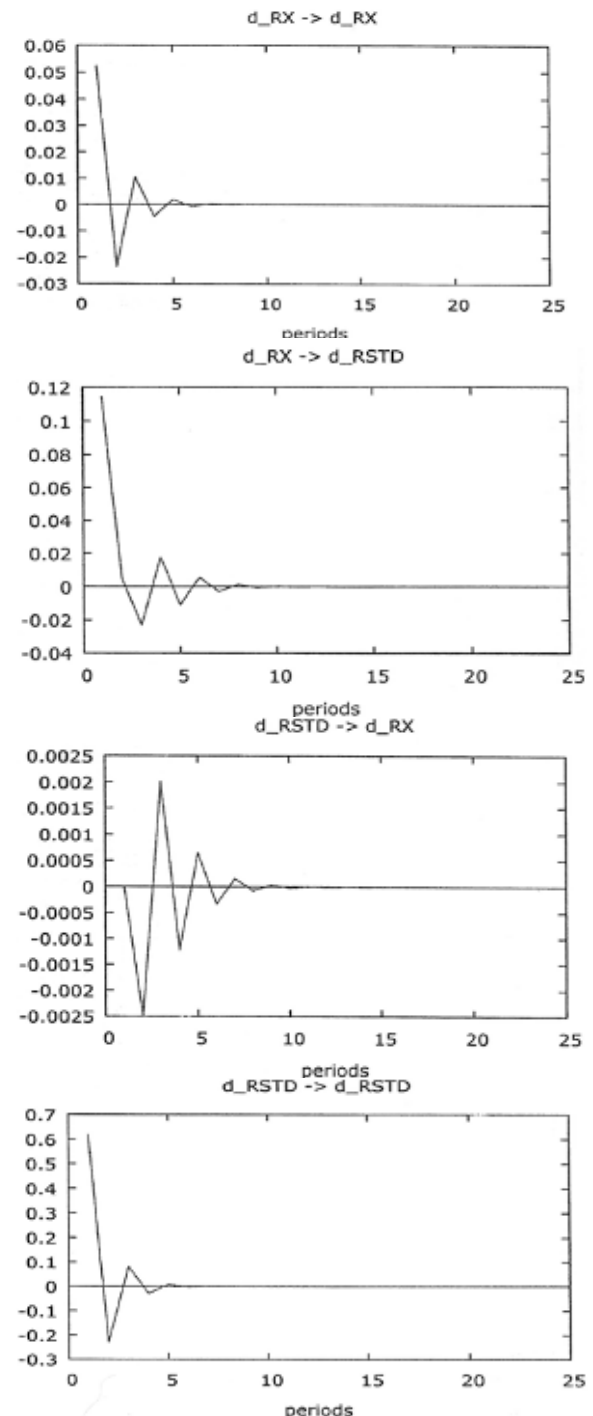


Figure no. 2 Analysis of "impulse - response" between d_RX and d_RSTD

Reduced influence on the volatility of exchange rates has on exports can be largely explained by the fact that they are made by subsidiaries of multinational companies,

which cover foreign currency exposure is relatively easy.

5. Prospects of Euro adoption

The instrument of accession to the European Union and Romania has committed itself to adopt the single currency with the performance of nominal convergence criteria stipulated in the Maastricht Treaty. This process involves a deepening of economic relations between Romania and the Euro zone states.

Dates of accession to the European Monetary Union produced by NBR provide Romania participation in the Exchange Rate Mechanism (ERM II) in 2012 and the Euro adoptions in January 2015. However, the convergence report by the European Commission in May 2008 stipulates that the nominal convergence criteria are met only those on public finances (Table 6).

Maastricht criteria (Nominal convergence indicators)

Table no. 6

Nominal convergence indicators	Maastricht criteria	Romania 2008	Romania 2009
Inflation rate (HICP *) Percent average annual)	<1.5 pp above the average of three best performing EU members	7,9	7,4
Consolidated budget deficit (percent of GDP **)	Below 3 percent	5,4	...
Public debt (percent of GDP **)	Below 60 percent	13,6	...
Exchange rate against the Euro (appreciation/depreciation percentage maximum two years ***)	+/-15 percent	+9,7/-14,6	+7,2/-22,7
Long-term interest rates (percent per year annual average)	<2 pp above the average of three best performing EU members in terms of the inflation criterion	7,7	8,3

Source: EUROSTAT, BCE, CE, INS, BNR

... - missing data;

* HICP–Harmonized Index of Consumer Prices;

** According to SEC95 methodology

Process of adopting the Euro will impact directly on the possibility of influencing foreign trade through foreign policy. By

joining the ERM II Romania will be obliged to keep the Leu/Euro within a fairly narrow range of variation in relation to the official parity. The Euro will mean the transfer from the National Bank to the European Central Bank of all tasks related to foreign policy.

In the specialized literature was found that besides the nominal convergence criteria should be followed and other circumstances generically called real convergence criteria upon which the success of adopting the single European currency:

- actual level of GDP per capita;
- sector structure;
- the openness of the economy;
- EU trade share in total foreign trade.

Recent studies have revealed that large gaps between labor productivity and earnings of a new country joined the other Euro zone countries can cause distortion and imbalance of trade.

From this perspective indicated that decisions on ERM II entry and Euro adoption should be preceded by careful analysis of the performance of real convergence criteria. The process of adopting the Euro would occur and recent developments in the Euro area significantly affected by economic imbalances Greece.

6. Conclusions

Romania's foreign trade passed through a complex period marked by the process of European integration and the ongoing consequences of the global crisis.

The current international conjuncture induced difficulties in penetration of foreign capital. Limited financial resources and declining demand in some markets following the global crisis dropped the whole impetus for investment. However, in the current context could become more attractive investments in countries where labor cost is low. From this perspective, but Romania is competing neighboring countries like Ukraine, Serbia and Moldova. To encourage foreign direct investment can be considered a tax reduction, including reducing salary related contributions. However, implementation of this measure is subject to balanced budget constraints that Romania must observe in the current difficult.

Another measure to balance the trade balance would include applying a policy

evidenced by the depreciation of the Leu currency against the currencies of international partners. Such a measure could increase the competitiveness of discouraging exports, while some imports. However its effectiveness is conditional on several factors: the degree of incorporation in exported goods of imported raw materials, price elasticity of demand from domestic and foreign markets etc. Moreover, in this field are a number of macroeconomic constraints.

In foreign policy approach towards increasing the competitiveness of Romanian products should be considered the prospect of Romania's accession to the Euro zone. Participation in the ERM II will greatly hamper foreign policies while adopting the euro will eliminate the possibility of influencing the Romanian authorities of foreign trade through exchange rates. This is however subject to the fulfillment of the nominal convergence criteria that could be involved in the current context, an effort to burden the national economy.

To move towards foreign markets of non-exporting firms is action needed on the perceptions of managers regarding the benefits and barriers to entering foreign markets. To this end, differentiated policies are necessary features of the firms concerned. The current global crisis would act as a catalyst for many Romanian companies towards entering foreign markets, especially where Romania will come out of recession late compared with other countries.

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Determination of the Economic Potential of Patents in the Context of the European Patent Convention

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Abstract

In the context of knowledge economy, the competition for obtaining competitive advantages no longer consists in having access to tangible resources, but a great significance has now the intangible ones. This article aims to reveal in which way the patents with high economic potential can be outlined from a patent portfolio using quantifiable differentiation criteria. Criteria taken into consideration to determine the patents with the highest economic potential are: citations in specialised publications, the protection territory, obtaining the decision of patenting, the protection period and the renewals made, the oppositions brought. From their analysis a placement can be made of how the patents are being perceived by the scientific community through the presence in the specialised literature, by the institutions that grant the patent certificate by analysing the databases and the oppositions brought which form the image of the potential market on which they could be traded.

Key words: patent, intellectual property, economic potential, oppositions, size of the patent family

J.E.L. classification: O31, O32, O33, O34

1. Introduction

The current knowledge economy had effects on research results materialised in patenting. The specialised literature imposed certain criteria that show a positive connection that is established between a patent and the economic value brought by its exploitation. There is not a standard algorithm to determine which part of the brevets will bring profit by exploiting it and which would not. The analysis of a patent involves three perspectives: the technical one

– made by specialists when granting the certificate, the juridical one given by the protection obtained and the economic one which determines whether the patent can bring economic benefits. If the first two aspects are clearly regulated, the economic part has certain determinants that support analysis. This work analyses the way in which based on established criteria one can separate from a patent portfolio the those patents with the highest economic benefits and with the lowest exploitation risk.

Criteria considered for the analysis are: citations in specialised publications (Jaffe, A. and Trajtenberg, M. 2002), the protection territory – size of the patent family (Harhoff, D., and alt, 2002), the decision of registration (Guellec, D. and van Pottelsberghe de la Potterie, B., 2000), the protection period and the renewals taken, oppositions against the decision of registration (Potter Pottelsberghe, B. and van Zeebroeck, N. 2008).

2. The way of relating the criteria with the economic potential

2.1. The citation

The citation can be seen from two perspectives: citation in the specialised literature and citation in the following patent fillings. Citing in the scientific literature provides clear indications of the patent's importance in the academic sphere. In this case should also be analysed the way the citing was made, the frequency of the quotes and the impact factor of the publications (Jaffe, A. and Trajtenberg, M. 2002). The analysis in this case is scientometric. A big number of citations show the interest of the scientific community for the patent and a potential market for it (Harhoff, D. and alt. 2002).

Citation in subsequent patent fillings reveal that the analysed patent was

considered by researchers and it was used to narrow the application area of their results, helping them to place themselves correctly reported to the current state of knowledge. This indicator presents a great importance by providing solid evidence on the economic potential.

2.2.The decision of patent granting

The fillings submitted to the European Patent Office are published in a maximum period of 18 months. Art.67 provisions of the EPO guarantee equal treatment of the published fillings being examined and the patents already granted. Thus the patent owner has the same rights since the publication of the filling, as if they had obtained the decision of patent granting. This aspect is very important because of two reasons: long duration of the analysis of the fillings and the short life of some patents. Obtaining the decision of patent granting increases the patent's value given that it has passed the patentability requirements – but this consideration has a more non-market nature (Guellec, D. and van Pottelsberghe de la Potterie, B., 2000).

In case of new technologies there are some impediments due to the lack of evaluation standards of the patent, which makes the art. 67 from EPO very important, because market opportunities can be lost in the absence of such a period between the publication of the filling and the decision of patent granting.

2.3.The size of the patent family

The size of the patent family measures the number of jurisdictions in which one requested protection and its size. When the territory on which the patent is protected is larger its potential value increases. Low-value patents are protected only in the country of origin, because the owner does not have the interest in extending the protection. When the value increases, the economic interest is in positive correlation and the protection is desired to be more extensive due to the perspective of future gains higher than the fees arising from extending the patent family (Harhoff, D. and alt. 2002). With the maturation of the patent the holder will maintain the protection in the countries

where he has interest. This fact gives economic value to the patent and is the key element in distinguishing all patents with high potential.

2.4. The protection period and the renewals made

The moment when the evaluation is made is critical. To determine the value, a placement in space and time should be made given by the size of the patent family. Keeping protection for a long period of time on a large number of jurisdictions is a sign of strong interest. Taken into account the costs of maintaining, only a value addition could justify the family size. An influence in this case has the industry in which the patent is used. There are sectors where the life of a product is very short, which no longer justify protection renewal or the holder limits the protection only in the countries where he has direct interest. There are also sectors as the pharmaceutical one or that of biotechnology, where due to high costs of research and development is preferred to maintain protection even if the hoped economic potential is not proportional.

2.5.Oppositions

After granting by the European Patent Office EPO, a patent can be contested by interested parties by formulating an oppositions within nine months from the publication of patent granting decision. There is a positive connection between formulating an opposition, how they are resolved and the economic value of the patent. In case of patents with high potential, oppositions are more often because of the interest of the competitors for the market on which they activate not to be affected. Lack of oppositions, not only for a single patent but for a whole patent portfolio is also a signal of low interest in it. A patent that passed successfully through the opposition process can once more be certified to have economic value and a potential market (van Pottelsberghe de la Potterie, B. and van Zeebroeck, N. 2008). The way an opposition influences the economic value is difficult to quantify, but it has as an effect substantial changes in the patent. Clearer is the situation when a patent is withdrawn because of an

opposition. In this situation, the final act of a patent's existence is signed.

3. Total European patent filings in 2011

To determine and analyze the way in which these criteria lead to optimal solutions to discover patents with economic value and with a potential market, a great relevance has the analysis of patent filings in the year 2011.

Table no. 1. Total European patent filings in 2011- Breakdown by applicant residence

Origin	Filings	%
Germany	33,181	13.6%
France	12,107	5.0%
Switzerland	7,786	3.2%
United Kingdom	6,464	2.6%
Netherlands	6,178	2.5%
other EPO member states	26,119	10.7%
U.S.A	59,688	24.4%
Japan	47,404	19.4%
China, People's Republic of	16,946	6.9%
Korea, Republic of	13,254	5.4%
Others states	15,310	6.3%
Total	244,437	100%

Source: www.epo.org

In the tabel there is a breakdown of the European patent fillings by the applicant's residence. From the EPO states, Germany stands out with with 13.6% share which shows the importance given to research in general and for obtaining patents that can be legally protected.

By analysing the table we can observe the economic interests that other countries have in protecting their patents in the European Patent Convention system. U.S. and Japan have the greatest share in total and surpass Germany. This situation presents the importance given at state-level to the intellectual property and in this case to patents. Research results only by obtaining patents can be protected and exploited for the owner's economically advantage. Romania is very far with 37 patent filling at the level of 2011, compared with Cyprus which has 55. Patents by exploitation bring added value to

the economy. It is clearly distinguishable that the best countries in the European Patent Convention are those with high economic potential. Exploitation of the patents is the source of a part of this capital.

4. Conclusions

Determining the economic potential of a patent is critical in the current economic context. Exploiting new technology, mitigation of excessive consumption, enhancement of strong investment in research would be a realistic solution for the resettlement of the economy. The market on which the patents are traded and licensed is real and can produce added value. Many patents have never been used.

The purpose of this article was precisely to help separate the weak patent from the strong ones. The patent owner is focused in research and obtaining the patent granting and often does not see the prospect of obtaining economic benefits. Making an analysis of criteria which are specific to a patent and have a positive determination on the existence of potential markets one can select those patents with economic perspectives.

The approach taken has its limits. In case of new technologies, the characteristics cannot be taken as benchmarks: complaints could not be made because there are no competitors, specialized literature would not quote too often this type of patents because they cannot be taken as references. In this case a potential market could not be imagined. This is where the intuition of the analyst comes to discover patents that apparently don't have potential but they bring economic benefits after the product obtained from their exploitation is launched. These are only exceptions. Criteria considered, applied to wide base, such as the European Patent Office leads to clear conclusions regarding the potential market and the future of the patent's exploitation.

When applied, criteria have different degrees of relevance and accuracy of the information being analyzed. Determining of size of the patent family, the granting decision, the oppositions, the renewals and the terms of protection are easier to quantify through statistical analyses and the analysis of databases. Citations present some

problems because of diversity and the way of citation and its frequency.

Knowledge economy makes the value of many top companies not to be incorporated in tangible assets, but in intangible ones, including intellectual property. Patents occupy the main place along with the trademark in creating value. Developing a culture of intellectual property means the present and for a long time will be the future of an world economy on solid bases. How patents are valued is one of the goals of this purpose.

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The Combined Transport of Goods. The European and International Legal Framework

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Abstract

The development and diversification of world trade has directly influenced the improvement of the international transport of goods. The necessity to identify economically feasible solutions is obvious, given that the international transport is an essential part in promoting international trade, facilitating or, on the contrary, restricting trade.

Keywords: successive transport, combined transport, multimodal transport

J.E.L. Classification: K 10-General

I. Prior definitions

Moving goods by a single mean of transport, from the point of departure to their destination was, for a long time, a common solution.

As it concerns the distance of carriage, the possibility of using a single means of transport or the transport by one carrier at a time has become incompatible with the speed and efficiency of international trade. This is why the improvement of the quality of transport services gradually involved not only the development of each type of transport in part, but also their functional interdependence.

Promoting and supporting the complex transport operations required an appropriate legal framework which should allow the transport of goods by involving several carriers of the same type or different ones.

II. Legal regulation

In accordance with the provisions of the Civil Code, the transport of goods may be provided by one or more carriers. The first hypothesis concerns the situation in which

the transport is performed by a single operator using only one means of transport.

The second hypothesis considered by the legislator is related to the transport performed by several carriers that use either the same or different means of transport. From this point of view, the Civil Code distinguishes between successive and combined transports.

In accordance with the general and special provisions governing the matter, the successive transport involves the activity of transportation and its completion by more carriers of the same kind, using the same means of transport (road, rail, water or air). The successive transport is settled by international regulations for each means of transportation separately (see art. 6.2 of CIM-Appendix B to the Convention concerning the International Carriage by Rail COTIF, adopted in Bern, 1980, ratified by Romania by Decree no. 100/1983 published in B. of. no. 23/1983, as amended, Art. 34-40 of the Convention on the Contract for the International Carriage of Goods by Road CMR, adopted at Geneva, 1956, ratified by decree nr.451/1997 published in the Official Gazette 145/1972 etc.).

In accordance with the provisions of the Civil Code, the combined transport is defined as the type of transport used when the same carrier or successive carriers use multiple types of transport (art.1957, 2nd paragraph). The issue of the combined transport of goods arose mainly from the need to optimize the transport on highways. The constant concerns of the European legislators regarding the solutions that should allow the combination of road transport with other types of transport by land or sea have resulted in the adoption of uniform regulations.

These regulations have aimed first to define a common plan for the development of combined transport.

Rail transport is a competitive alternative

to road transport, which would relieve the European traffic and limit the negative effects of road transport on the environment. In this sense, in order to define the most important international railway networks, whose use could replace road segments and their related facilities, there was adopted, in Geneva, in 1991, the European Agreement on Important International Combined Transport Lines and Related Installations - AGTC (ratified by Romania by Law no. 8/1993, published in the Official Gazette nr.60/1993). In accordance with the AGTC provisions, the international railway lines may be part of the international combined transport network if they meet the specified technical requirements (for railways see Annex 1 to the AGTC Agreement).

The rail network is completed with related facilities, consisting of terminals for combined transport, border crossing, stations and ports or gauge interchange with ferry connections (AGTC Agreement, Article 2).

As it concerns Romania, in Annex 2 of the AGTC Agreement, there are mentioned: the most important terminals (Bucharest, Constanta, Oradea, Craiova), the gauge interchange points that correspond to the crossing of border (Iasi, Ungheni) and the port connections integrated in combined transport networks (Samsun-Constanta (Turkey-Romania).

Not only does the rail transport combination represent an effective solution for combined transport. Covering portions of the route on inland waterways and coastal routes is also an effective and attractive solution. The appropriate legal framework was established by the adoption of the 1997 Protocol to the AGTC Agreement on combined transport and inland waterways (ratified by G.O. nr.74/1998, published in the Official Gazette no. 318/1998). Similarly, there are identified waterways and coastal routes which are consistent with the minimum requirements in order to be considered an integral part of such transports and of the connection terminals in ports.

In Romania there are mentioned two main inland waterways of great importance to the international combined transport, namely the Danube and the Danube - Black Sea Channel and the coastal route from Gibraltar to the south which also includes the coastline of our country (see Annex 1 to the Protocol, 1997).

In the category of Romanian ports equipped with terminals, which, together with the waterway network, play an important part in international combined transport, there are listed the ports on the Danube (Turnu Severin, Giurgiu, Oltenia, Braila, Galati) and the Danube-Black Sea Channel- Constanta port (see Annex 2 to the Protocol of 1997).

The great importance of waterway transport is highlighted by economic, technical and environmental protection advantages. The promotion of inland waterway transport, even when there is an adequate infrastructure, requires additional building and upgrading measures. The legal framework for achieving this goal was established by adopting the European Agreement on Main Inland Waterways of International Importance (AGN) of 1996 (ratified by G.O. nr.68/1998 published in the Official Gazette nr. 314/1998).

The rules on the performance of the combined transport of goods between EU Member States were laid down in Directive 92/106/EEC. The provisions of this act have been transposed into the national law by the G.O. nr.88/1999 on establishing the rules for the combined transport of goods (published in the Official Gazette nr. 423/1999).

The analysis of these legal provisions reveals that the combined transport of goods involves using roads only on the initial and final portions of the route; on the rest of the route there are used the rail, the inland waterway or the sea routes (art. 1, paragraph 1 of Directive 92/106 / EEC, Article 2, paragraph 1 of G.O.nr.88/1999).

The encouragement of the development of combined transport is characterized by the tax incentives granted to businesses, for the investment and development of the necessary infrastructure and equipment specific to this mode of transport (art. 6, G.O. nr.88/1999).

Regarding the actual execution of such transport, it is worth noting that not only does it offer an alternative, even partial, to road transport. At the same time, it enables the possibility to save time when operating the goods because the legal texts reveal that the road vehicle or the container of a certain size will be moved on a certain part of the route by rail or ship transportation.

Under the legal provisions, any road transport operator satisfying the conditions of access to the road transport market may carry

out initial and / or final parts of a combined transport (see Article 4 of G.O. nr.88/1999).

Regarding the combination with rail transportation, the law does not impose limits on the length of the initial and / or of the final road route. However, for the combination with shipping, the road transport can be a part of the combined transport if it does not to exceed 150 km in bee line from the loading or unloading river or sea port.

The combined transport does not involve loading and unloading operations of goods [1]. In this regard, the laws provide that the combined transport is the transport of goods where the charging unit or the road vehicle successively uses several modes of transport. The combined transport thus made, also called intermodal transport, can be considered "a special case of multimodal transport" (in this respect, see Romania's intermodal transport strategy adopted by Order no. 457/2011, published in the Official Gazette no. 506/2011).

The multimodal transport is governed by the provisions of the UN Convention on the International Multimodal Transport of Goods adopted in Geneva in 1980. The rules relating to the multimodal transport were adopted by the International Chamber of Commerce, in Paris, in 1992.

The Civil Code also generally regulates the substituted transport (art.1960, the Civil Code). The substituted transport regards the situation where the initial carrier entrusts to other carriers the overall or the partial execution of its obligation to move the goods at their destination (the rules on the substituted carriers are set out in the international conventions on different modes of transport). The provisions relating to the substituted transport (art.1960 of the Civil Code) can be combined with the situation where the initial carrier undertakes the obligation to carry the entrusted goods also on the operating lines of another carrier (art.1998 of the Civil Code). In this situation, the position of the initial carrier may be assimilated to the one of the multimodal transport operator which undertakes to carry out such transport (article 2, paragraph 2 of the Rules on Multimodal Transport, Paris, 1992).

III. The unique nature of the contract

Transport development has meant combining the modes of transportation in a single transaction, under a single legal instrument "that covers the main aspects of the contract for the international carriage of goods" [2].

Under the national and uniform regulations, the successive transport of goods is done under a single contract of carriage, covering the entire route, regardless of the number of the participating carriers. The conclusion of the contract for the successive transport of goods is proven by issuing and accepting the transport document. Each of the carriers participating in the transportation becomes, by successively receiving the goods and the transport document, a contracting party, under conditions similar to the initial carrier (see Article 34, CMR Convention; Article 36 CIM etc.).

Similar to the successive transport of goods, the combined transport of goods is done, on charge, under a single contract of carriage. The conclusion of the contract of carriage is determined under the transport document. In addition to the usual entries in any transport document, the document of combined transport must indicate the name of the railway station of dispatch and of destination, or, where appropriate, of the loading or unloading river and sea ports. All the entries in the transport document will be confirmed, by signature, by the participating carriers (Article 3 of G.O. nr.88/1999). Also we should add that this transport is part of a combined transport (Article 3 of the Implementing Rules of G.O. nr.88/1999, adopted by G.D. nr.193/2000 published in the Official Gazette nr. 134/2000).

Under the Geneva Convention of 1980, the conclusion of the multimodal contract of carriage is established by the elaboration of the multimodal transport document, which may be negotiable (being a representative title of goods) or non-negotiable.

Also, under the uniform rules adopted by the International Chamber of Commerce in Paris, the multimodal transport document is that document evidencing the contract of multimodal carriage which can be replaced by electronic messages, where they are allowed under the applicable law (art. 2, paragraph 5). These documents are issued by

the multimodal transport operators, whose role is similar to the one of unique carriers [3].

IV. The combined container transport

The transport of goods in containers had a great influence on the development of combined transport. The possibility of loading the goods in a mobile box, resistant to handling and transportation, facilitated their transport from "door to door", directly from producer to consumer [4]. The combined transport does not necessarily imply the use of containers, but the development of containerization has significantly increased their importance.

The legal provisions on combined transport make special reference to this method of packaging of goods. In this regard, special rules make reference to the intermodal transport unit which can be a container, a box or a semi-trailer.

Under the legal aspect, the use of containers in combined transport implies liability issues.

Basically, the container is a package. Like any package, the container must be in good condition, in order not to cause the impairment of goods which it should normally protect. Where appropriate, the improper state of packaging may or may not exempt the carrier's liability.

Usually, when handed over to the carrier, the container is closed and sealed, so it is mainly based on the honesty of the entries specified in the accompanying documents.

According to Article 2 of the rules for implementing the provisions of G.O. nr.88/1999, from the sender to the starting terminal of combined transport, the goods must be accompanied, where appropriate, by the CMR International waybill or by the rail return-receipt document, noting that the respective transport is part of a combined transport. In accordance with the general provisions relating to the issue of transport documents, the duty to report the poor condition of the packaging or the inability to verify the entries in the transport document belongs to the carrier. In the absence of substantiated justifications for the improper packaging or for the lack of verification possibilities, it is assumed that both the goods and the packaging correspond to the entries

in the document (see for example, art. 12 paragraph 3 of the CIM Uniform Rules).

Regardless of the type of transport (successive or combined), problems arise in connection with the establishment of the liability for the loss or damage to the goods loaded in containers. Normally, the liability belongs to that carrier on whose transportation route the loss or damage occurred. The identification of the liable carrier is difficult, as the containers are opened at destination.

In the combined transport of goods, the uniform regulations provide that all the entries, including those relating to the goods (type, weight), in the combined transport document must be confirmed by the participating carriers (rail / maritime or fluvial transport operator) when completing their route (art. 3, paragraph 2, G.O. nr.88/1999). However, from the text we can conclude that this confirmation could not be made in the absence of effective verifications at destination.

The uniform regulations do not contain, however, provisions relating to the time of changing the mode of transport. By applying the general provisions in a particular matter, it may be considered that, in combined transport, the carrier which takes over the goods has the general obligation of verification. Thus, if the container was received sealed, the road, rail or sea or river carrier shall indicate in the combined transport document (railway bill, river waybill or bill of lading) its reservations regarding the impossibility of verifying the entries concerning the goods. In the absence of such indications, under the general rules, it may be considered that the entries in the document are in accordance with reality.

In successive transport, under the general rules, if the liable carrier can not be identified, the rule is that each participating carrier shall contribute to compensation in proportion to the fee charged (art.2000 of the Civil Code, stating that this rule is also provided for in international conventions governing the various modes of transport).

The solution adopted in successive transport on the proportional division of the compensation payable for the loss and damage to the goods transported between the carriers participating in transport, however, does not apply to combined transport. In this

regard, the uniform rules on multimodal transport (in 1992) state that the multimodal transport operator is liable for the acts and omissions of its employees and agents (article 8 section 4). The liability is based on the presumed fault assumed by the multimodal transport operator (see also the provisions of the Geneva Convention of 1980). Therefore, in order to exempt itself from liability, the multimodal transport operator should prove that it took all the reasonable measures to avoid such damage.

V. Conclusions

The possibility of interconnecting different modes of transport in a single operation can not be conceived in the absence of uniform rules. The legal framework necessary for the development of the infrastructure in combined transport was established by adopting and by ratifying the European provisions analyzed in this paper. Regarding the actual pursuance of combined

transport, the uniform provisions concerning the uniqueness of the transport document are noteworthy. The possibility of carrying out the transport under a single transport document provides assurance to transport beneficiaries. Even in this case there are still problems to be solved only if there is a uniform basis for liability.

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Transnational Companies and Globalization. Benefits and Costs

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Abstract

TNCs have several advantages over local firms in using new technologies for export activity. They have large internal reserves of skill, technical support, experience and finance to design and implement the learning process. They have access to major export markets, established marketing channels and well-known brand names. They can transfer particular components or processes from a production chain to a developing country and integrate it into an international system. Such supply-side upgrading needs government support.

Moreover, a policy to induce TNCs to enter more advanced activities by offering such incentives as specialized infrastructure and skills can accelerate the upgrading process. With a completely passive policy, TNC exports can remain at low, technologically too small, levels. Thus, a TNC dependent export strategy needs a proactive element for dynamic competitiveness. More important, an FDI-dependent strategy is not a substitute for building domestic capabilities.

Keywords: TNCs, benefits, costs, Asian countries, FDIs.

JEL Classification: F21, F23, F43, F62, F63.

1. Introduction

Transnational companies (TNCs) are one of the most visible facets of contemporary globalization. For some authors [16], TNCs have great power. This is because they can use their massive revenues, control over distribution channels, and addictive brands to force countries to open their markets, limit their support for local firms and embrace international accords they might otherwise reject. According to them, globalization only

worsened matters by increasing the mobility of TNCs. TNCs financial resources are a potential source of leverage over host countries, because TNCs can build plants, import advanced manufacturing equipment and develop transport facilities. Large revenues and profits suggest that TNCs may serve as engines of job creation. TNCs have the potential to contribute to tax revenues. They have power because of their possession of managerial and operational expertise and knowledge. They typically employ staff that has special skills in functional areas such as advertising, distribution and production. As well, they know to exploit advanced transnational business arrangements and regarding research and development area, they are at the frontier of inventing new products. The greater the mobility of TNCs is, the greater will be the ability of TNCs to pressure policy makers to comply to the TNCs preferences. Also, the globalization indirectly strengthens the hand of TNCs by unleashing international capital. Globalization dissolves national loyalties.

Others say that states remain quite powerful as a result of their political, military and economic endowments and their influence over international governmental organizations [3]. It may actually weaken them, for example by providing governments with alternative sources of capital and technology [1]. State has the resources needed to subsidize domestic companies or build infrastructure that privileges local enterprises. It provide the public goods, domestic and global institutions that enable TNCs to operate. State can exert control over the markets through producer cartels or other techniques, it has the authority to tax TNCs, regulate their dividend and interest remittances, force technology transfers and require joint ventures. It can deny TNCs access to resources, labor or markets. Moreover, firms with large investments in plant and equipment remain relatively

immobile. TNCs have to operate in certain areas in order to profit from these countries' development or to generate economies of scale [1].

Globalization has "promoted diversity in interests, demands and values" [14]. In the case of multinational companies doing business around the world, this certainly has implications for marketing to and communicating with consumers in different countries. Of course, the issue of culture has long been a factor. "Communication and culture are inseparable" [20], since the way we as human beings communicate is inherently tied to the culture in which we were raised. This has not been lost on those who are involved in international business, in which communicating to business partners, clients and potential customers can be a complicated task. This seems to be especially true for American companies, who tend to assume that their business models, which are highly successful in the U.S., will be equally successful when transferred to another country. Cushman and King, however, suggest that "cultural settings not only determine much of behavior, but also require varying avenues for success within the diverse environments" [12]. Thus, due to cultural differences, one cannot take for granted that practices in one country will bring about the same results in another.

No matter how strong a corporation is, however, if it does not understand the basics of intercultural communication or chooses to ignore them, it can find itself in serious trouble when things go awry and it needs to inform and reassure its various publics.

TNCs and local firms face different markets and have to overcome different market failures in learning. TNCs have several advantages over local firms in using new technologies ("new" to a particular location) for export activity. They have mastered and used the technologies elsewhere; they may have created the technology in the first place. They have large internal reserves of skill, technical support, experience and finance to design and implement the learning process. They have access to major export markets, established marketing channels and well-known brand names. They can transfer particular components or processes from a production chain to a developing country and integrate it

into an international system. This is much more difficult for local firms, not just because they may not have the experience or technological competence – they inevitably face higher transaction and coordination costs in integrating into TNC corporate systems. In addition, TNCs have considerable advantages in product markets: by definition, they have established international markets and brands and so can finance costly learning processes more easily and with less risk [13].

While the TNC-led strategy has many benefits, and can be a highly effective and rapid means of exploiting existing advantages, a passive FDI strategy may not be the best way to dynamize competitiveness. TNCs may not invest in a particular country because of imperfect information or poor image. Thus, effective promotion and targeting of investors can allow a country to attract more and higher-quality FDI. Where TNCs do invest, they initially transfer equipment and technologies suited to existing skills and capabilities. To move on to more advanced activities and functions, they have to upgrade local skills, technological capabilities and supply chains. This is economical only where the education and training base is growing, local suppliers are increasing their capabilities, technology institutions are able to provide more advanced services, and so on. Such supply-side upgrading needs government support.

Moreover, a policy to induce TNCs to enter more advanced activities by offering such incentives as specialized infrastructure and skills can accelerate the upgrading process. With a completely passive policy, TNC exports can remain at low, technologically too small, levels. Thus, a TNC dependent export strategy needs a proactive element for dynamic competitiveness.

More important, an FDI-dependent strategy is not a substitute for building domestic capabilities. There are many activities in which TNCs have no competitive advantage over domestic firms, particularly those served by SMEs. The development of national enterprises may also lead to broader, deeper and more flexible capabilities, since the learning process within foreign affiliates as compared with local firms may be curtailed. It is imperative for developing

countries, as they mature industrially, to undertake these functions locally to support their future comparative advantage. This is why some countries choose to promote technology development in local firms.

Globalization is of two types. The first is called a "forced globalization" initiated by the International Monetary Fund. The second is called a "participative globalization" which occurs through Transnational Corporations. TNCs have been playing a dominant role globally and accordingly, have been integrating the world economy. But their role and contribution to the process of growth and development of less developed regions are of controversial in nature and character [4].

2. TNCs in the Asian Countries

The South Asian region is one of the less developed regions in the world. In the beginning of the decade of 90s, South Asian economies had started adopting or initiating an 'outward looking approach' and had also started opening up their economies to TNCs.

Through the channel of Foreign Direct Investment (FDI), the TNCs have emerged as a driving force behind the process of globalization of South Asian economies. There has been a triangular relationship between globalization, security and sustainable development [18].

There has also been mutual interdependence between TNCs and host nations. TNCs have two options for formulating strategies. The first is the North-South or Vertical strategy. The second is the Outsourcing strategy. Recently, another strategy has emerged - namely the Global strategy [2] which is combination of market-seeking and outsourcing. The underlying impact of the strategies of TNCs is the concentration of FDI inflows into a handful of countries [10].

The South Asia region has long been been an arena for operations of TNCs (Dutch East India Company). In the early 1960s and 1970s, South Asia pursued an inward looking approach for development. Since the advent of the 1980s, however, liberalization got a foothold and accordingly, FDI started to enter into the region. "Significant amounts of FDI are coming in to exploit the low labor cost advantages of South Asia, and to utilize

them as export platforms" as China has done [15].

Prior to the year 1990 in India, TNCs had been a "four-letter word" in most Indian minds and evoked passions of an extreme nationalistic variety across the political spectrum. It was in the middle of the 1980s, that one of the significant MNC investments was made by the Japanese automobile manufacturer Suzuki who set up a joint venture with Government of India [6]. At that point in time, the Indian people became familiar with TNCs. Thereafter, the flow of FDI has become part of India's economic policy. It has been a long journey for India and most other developing countries in South Asia to attract FDI and accelerate the pace of growth and development in the region.

One of the main causes of export success in Asian countries in recent years has been increasing participation in global production networks under the aegis of TNCs. This has been particularly dynamic in HT activities, led by electronics, which has allowed countries (in labor-intensive assembly processes) to enter very fast-growing export activities and then to move up the value chain [19]. All the major exporters from the developing world apart from the Republic of Korea and Taiwan Province of China have depended on such participation [10]. The latter two economies, on the other hand, have tapped into global chains with domestic enterprises, using such mechanisms as original equipment manufacture contracts, licensing and copying. This has entailed a massive development of technological and other capabilities on the part of local firms, sustained by extensive government intervention in all markets, including selective infant industry promotion [7].

The FDI-dependent countries have also used different sub-strategies. Singapore, for instance, has relied heavily on industrial policy to target and attract hi-tech TNCs, build local skills and institutions, and develop specialized infrastructure. As a result, it has moved to the top of the technological ladder, and is now targeting R&D and high-value service activities by TNCs. Malaysia, Thailand, Indonesia and the Philippines in Asia, and Mexico in Latin America, have been less proactive on FDI and the development of local skills and institutions (although they used industrial

policy in other ways). As a result, they are much lower than Singapore on the technology spectrum. However, they are now acutely conscious of the need to upgrade capabilities and supplier networks in order to retain a competitive edge as wages rise and economies with lower wages emerge as competitors. As shown later, their technological capabilities lag well behind those of the Republic of Korea and Taiwan Province of China [17 and 18].

China is unique because of its size, industrial tradition, background and overseas ethnic linkages. It can combine elements from all the other strategies with its own policies to restructure and develop domestic enterprises [11]. While its base of skills and technological effort is low by international standards, it has enough to mount a spectacular surge in exports across the technological spectrum. And it is building its capability base rapidly while bringing its "surplus" human capacity into modern industrial activity, which suggests that the surge still has a considerable way to go.

The experience of these successful economies does not mean that other countries that liberalize FDI will automatically share their success. In fact, few developing countries participate in these emerging TNC systems. While FDI in developing countries is increasing rapidly, flows are highly concentrated. The top 10 developing countries account for nearly 80 per cent, and the top 25 for 95 per cent, of the total.

The leaders in the world in this activity (measured by R&D as a percentage of GDP) are Sweden, Japan and the Republic of Korea. Yet only some 20 years ago, the Republic of Korea was a typical developing country, with 0.2 per cent of gross national product going into R&D and 80 per cent of that coming from the public sector. Taiwan Province of China and Singapore come next in the developing world, with other economies well behind. Of these three mature Tigers, Singapore lags behind the others owing to its dependence on FDI – but such dependence does not prevent it from leading all other developing countries. These data again show the highly differentiated responses to globalization and technical change among developing countries. Among industrializing countries, the three mature Asian Tigers are in the lead, with other

countries in Latin American and Asia lagging behind. The "New Tigers" - Malaysia, the Philippines and Thailand - do well in technology-intensive exports.

Latin American countries come fairly low on the R&D scale in comparison with East Asia, but the latter does much better than other developing regions. At the national level, Brazil is the leader in Latin America, and ranks fourth in the developing world after the Republic of Korea, Taiwan Province of China and Singapore.

In summary, using FDI to insert countries into global value chains is an extremely effective way to build competitiveness in the new globalizing environment, and almost all successful economies apart from the Republic of Korea and Taiwan Province of China have used it. Of course, there are many countries that have not been able to use such strategies, and we draw lessons for FDI promotion and targeting below. However, it is important to note that simply plugging into global chains at the bottom end is not necessarily a sustainable strategy over the long term. As more complex processes are introduced and technologies continue to evolve, it becomes imperative for countries to improve domestic capabilities: skills, supplier bases, R&D capabilities and the physical (particularly the ICT) infrastructure. TNCs contribute to building capabilities, of course. They train employees and diffuse technologies to local suppliers, but there are limits to how far this can improve national capabilities [8].

Ultimately, it is up to the Government to support capability development by creating more skills, strengthening domestic firms and creating strong technology and research institutions. If this is not done, the most complex and value-creating activities may well be located in other countries – this is the strategic challenge facing the new Tigers, as China appears as a giant competitor with lower wages, massive domestic markets and capable suppliers.

The sites that will receive most FDI in the emerging economic and policy setting are those that provide for TNCs to set up competitive facilities able to withstand global competition. This means that the host country has to provide competitive immobile assets – skills, infrastructure, services, supply networks and institutions – to complement

the mobile assets of TNCs. While transport costs and taste differences mean that large markets will continue to attract more investment than small ones, few countries can afford to take a continued inflow of FDI – especially high-quality, export-oriented FDI – for granted. This means that the ultimate draw for FDI is the economic base: FDI incentives and targeting cannot by themselves compensate for the lack of such a base.

The East Asian experience, particularly of the new Tigers such as Malaysia and Philippines, shows that attracting FDI into high-technology activities can happen without any particular government strategy. In their case, it was largely a matter of their economic base, which may have been helped by welcoming FDI policies. High-tech TNCs had already established a base in Singapore [9].

3. Conclusions

What does this analysis suggest for strategies by developing countries to build local technological capabilities for competitiveness? Competitive success in industry depends vitally on the ability of each industrial system to cope effectively with technical change. This ultimately determines how a country's local value chain relates to the international chain: where it is located, how rewarding the insertion is, and the rate at which its position in the chain improves over time. Globalization means that resources such as finance, technologies and high-level skills are far more mobile than before and value chains are more tightly organized and controlled. Clearly, insertion into dynamic value chains is a very good way to build competitiveness, and the lead players are increasingly scouting the world for economical sites in which to locate their production and service activities. New technologies enable this to happen more efficiently and quickly than ever before.

However, all this does not reduce the role of local technological capabilities. On the contrary, it increases it because the efficiency of each location becomes the prime determinant of success. Technical efficiency requires access to new technologies from across the world, but simply exposing local industries to international trade, investment

and information is not enough. It may even devastate them to the point of closure if measures are not undertaken to build up new capabilities and accelerate learning processes.

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Strategy of Improving the Competitiveness for Corporations Operating in the Market of Precious Metals in the Context of Global Economic Crisis

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Abstract

The present study aims to present strategies of improving the competitiveness for corporations operation in the market of precious metals in the context of global economic crisis. This is a difficult period for all the corporations regardless of the sector in which it operates. The increasing prices for the raw material, the bigger cost of the rent paid by all the tenants, purchasing power increasingly lower there are only some fact that are increasingly more difficult to existing companies on the market.

The existence of the companies operating in the market of precious metals is even more difficult taking into consideration the increasing prices of the precious metals.

In order to improve the competitiveness of the corporations operating in the market of precious metals the strategy must take into account the following: always in change price of precious metals, the payment terms of the suppliers, the best quality at the best price products, the best prices for the rent of the selling price.

Key words: competitiveness, corporations operating, strategy, market of precious metals
JEL Classification: F20

1. Introduction

One of the main objectives of the research explores the strategic global trend of the methods to improve the competitiveness of the corporations, as a preliminary stage in the

global economic crisis, which is crucial for the further success on the national and international markets. Taking into account the alertness of change in the socio economic environment worldwide, the analysis of the methods that are improving the competitiveness of the corporations operating in the market of precious metals is necessary both for the academic and business world today. In the same time, considering that the companies acting on the precious metals market are one of the vectors of the globalization process, the empirical research on the investment decision-taking is becoming a strategic aim both for the companies operating within a country, and also for the companies that are expanding their activities outside the country.

2. Monitoring and evaluation system to increase the competitiveness of the corporations

The developing of the a strategy to increase the competitiveness can take many forms ranging from tacit agreements between groups of actors to form value chains, to the financing of important development projects whose aim is to improve one or various chains in a precious metals market. Taking into consideration this variety of variables it is very difficult to design a single system for monitoring and evaluation of the implementing of strategies to increase competitiveness. This study intends rather to present some key parameters at different levels that can be useful for measuring the

changes achieved by these strategies. Before starting the construction of the monitoring and evaluation system which will be the model to increase the competitiveness of the company we must answer some simple questions such as: who are the intended users of the data generated by the proposed monitoring and evaluation system? How will the data be used by different groups? Will the system be design in such a matter that it will respond to the needs and desires of those how will use it? Last but not least: one should draw the objectives of the system. Having clarity about the rational behind the system is important so that this is designed correctly in order to offer to the corporations operating on the precious metals market a correct strategy to improve their competitiveness.

3. Factors that needs to be taking into account when taking about the strategy of improving the competitiveness of corporations operating on precious metals markets

Below are listed the factors that need to be taken into account for monitoring and evaluation system for the strategy of improving the competitiveness of the corporations operating on the precious metals market.

1. *Production costs*

On the precious metals market there are two kinds of corporations: ones that are production the goods and ones that are importing the goods and they sell those goods in their shops. For the ones that are producers in order to improve the competitiveness they should know the evolution of production costs.

2. *Value of final product*

Also for the ones that are producers it is very important the evolution of the commercial value of the final product of the chain.

3. *The price of gold and silver on the market*

Very important when talking about the strategy of improving the competitiveness of corporations operation on precious market is the price of the precious metals. In this period of global economical crisis the price of the metals is always increasing and this is an important fact that influences the competitiveness of the corporations.

4. *Profitability*

The corporations acting in the precious metals market must calculate the profit in the each link because this is the easy way to identify which actors capture a greater percentage of the benefits. Most of the corporations within this market are importing the goods that they sell and it is very important the size of the profit.

5. *Distribution of benefits*

This indicator is of special interest in projects focused towards poverty reduction.

6. *Improvement of products offered to the customers*

All the corporations operation on this market are always looking for the best supplier of the raw material, if the corporation is a producer ones, or if not, it will always try to find the best supplier: the one that have the best quality of the goods at the best prices.

7. *Sales volume*

The corporations operating on precious metals market must every month measure the sales volume by calculation the total grams of gold jewellerries sold.

8. *Sales value*

Because of the always modified price of the gold the corporations operating in the precious metals market must always be carefully with the price that they are selling. If they do not modified always the selling price of the goods they will not have money to buy new goods from the supplier.

4. Strategy of improving the competitiveness for corporations operating on precious metals markets

For the corporations operating in the market of precious metals in the context of global economic crisis it is very important to stay connected to the prices of the precious metals. Nowadays, when prices change any minute: either increasing or decreasing, for those corporations it is a must to adapt the selling prices for the goods that they sell based on the market price. Negligently in regard to this matter can cost bankruptcy of the company? Even if they have bought the goods at a lower price the company must adapt the selling price at a higher price (if the price on the market is higher in the next period) because if not the company will not be able to buy new and fashionable items for

supply the need of the market. In the context of the global economical crisis the higher prices of the precious metals is the most dangerous enemies for the corporations operating on precious metals markets because since the consumers are affected by the crisis and they do not have anymore the same budget for the luxury items they do not afford anymore to buy and with this issue the profit of the corporations is affected. Not having any profit it will be impossible to move forward. We can not tell that the strategy of improving the competitiveness is maintaining lower prices for the precious metals in order to obtain profit because without the correlated price for those it will be impossible for the corporations to move forward. The strategy is to maintain a correct price, a correlated one.

The global economical crisis has already closed a lot of companies operating in the market of precious metals. With the sells at a very low level they did not find the money to move forward: the level of the rent, the salaries and the debt for the suppliers has made many companies to close. A strategy for improving the competitiveness is a good negotiation skill in the negotiations between the company and the locator of the space where the company operates. Most of the spaces where the companies operate are taking for rent and with the actual prices it is very hard to maintain the payment terms that are maintained in the post crisis brush. By reducing the rent one can move forward and resist on the market. To be competitive in this sector (precious metals market) the corporations must take advantage that a lot of companies operating on different markets can not afford anymore to pay the rent in malls for the selling space and they are closing the shops. The corporations operating in the precious metals market must be aware that there are a lot of free spaces in mall at better prices than if they sign lease with mall before their opening. This spaces at those best prices is a real competitive advantage for the corporations because taking into consideration the global economical crisis that exists the customers will better appreciate the corporations that still continue to open shops even the selling period is not the best.

Another strategy of improving the competitiveness of the corporations operating in the market of precious metals in the

context of global economical crisis is to find the suppliers that accept the payment at 60-90 days. Nowadays, taking into consideration the fact that most of the companies do not have the power to pay the debt it is extremely hard to find such suppliers. With the 60-90 days term of payment the company can have the goods in windows and can offer to the customer a wide range of product without making any payment before having the merchandise. In this way the corporations can be competitive offering to the consumers also the best prices. This payment term can be also very dangerous in this crisis period: the price of the precious metals may increase at a level that can not be covered at the end of the period by the corporations operating on the market of precious metals.

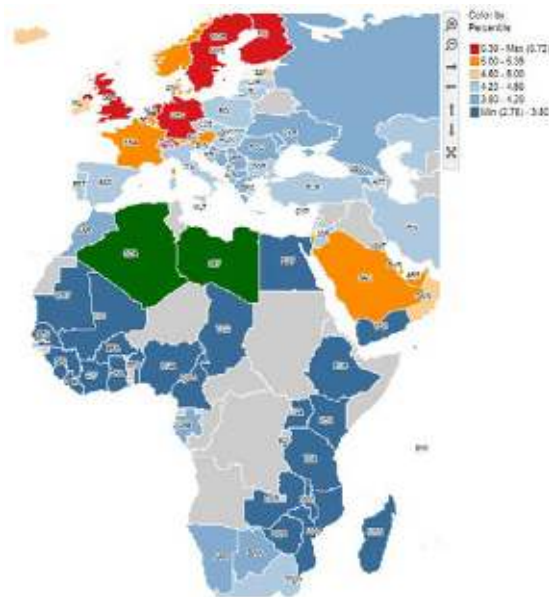
Maybe the most important strategy to improve the competitiveness for the corporations operating in the market of precious metals is finding the suppliers with the lower prices and the best quality. The account managers of the corporations that manage to find this combination of attributes into only one supplier has the key of the method to improve the competitiveness. In this period of crisis it is very difficult to produce the best quality at a lower price because the price of the precious metals is high; the price of the technologies used is also very high.

5. The Global Competitiveness Index 2012 – 2013 Rankings for two of the most representative country with tradition in jewelry

Two of the most important producers and sellers of jewelry in the whole world are Turkey and Italy. They have the tradition in manufacturing the jewelry made of precious metals and they have the technology that you can find only in their countries. Most of the producers and sellers of jewelry made from precious metals are located in Turkey and Italy.

In the Global Competitiveness Report 2012-2013 Turkey and Italy are showed to be on an upward trend as it is written below.

Fig. 1 Competitiveness "hotspots" and countries with weak performance according to the GCI



Source: World Economic Forum

In the map below the 10 best-performing countries are shaded dark red and as we can see with six of the ten best-performing countries, Northern and Western Europe is a competitiveness hotspot. In comparison with Northern and Western Europe, when looking at Southern and Eastern Europe one can see a considerably bleaker. On the map there is a patchwork of colors that reveals how the competitiveness is divided within Europe. Indeed, the lack of competitiveness of several European countries is an important cause of the current difficulties in the euro zone. A vast majority of African countries appear in dark blue on the map showing that the Sub-Saharan African countries continues to face the biggest competitiveness challenges of all regions. Despite decades of brisk economic growth in some developing regions, the map reveals that the profound competitiveness gap of these regions with more advanced economies persists. As we can see the map reveals that the hotspots remain concentrated in Europe, and a handful of advanced economies in Asia and the Pacific.

Turkey moves up by 16 places this year to attain the 43rd spot. The country's economy grew by 8.4 percent in 2011 and benefits from considerable progress in a number of areas covered by the GCI – global

Competitiveness Index. Macroeconomic stability has improved and the financial sector is assessed as more trustworthy and finance as more easily accessible for businesses. Improvements to the institutional framework and greater competition in local markets have also been registered; these will further strengthen the country's competitive position. Turkey's vibrant business sector derives important efficiency gains from its large domestic market (ranked 15th), which is characterized by intense local competition (16th). Turkey also benefits from its reasonably developed infrastructure (51st), particularly roads and air transport, although ports and the electricity supply require additional upgrading. In order to further enhance its competitiveness, Turkey must focus on building up its human resources base through better primary education and healthcare (63rd) and higher education and training (74th), increasing the efficiency of its labor market (124th), and reinforcing the efficiency and transparency of its public institutions (67th).

Italy moves up by one place to reach the 42nd position this year. The country continues to do well in some of the more complex areas measured by the GCI, particularly the sophistication of its businesses, where it is ranked 28th, producing goods high on the value chain with one of the world's best business clusters (2nd). Italy also benefits from its large market size—the 10th largest in the world—which allows for significant economies of scale. However, Italy's overall competitiveness performance continues to be hampered by some critical structural weaknesses in its economy. Its labor market remains extremely rigid—it is ranked 127th for its labor market efficiency, hindering employment creation. Italy's financial markets are not sufficiently developed to provide needed finance for business development (111th). Other institutional weaknesses include high levels of corruption and organized crime and a perceived lack of independence within the judicial system, which increase business costs and undermine investor confidence—Italy is ranked 97th overall for its institutional environment. The efforts being undertaken by the present government to address such concerns, if

successful, will be an important boost to the country's competitiveness.

6. Conclusions

Researching the methods the companies operating in the precious metals market use to improve their competitiveness, we observed the evolutionary nature and also the new typology of risks taken into consideration, for maintaining their competitive advantage. To empirically demonstrate the decision-taking theory, we tried to test the programmed methodologies by pointing out the decision-making process in several case studies we took from international business practice.

Seeing the evolutionary nature in this area, alongside the technological advance, we consider that further research is necessary, to discover new means of global strategy to improve the competitiveness for corporations operating in the market of precious metals in the context of global economic crisis. For future steps of the research, we consider that finding a way to introduce global risks for the price of precious metals as dependent variables in those models used as basis for the strategy of improving the competitiveness of the corporations operating in the market of precious metals, is needed in order to realize an optimal improving strategy.

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The Role of Corporate Governance in Risk Management

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Abstract

Nowadays, the term corporate governance is more and more associated with risk management objectives. Its importance increases for the main reason that a good governance is a symbol of balance between tactical and strategic decisions.

This paper aims to clarify some issues related to corporate governance, starting from principles, ways of measuring, its level, presenting the influences and interactions between the quality of corporate governance and risk management process.

The paper also emphasizes the practical importance of the concept which comes from the fact that corporate governance is a complex system that facilitates the achievement of business objectives and monitors the economic performance.

Key words: corporate governance, risk, financial performance.

J.E.L. classification: G32, G34, M48.

1. The concept of corporate governance

"Corporate governance" is still a new concept in economics. Corporate governance refers to a correctly established relationship system between the different parties involved in a company's management process, such as: shareholders, creditors, investors, all of them referred to as stakeholders. This concept of corporate governance has appeared from the need to protect the interests of the stakeholders. As a system it offers the working environment through which the company's objectives are defined, settling the ways of action and the methods for monitoring the achievement of the objectives [1].

The term refers to the way a company is managed and it was used for the first time in

1992, when the Cadbury Report was issued. Corporate governance means the assembly of rules through which a company is managed and controlled.

According to the World Bank Manual of Corporate Management, corporate governance is a combination of rules, regulations and codes, voluntarily adopted, which gives the possibility to gain the financial and human capital needed for its activity in order to efficiently function and generate value for its stakeholders.

Corporate governance implies the relationship between different players (shareholders, managers, board of directors) and it facilitates the matching process between objectives and results. That is why the corporate governance is considered to be an internal system made up of policies, procedures, processes and human resources.

The economic literature proposes two senses for the term corporate governance [2]. First of all, it reflects all the processes through which the companies are managed and controlled. On the other hand, it represents an economic field which studies issues related with property separation and control.

The corporate governance includes a great area of scientific fields starting from economics and continuing with law, accounting, finance, psychology, management, politics, sociology. Including ethical principles, social responsibility, good business practice, control and supervision, corporate governance can be associated with internal and external audit, internal control, being permanently in a qualitative dependence with all these activities.

The development of corporate governance concept is based on several economic theories, some classical theories, such as the administration theory, the stakeholder theory, the agency theory and a modern theory which is the transaction costs theory. When it comes

to the classical theories the main link is established with the agency theory and that is the reason why almost all the definitions given to the corporate governance focus on the nature of the relationship between managers and shareholders as an agency relationship. The agency theory was issued by Beale and Means in 1932 and it presumes the existence of a conflict between the one who invests his money in a company and the one who manages the company [3]. The essence of this theory is based on the hypothesis that the manager or the agent must act in shareholders' (the principal) favour. The problems agent-principal appear due to their different interests and sometimes the necessary costs for monitoring the management are above the profit margins [4]. The corporate governance aims to minimize the agency costs and conflicts between principals and agents. The efficiency of different systems of corporate governance is evaluated by their capacity to solve the conflict managers versus shareholders.

The transaction costs theory [5] uses in a very clear manner the concept of governance. The main purpose of this theory is to explain the transactions through the efficiency of the corporate governance responsible structures. In this context, the corporate governance problem refers more to the way companies succeed in effectively and efficiently fulfill their activities taking into account their political and cultural environment, than to the protection of shareholders' rights.

The corporate governance represents an amount of "rules of the game" by which the companies are internally managed and supervised by the Board of Directors in order to protect all the shareholders' interests. It clearly specifies the rights and responsibilities of all the parties involved in a company. It defines a structure for establishing the company's objectives and the means to achieve them. All these reasons make corporate governance an important tool for measuring a company's performance.

2. Principles, codes and models of corporate governance

The concept of corporate governance has evolved and even codes have been

established in the economies where it operates.

Corporate governance codes have been issued by different entities, governmental groups, committees or national stock exchange commissions, business or academic associations, board of directors, investors' groups [4].

In the European Union, there have been adopted a number of 35 codes, every country having at least one code of corporate governance. Most of the codes were issued after 1997, after the financial scandals and bankruptcies of some British companies listed on the stock market and in the period of the Asian crisis [4]. The withdrawal of the capital invested by groups from Asia, Russia and South America has generated the focus on the basic principles of corporate governance.

Although they are different by their purpose and degree of details, all the codes approach four important problems [4]: equal treatment of the shareholders, whose interests must be on the first place; clear responsibility of the Board of Directors and management; transparency of information and accuracy of financial and nonfinancial reporting; responsibility for the interests of the minority shareholders and the obedience of rules and regulations.

Starting from different codes and practical models there have been identified some common elements that define an efficient system of corporate governance. They are reflected by the OECD principles of corporate governance. They mention three aspects for a good corporate governance: *integrity*, *responsibility* and *transparency*. Integrity means honesty and completeness and a balanced financial state of the company. Transparency is needed because low performances are hidden sometimes by the stakeholders in order to take some advantages from the public authorities. Responsibility is the most important aspect and in the same time the most difficult to be understood and observed.

Having all these principles as a starting point, there have been identified corporate governance models [4], mainly applied in all the European Union states which present distinct features: *the Anglo-Saxon model* (applied by companies from Great Britain and Hong Kong, Australia and the United

States) and *the german model* (applied by companies from Germany and continental Europe and also from Japan).

The anglo-saxon model represents a system based on external influence (outsider-based system) of the capital market. The capital market exercise a control over the companies and trade the securities under the situation of a dispersed ownership structure. The protection of the investors, when there are not any great shareholders, represents a permanent activity of the regulators of the financial market through corporate governance practices and policies.

The german corporate governance model (similar to Japan) is a system based on internal control and is not centered on the powerful influence exerted by active capital markets, but on the existence of strong shareholders such as banks. Human capital is considered of utmost importance in the German model. In contrast to the anglo-saxon model which is based primarily on the capital market, the german model is centered on the banking system. The main advantage of this model is flexible monitoring and financing and the effective communication between firms and banks. Strong involvement of banks in leading companies gives great stability and orientation towards economic development.

3. Criteria for measuring the level of corporate governance

Corporate governance is not just a theoretical concept. There are real grounds for appreciation of this notion. The best known system for assessing corporate governance is designed by the rating agency Standard & Poor`s. This system has two components [6]: a macroeconomic component - the scores given to a country and a microeconomic component - the score awarded to a company. The country score indicates the support from the state in terms of corporate governance taking into account the legislative framework, national regulations of the capital market, the financial reporting and accounting standards. It is important to take into account the country's score, because external forces at the macroeconomic level may influence the quality of a company's corporate

governance. Two companies with the same score, but from different countries, with contrasting levels of governance, may have different risk profiles. In this respect, the better the score of the country, the more investors will feel more secure. A high score awarded to a country becomes a significant advantage for national companies.

Company score takes into account the effectiveness of interaction between managers, shareholders and other stakeholders. It is based on criteria such as ownership structure (ownership structure transparency, focus and ownership structure influence on the company), stakeholder relationships (regular / access to information regarding the General Shareholders Meeting, the voting process), financial transparency (quality and content deemed public programming and access to knowledge dissemination, auditor independence and position the company), management structure and process (structure and leadership effectiveness, leadership role and composition, role and degree of independence of senior executives, directors and management reward system, methods of assessment and succession). Each of the above is measured on a scale from 1-10 and help set the final score, which is also represented at 1-10. A company can have a low final score, even if they come from a country with a high score, unless they comply with the four criteria defined above. Based on these criteria, a study dated 2000, prepared by SG Emerging Equity Funds Research [6] on the level of corporate governance in emerging markets shows that Romania ranked 7 out of 10. Subsequent research conducted in 2011 revealed that some Romanian managers are still not prepared to make the qualitative leap required by corporate governance principles and still holds on compliance provisions relating to transparency, resulting from this fact that the score has not evolved much.

4. The role of corporate governance in risk management

The concept of corporate governance is closely linked to corporate performance. The concept of overall performance of the company is based on stakeholder theory. Maximizing business value can be realized

only in the context in which managers take into account the interests of their social partners: shareholders, employees, creditors, suppliers, customers, etc.. [4]. Harmonization of interests is actually the risk management process, a process designed to identify potential events that may affect the entity and manage risk to keep it within acceptable limits so as to provide reasonable assurance regarding the achievement of entity objectives. Analysts were concerned in identifying potential correlations between the value of the company and financial management, especially in terms of economies of scale.

Creating financial management departments promotes in fact economic growth [6].

Risk management techniques are a support to maximize the company's value and are essential in the context of capital market integration. An increased level of risk and especially the concentration risk generates vulnerability to the corporate segment. Thus, risk management strategies contribute significantly to value creation.

When evaluating the listed companies, rating agencies and institutional investors such as banks, use as indicators of non-financial performance different criteria: corporate culture, management quality, effectiveness of communication with investors, executive management remuneration policies. Banking practice has shown that institutional investors, especially lenders, often give equally importance to information on corporate governance and financial information, for investment decisions.

It has been tried in various ways to establish a relationship of dependence between the quality of corporate governance and risk management. There is an intuitive link between the two issues and analysts have tried to demonstrate the mathematical correlations. The methodology used was the technique of regression, obtained by the method of least squares. The demonstration [6] started from equations that include financial leverage (calculated as the ratio between total debt and equity), and profitability (calculated as the ratio between net profit and turnover), as the dependent variables and using independent variables that include traditional financial indicators,

such as liquidity, solvency, and indicators of capital structure.

The innovative part of the research involved the integration of variables that reflect features of corporate management strategies such as institutional investors and ownership of the company's CEO, and other variables (blockholders and acquisition activities).

Data were collected both from companies that promote a high level of debt and the companies advocating for the implementation of policies leverage more relaxing. Analysts agree that leverage is the main variable influencing risk management strategies. Along with this indicator has been selected the ratio of debt and working capital as an indicator that reflects the company's capital structure and solvency default.

The results led to the conclusion that the companies focused on internal financing have strong corporate governance mechanisms, while companies with high value of financial leverage have strong corporate governance mechanisms. The reason is that, to get as many resources as possible, such companies must comply with the requirements of credit guarantee, which means that lenders must offer sufficient guarantees, reflected by a high level of equity.

Economic analyst research did not stop there, but have tried to include growth opportunities for variable closely related to corporate management strategies, using for this purpose variables such as research and development expenses and tangible assets (property, plant and equipment), the result being a positive correlation between these variables, profitability and financial leverage. Significant growth opportunities and high leverage contributes positively to profitability and specific risks management. Positive association between risk management strategies and financial leverage depends on the structure of corporate governance.

Meanwhile, coverage of interest expense and indebtedness is a real support for corporate management strategies.

Investment and financing decisions are closely related to risk management strategies, especially in terms of financial resources. Investment projects that are not supported by internal funds generate costs of external financing and this situation means agent

additional costs.

It follows that risk management strategies are correlated with capital structure. Risk management system is built around the company's willingness to attract external resources.

The relationship between the financing and investment process is correlated with the mix of growth perspectives of the company and the stock market / banking system constraints.

Risk management strategies involve a real challenge from the perspective of agent problems, conflicts of interest and informational asymmetries.

Practice has shown that there are different perceptions of risk on the part of managers and shareholders. Managers tend to implement risk strategies in accordance with their preferences, which often are not similar to those raised by shareholders.

The controlling process from shareholders' structure generates monitoring costs which trigger a negative impact on financial performance. At the same time, managers claim remuneration depending on the level of risk. Since risk increases, high reward for managers is required.

Also, a high concentration of shareholders implies a greater cohesion in terms of management strategies, with a positive impact on profitability.

Variables such as institutional investors and ownership of CEOs have a positive impact on financial leverage. Variable of CEO ownership is associated with extremely consistent remuneration policy. Leverage becomes in the context of corporate governance a device, which decreases the degree of information asymmetry. In this context, of a particular importance is the revision of remuneration policy for the executive management body [1] The crisis has shown that motivating executives by paying bonuses should be linked to medium-term business results, not annual ones, which may overestimate actual performance. It was also seen that guaranteed bonuses (fixed) are incompatible with a strict risk management policy. In order to minimize the risk potential compensation should be adjusted in accordance to the cost and the amount of capital required to cover the risks, costs and amount of the liquidity risk.

Temporal structure of remuneration schemes should be correlated with the time horizon for the appearance of the risks and that is why only a small fraction of the amount of compensation should be paid in cash.

5. Conclusions

The intensifying attention to ensure good corporate governance was generated by the sharp volatility and dynamics of the international economic context. Financial scandals and bankruptcies have increased, however, questions about corporate credibility and about the viability of this concept.

However, ensuring good corporate governance remains a goal on the list of international economic convergence[7]. At European Union's level, through economic governance are created equilibrium conditions for interdependence and interaction between different institutions at different levels.

A good corporate governance is a symbol of balance and financial performance. Corporate governance remains, regardless of the pros and cons, a complex system to meet economic goals and to monitor the financial performance.

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The Global Financial Crisis, the Premise of the New World Economic Order

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Abstract

Now humanity is going through hard times, hard times caused by this pandemic, which has strayed over the world namely, the current global crisis. It began as a US subprime crisis in the United State, it was then transformed into a banking crisis, followed by the debt crisis, sovereign credit crisis, crisis in the Euro Area, because in the end to be known as the "global financial crisis". In this article we tried to determine this by looking at a few macroeconomic indicators. So we chose for this analysis the real rate of growth of gross domestic product, indices of global competitiveness and corruption index. All these indicators have been investigated for the 27 Member States of the European Union, the five members of the B.R.I.C., United States of America and Japan. The bottom line is that slowly but surely, the dominant economic logic will be another in the near future.

Keywords: current global crisis, Euro Area, rate of growth of gross domestic product, exports, indices of global competitiveness

JEL: F0, F02

Introduction

Although this new crisis that swept around the world as a pandemic has not yet passed, more and more experts are asking the question whether the end of the crisis will not bring about a new world order, especially on the economic plan. The crisis led to the downfall of "neoliberalism" as he was known until today. He saw clearly that its teachings

about a world with a constant growth and a stable economy have never been put into practice. But until now, at the beginning of the crisis in 2007, all of these things have not been fully reflected in a change of the world order. However, due to the fact that this crisis is not far to be completed in a few years (10 or maybe 20) we think will arise a new world order, since at least economically.

This new world order would include a more accelerated convergence between the old Western powers and new players on the market, the emerging countries. For many decades, people have accepted the idea that the West has dominated the global economic system. From the governance of the multilateral organizations and to form a shared financial service, global infrastructure was seen as being subject to the interests of the West. These Western powers were seen as some forces that acted on the market and, from time to time, extended a hand to help distressed economies. When a signal is coming, however, reform at the global level with respect to this order, and when an economy emerging they earn a place above in the hierarchy, the Western powers filing to the world to remain unchanged. As a result, many emerging economies have lost confidence that "aid" that the global system was it was available when needed urgent help.

This shift was catalyzed by the financial crises in Asia, Eastern Europe and Latin America in the late 1990s and early 2000s, as well as what many of these regions have to be catalogued as an inadequate response from the great powers of the world. Having reduced confidence in bilateral assistance and multilateral institutions (such as the International Monetary Fund), the emerging

economies, led by those in Asia, have tried rallying by own forces. Once you have been successful in overcoming the crisis phase in terms of management, many of these countries have accumulated significant levels of international reserves. They managed to put out major foreign debt and to generate significant current account surpluses.

All of these things mentioned above were in contrast to what was happening in the West. There prevailed the emergence of enormous debt, unprecedented measures to maintain stability through economic levers, etc. Financial excesses were to become the rule rather than the exception, being the financial innovations, borrowing standards and erosion of the prudential regulation.

Thus, it was noticed at once that the world, as we know, turned inside out: rich countries running large deficits and, in some cases, passed quickly from the status of creditors to borrowers, while poor countries were running surpluses and began assembling large stocks of international assets, including bonds of Western economies. But neither rich countries nor poor countries were not aware at the time that their divergent roads will lead to huge global imbalances and, moreover, will lead to a financial crisis that will shake the foundations of the old international economic order.

Research methodology

To see if and how it was affected by the current international economic order of the world manifested in the present crisis, we analyze the evolution of macroeconomic indicators: gross domestic product per capita at purchasing power parity and expressed in millions of dollars, the global competitiveness index and the degree of corruption. The period for which the analysis is 2010-2011 for the first two indicators, analyze and 2008-2011 for the final indicator considered.

The analysis is made up of six entities: United States of America, the European Union, Japan and three B.R.I.C.S. members, respectively Brazil, India and China.

Thus, for the gross domestic product, calculated on purchasing power parity we took as the review period the past two years 2010 and 2011, respectively.

**Table 1 – Gross domestic product per capita
-PPP (USD)
2010-2011**

Country/Region	2010	2011
United States of America	48.147	47.184
European Union	31.676	31.548
China	7.536	8.394
Japan	33.994	34.362
Brazil	11.127	11.845
India	3.586	3.703
Global	11.151	10.992

Source: Table drawn up by the authors on the basis of the data collected on the websites of International Monetary Fund and the World Bank

It is clear from this table that while the two big economic powers of the world have been severely affected by the crisis, i.e. in terms of the United States of America, the gross domestic product per capita fell in 2011 at \$ 47.187 compared to \$ 48.147 in 2010, registering a decrease of \$ 954, while the European Union has seen a drop in per capita gross domestic product of \$ 128 at a value of \$ 31.676 in the year 2010 at a value of \$ 31.548 in 2011, countries with emerging economies have seen an increase in this indicator.

Thus, China has registered an increase of \$ 858, at a value of \$ 7.536 posted in 2010 at \$ 8.394 post in 2011.

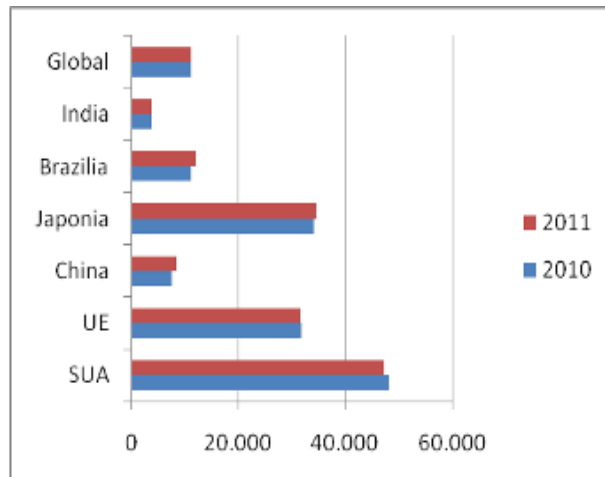
Japan, which already had a value far above that of the European Union, recorded an increase of this indicator from 33.994 \$ to \$ 34.362, i.e. + \$ 368. At a first glance this value would not be so impressive, but must take into account the fact that this country has recently passed through a series of events that have had a major negative impact in economic terms. However, the Japanese aspire to a place in the new world economic order.

Another famous country block B.R.I.C.S., Brazil, registered during the analysis period increased to \$ 718 per capita gross domestic product, i.e. the value registered for the year 2010 of \$ 11.127 at a value of \$ 11.845 recorded in the year 2011.

The last country to test this, India has registered and an increase of \$ 117 to \$ 3.586 as he had in 2010, 3.703 \$ in 2011. Can this growth is not very large but India has a very large population, the second largest in the world after China, in the year 2010 with 15 billion residents in 2011 with 1.22 billion

inhabitants; this large population should not be seen as a simple, but must be regarded as a huge human capital, capable to climb in the rankings of the world India.

Figure 1 – Gross domestic product per capita -PPP (USD) 2010-2011



Source: Graphic drawn up by the authors on the basis of the data collected on the websites of International Monetary Fund and the World Bank

The following indicator review to see how the global crisis has affected the old dominant economic logic is the global competitiveness index. The construction of the index is to analyze a set of twelve factors, namely: the institutional factor, infrastructure, macroeconomic environment, health and primary education, higher education and vocational training, labor market efficiency, financial market development, the technology, the size of the market, the degree of efficiency of the business environment and the degree of innovation. All of these factors are interrelated and influenced to a lesser or greater extent the global competitiveness index.

In what follows we presented in a table index obtained by a group of countries chosen for analysis during the period 2009-2010 and 2010-2011.

Table 2 – Global competitiveness Index 2010-2011 compared with 2009-2010

Economy	2010-2011		2009 - 2010	Increase/Decrease
	Ran k	Scor e	Ran k	

Austria	18	5,09	17	-1
Belgium	19	5,07	18	-1
Bulgaria	71	4,13	76	+5
Czech Republic	36	4,57	31	-5
Cyprus	40	4,50	34	-6
Danemark	9	5,32	5	-4
Estonia	33	4,61	35	+2
Finland	7	5,37	6	-1
France	15	5,13	16	+1
Germany	5	5,39	7	+2
Greece	83	3,99	71	-12
Ireland	29	4,74	25	-4
Italy	48	4,37	48	0
Latvia	70	4,14	68	-2
Lithuania	47	4,38	53	+6
Luxembourg	20	5,05	21	+1
Malta	50	4,34	52	+2
Netherlands	8	5,33	10	+2
Poland	39	4,51	46	+7
Portugal	46	4,38	43	-3
United Kingdom	12	5,25	13	+1
Romania	67	4,16	64	-3
Slovakia	60	4,25	47	-13
Slovenia	45	4,42	37	-8
Spain	42	4,49	33	-9
Sweden	2	5,56	4	+2
Hungary	52	4,33	58	+6
United States of America	4	5,43	2	-2
Russia	63	4,24	63	0
China	27	4,84	29	+2
Japan	6	5,37	8	+2
India	51	4,33	49	-2
Brazil	58	4,28	56	-2
South Africa	54	4,32	45	-9

Source: Table drawn up by the authors, based on data taken from "The Global Competitiveness Report 2010-2011", p. 15

Legend: **Red** – Euro Area States

Blue- the other Member States of the European Union

Green – the Member States B.R.I.C.S.

Violet – United States of America and Japan

According to the global competitiveness index, the first country in the world on the 2010-2011 period is Switzerland, which knows about it that it has the status of a neutral country. For the analysis that we realized we have chosen a group of 35 countries: 27 are EU member countries, 5 countries are B.R.I.C.S. and they have especially United States of America and Japan.

We chose all the 27 Member States of the European Union to that of these 17 are members of the Euro Zone, and now this area is undergoing a series of tests, especially due to austerity measures taken in hopes to return after the shock of the crisis. To highlight

States that are part of this area we've assigned the red color.

It is noted that Euro Zone States most affected by the crisis were those whose savings proved to be less effective. Thus, the largest falls in the global competitiveness index for the sample analyzed it was Slovakia, with about 13 seats lost and Greece with 12 seats lost to the period 2009-2010. All these States are those that have lost the most seats and of the European Union States, followed by Spain, Slovenia and Cyprus. At the opposite pole, in spite of this bleak period through which pass all the world economies, European Union member countries that have managed to gain seats in this ranking are in order: Poland + 7, Hungary and Lithuania with + 6 seats each, Bulgaria + 5 seats. The rest of the Member States of the European Union have seen decreases or increases with 1, 2 or 3 places. The only State that has remained at the same level in 2010-2011 to the 2009-2010 season, between the Member States of the European Union was Italy which ranked 48.

In terms of emerging economies in the B.R.I.C.S., the only country that has experienced an increase in ranking is China + 2 seats, the rest of the country have experienced a decrease in the level-2 seats as in the case of India and Brazil, or even worse, 9 seats as in the case of South Africa, be stalled, as happened with Russia which remained at 63.

If it is to add the changes suffered by the UNITED STATES and Japan in this ranking for the period under review, we notice that the result can be null, because while the UNITED STATES dropped 2 places, 2 world in 2009-2010, the 4th World in 2010-2011, Japan made a climb two places in the rankings, from number eight in 2009-2010 to 6th place in 2010-2011 demonstrating once again his exceptional ability to return from different crises.

As can be seen, this ranking is a fairly unstable, changing from one period to another and may, crossing and deepened this crisis, a completely different situation will be for the period 2011-2012, especially that indicate depends on a very large number of influencing factors, as has been seen.

Another indicator that you consider to be relevant in the analysis undertaken to change the global economic order is linked to

corruption. So we made a table for the period 2008-2011, with the same group of countries under review before we presented both on the score obtained in these years, and the place of the world rankings.

Table 3 – Corruption index 2008-2011

Contry	Score				Rank			
	2008	2009	2010	2011	2008	2009	2010	2011
Danemark	9,3	9,3	9,3	9,4	1	1	1	2
Finlandk	9	8,9	9,2	9,4	1	3	4	2
Sweden	9,3	9,2	9,2	9,3	9	8	4	4
Netherlands	8,9	8,9	8,8	8,9	9	8	7	7
Luxembourg	8,3	8,2	8,5	8,5	12	12	11	11
Germany	7,9	8	7,9	8	22	20	15	14
Japan	7,3	7,7	7,8	8	28	22	17	14
Austria	8,1	7,9	7,9	7,8	14	14	15	16
United Kingdom	7,7	7,7	7,6	7,8	23	25	20	16
Belgium	7,3	7,1	7,1	7,5	18	19	22	19
Ireland	7,7	8	8	7,5	12	16	14	19
United States of America	7,3	7,5	7,1	7,1	23	25	22	24
France	6,9	6,9	6,8	7	27	27	25	25
Estonia	6,6	6,6	6,5	6,4	26	27	26	29
Cyprus	6,4	6,6	6,3	6,3	35	30	28	30
Spain	6,5	6,1	6,1	6,2	32	35	30	31
Portugal	6,1	5,8	6	6,1	36	37	32	32
Slovenia	6,7	6,6	6,4	5,9	31	27	27	35
Malta	5,8	5,2	5,6	5,6	40	39	37	39
Poland	4,6	5	5,3	5,5	33	34	41	41
Lithuania	4,6	4,9	5	4,8	43	43	46	50
Hungary	5,1	5,1	4,7	4,6	47	49	50	54
Checz Republic	5,2	4,9	4,6	4,4	65	66	53	57
Latvia	5	4,5	4,3	4,2	52	56	59	61
South Africa	4,9	4,7	4,5	4,1	47	56	54	64
Slovakia	5	4,5	4,3	4	62	65	59	66
Italz	4,8	4,3	3,9	3,9	67	66	67	69
Brazil	3,5	3,7	3,7	3,8	65	61	69	73
China	3,6	3,6	3,5	3,6	70	75	78	75
Romania	3,8	3,8	3,7	3,6	72	71	69	75
Greece	4,7	3,8	3,5	3,4	92	89	78	80
Bulgaria	3,6	3,8	3,6	3,3	67	84	73	86
India	3,4	3,4	3,3	3,1	96	99	87	95
Russia	2,1	2,2	2,1	2,4	151	158	154	143

*Source: Table drawn up by the authors
based on the data retrieved from the
www.transparency.org/cpi website, accessed at
28.02.2012*

We have chosen to analyze this point because with the advent of these asymmetric shocks in the global economy, the whole world has come to the conclusion that it needs greater transparency and accountability on the part of our leaders. No region or in the world economy is not immune to the damage caused by corruption. An analysis of all of the 183 countries of the world which have provided data about this show is that most of them have obtained a score below 5 on a

scale that starts at 0, the most corrupt and 10 the most transparent State.

The group chosen for analysis is used in the above indicator, i.e. the 27 EU Member States and the Member States B.R.I.C.S., USA and Japan.

In the table it can be easily notice that Denmark and remained three years in a row the Supreme position in this ranking, in 2011, remaining on the integrity of this country probably being affected by speculation that with the deepening of the global financial crisis. The second country that occupies a leading place in this hierarchy comes from the European Union, in the case of Finland. If in 2008, it is located on the same place with Denmark, i.e. 1st, in 2009-2010 lost slowly this prestige, arriving in 2010 to occupy the fourth position, because in the last year, 2011, and to climb two places.

Analyzing on the whole of the European Union member countries, we've noticed that only 17 of the 27 States have a score above 5, in the other 10 States corruption index showing us a degree of transparency extremely low.

It is estimated, however, that despite the crisis that has crushed and grinds in the Euro area, of the 17 States with the single currency 14 scores of more than 5, indicating a moderate to low corruption.

The most corrupt countries in the Euro area are Slovakia, Italy and Greece because this time the crisis has turned into a very attractive speculative target.

As regards the Member States B.R.I.C.S. we noticed that they have a high level of corruption, the least corrupt among them being South Africa and most corrupt being Russia with a score of 2.4.

The Japanese does not belie nor this indicator and, after occupying the position of 2008 28 in total, came to climb the 14 positions, until the 14th, 2011 with a score of 8.

United States of America, on the other hand, had a sinusoidal trajectory in terms of corruption index, the alternating downturns from 2008-2009 to the boarding of the 2009-2010 position 25 to 22, because in 2011 to fall back to the 2 position 24. However, throughout the four-year review, the U.S. has won scores of more than 7, which indicates a moderate to low corruption.

As we said, the situation in the world is not at all happy about this, but with the appropriate measures it could improve, especially if these measures aimed at halting the crisis.

Conclusions

From the analysis of the five factors that we could see that there was some attempt to change the old economic logic, the countries that have so far held supremacy is fighting hard to preserve it, in the face of increasingly stiff competition from some developing countries. This change forces worldwide and has made its presence felt ever more prevalent lately, especially since these have hovered and a catalyst of unwanted and the global crisis. A more thorough analysis it was observed that the world powers began to appear increasingly more often countries which until now were free of too much interest but who knew how to suggest the opportunity offered by this crisis and to take full advantage of it, to the detriment of countries considered Favorites to the title of superpower. In the future we will try to show that in addition to this change in world order in terms of power, the crisis has resulted in a change of logic and economic dominance at the global level.

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Key Elements for Storage and Maritime Bulk Transport of Edible Fats and Oils in a Global Growing Market

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Abstract

The storage and maritime bulk transport of edible fats and oils as a subject is a very complex matter and there is a real need to capture the evolved practices and international industry requirements now demanded by all international players in a continuous growing global market.

The world-wide edible fats and oils trade has established its own set of quality standards for storage and carriage that are laid down in certain forms issued by the Federation of Oils, Seeds and Fats Associations Ltd. (FOSFA) in London and National Institute of Oilseed Products (NIOP) in Washington.

However, there are few key elements that need always to be observed when dealing with edible fats and oils and it is the purpose of this paper to highlight those elements.

Key words: edible fats and oils, storage, maritime transport, shore tanks, chemical tanker

J.E.L. classification: L91, R40

1. Introduction

It is well known that currently global production of the major fats and oils is led by Asian countries. Indonesia is the world's largest producer, accounting for over 44% of the world's palm oil production, the major type of vegetable oil produced while China produces a nearly equivalent volume of fats and oils, and is a larger producer of soybean and canola oils.

Malaysia ranks third in world production because of its place as the second-largest world palm oil producer. India also produces large volumes of canola and butter. Overall, Asia accounts for over 50% of world fats and oils production.

Similarly, world consumption is driven mainly by Asia, which accounts for 44% of the world total. China and India together make up 32% of the world total. Chinese demand is mainly for soybean oil, followed by canola and palm oils. India is a major consumer of canola oil, as well as palm oil and butter. Both countries expect continued strong growth. Indonesia and Malaysia also contribute to overall consumption, especially in palm oil demand.

Palm, soybean, canola and sunflower oil are the world's most widely used fats and oils, and together account for 72% of total global consumption. Palm oil is the largest-volume oil used, surpassing soybean oil in the mid-2000s. In 1990, these four oils combined accounted for about 55% of global fats and oils consumption, with soybean oil at 20% of the world total, followed by palm oil with 14%.

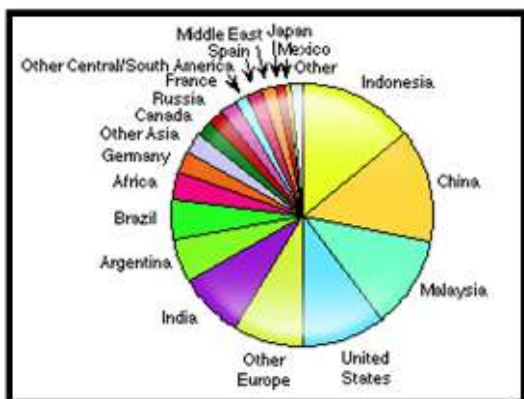
Palm oil is produced mainly by Indonesia and Malaysia. Demand for palm oil accounts for over 25% of world demand for fats and oils, and is expected to grow at an average annual rate of more than 5%. The main consumers include India, Indonesia and China, and the rest of Asia, Europe and Africa. Palm oil use has grown significantly as a result of its lower cost, edible properties, and supply availability.

Soybean oil is the dominant oil used in the United States, accounting for 45% of total consumption. Biodiesel production will continue to drive U.S. growth. Soybean oil accounts for over 63% of total demand in Central and South America, and over 40% of its use is for biodiesel production, especially in Argentina and Brazil.

In Europe, soybean oil is used as cooking oil but growth has been limited in food use and more recently by biodiesel production. Soybean oil use in Asia is also significant (about 20% of the total) and strong growth of

4–5% annually is expected. China is a large consumer.

Figure 1. World production of major fats and oils in 2011



Source: <http://www.ihs.com/products/chemical/planning/ceh/fats-and-oils-industry.asp>

Overall, world fats and oils consumption is expected to grow at an average annual rate of 3.5–4%, driven mainly by growth in Asia and steady increases in the United States and Europe.

In Asia, China and India will continue to experience a growing population and economy, which will result in an increase in per capita demand for fats and oils. In the United States, Europe, and Central and South America, fats and oils demand for nonfood use, particularly biodiesel production is expected to continue to increase.

2. Storage of edible fats and oils ashore and onboard chemical tankers

For storage tanks ashore the most suitable shape is the vertical, circular cross-section tank with self-supporting fixed roof, preferably conical in shape. Where possible, tall, narrow tanks are preferred to minimize the surface areas of the contents and, therefore, to minimize contact of the oils or fats with air and the oxygen it contains. Tank bottoms should be conical or sloped (with a sump) to facilitate draining. All openings such as manholes, inlets, outlets, draining out points, etc., should be made such that they can be locked and/or effectively sealed.

For each installation, the total storage capacity, size and number of tanks need to be related to the size and frequency of intakes,

rates of turnover and the number of different products handled etc.

The economics of bulk transport requires that a range of cargoes can be carried on one vessel and tank capacities generally vary between 200 to 2500 tons.

Ship's tanks differ from land tanks and complete segregation of tanks is achieved by using individual pumps and line systems, each tank having its own dedicated pump and line system.

Mild steel tanks should preferably be coated to prevent attack or corrosion of the mild steel by the cargo. The coating should be approved for contact with food. The trend towards the use of stainless steel for tank construction will remove the need for tank coatings. Damage to coatings can be caused by abrasion or by using unsuitable cleaning methods leading to local corrosion.

The tanks should always be inspected before a cargo of oil or fat is loaded and, if necessary, repairs to the coatings should be carried out.

Despite of being clasified as edible, due to more and more stringent requirements for pollution prevention, when edible fats and oils have to be carried by sea, certain types of ships (known as chemical tankers) have to be considered.

There are three types of ships designed for sea carriage:

- type 1 ship is a chemical tanker intended to transport products with very severe environmental and safety hazards which require maximum preventive measures to preclude an escape of such cargo;
- type 2 ship is a chemical tanker intended to transport products with appreciably severe environmental and safety hazards which require significant preventive measures to preclude an escape of such cargo;
- type 3 ship is a chemical tanker intended to transport products with sufficiently severe environmental and safety hazards which require a moderate degree of containment to increase survival capability in a damaged condition.

In general, only type 2 and type 3 chemical tankers are used for carriage by sea of edible fats and oils since these cargoes are not so aggressive for marine environment in case of operational overboard discharges.

3. Maritime bulk transport of edible fats and oils

Internationally, the carriage of oils and fats was not regulated until the International Maritime Organization, with their responsibility for the safety of seafarers and the maritime environment, regulated the category of ships which could carry this type of cargo. There is no doubt that this change, in January 2007, has greatly improved the quality of the vessels employed in the trade.

Ships employed in the trade are categorised as follows:

- bulk tankers
- parcel tankers
- coasters
- container vessels

Bulk tankers range from 15,000 to 40,000 tonnes and have a varying number of different sized tanks, usually with inter-connected valves. They are best suited for the carriage of single oils, in large volumes, where they can be loaded with valves open for fast receipt of the cargo and easier trim of the vessel.

Parcel tankers are more sophisticated ships, mainly in the 15,000 to 40,000 tons range, designed to carry a variety of different but fully segregated bulk liquids. Each tank may have one of a number of different coatings to suit a particular kind of cargo and each tank, or small group of tanks, will have its own dedicated pipelines and pumps.

Coasters are ships generally between 750 and 3000 tons that cover short sea voyages. They are also frequently used to handle transshipment from ocean-going vessels.

Container vessels are purpose built to carry containers of uniform dimensions for convenient stowage. They run between container terminals, whilst the containers themselves can be filled and unloaded at whatever other, frequently inland, point/s may best suit the goods and parties concerned.

For all above ships there are specific requirements as regards materials used in the construction of tanks and for ancillary equipment (including heating facilities). Such materials should be inert to oils and fats, and should be suitable for use in contact with food. Stainless steel is the most preferred metal for the construction of tanks. It is

particularly recommended for the storage and transport of fully refined oils and fats.

In addition for all ships, the cargo storage tanks onboard should be installed with heating facilities so that the product is liquid and homogenous when transferred or unloaded. Heating coils should be of stainless steel construction. Heating coils constructed from alloys containing copper are not suitable. Use of means of heating should be by design, construction and procedures, such as to avoid contamination and damage to the oil.

There should be always means of cargo temperature monitoring for each individual cargo storage tank, with temperature sensors and control devices to prevent overheating of oil in the tank and associated lines.

4. Conclusion

As a conclusion to be noted that prior being accepted for carriage of edible fats and oils, chemical tankers have to comply with following mandatory requirements:

- ships shall be fully classed by a classification society in membership of the International Association of Classification Societies.
- copper and its alloys such as brass, bronze or gun metal shall not be used for any part of the system installation and means of transport that has contact with the oils or fats.
- tanks, other than those of stainless steel, shall be coated, with the exception of mild steel tanks as specified in the *FOSFA Operational Procedures*. Only coatings suitable for food grade products and for the carriage of the oils or fats shall be used. Zinc silicate coated tanks shall not be used for crude oil unless the acid value is 1 or under.
- heating coils within tanks, and tubes and internal shell of heat exchangers shall be of stainless steel construction only. Heat transfer medium shall be fully described on the *FOSFA Combined Masters Certificate*.
- cargo lines shall preferably be of stainless steel construction with sufficient drain valves.

Chemical tankers shall comply with the requirements of the *FOSFA Qualifications* for ships engaged in maritime bulk transport

of edible fats and oils and also with *FOSFA Operational Procedures* for ships engaged in this business.

There will be two major documents issued prior vessel's acceptance for commencement of actual loading operations of a chemical tanker:

- certification in the form of a *FOSFA Certificate of Compliance, Cleanliness and Suitability of Ship's Tank* issued by a FOSFA Member Superintendent.
- certification in the form of a *FOSFA Combined Masters Certificate* signed by the Captain/First Officer or an equivalent statement signed by the ship's owners or authorized agent, applicable before any loading or cargo transfer.

In order that a *clean acceptance certificate* to be issued, the immediate previous cargo in the storage tanks shall not have been a product appearing on the *FOSFA List of Banned Immediate Previous Cargoes* or shall have been a product appearing on the *FOSFA List of Acceptable Previous Cargoes* (whichever is appropriate) currently in force at the date of Bill of Lading.

Where the second last cargo is not on the *Acceptable List*, the pumping of an acceptable immediate previous cargo from one tank to another during the voyage will not render the tank as acceptable.

The Restrictions relating to previous cargoes beyond the Immediate Previous Cargo, as set out in the *FOSFA List of Banned Immediate Previous Cargoes* and the *FOSFA List of Acceptable Previous Cargoes*, shall apply.

Prior to receiving cargo ship's tanks and related cargo handling systems should be fully inspected for cleanliness by a FOSFA Member Superintendent in accordance with the *FOSFA Code of Practice for Member Superintendents, Part One*. Inspections shall be certified in the *FOSFA Certificate of Compliance, Cleanliness and Suitability of Ship's Tank*.

Before any loading of, or transshipment to the ocean carrier, a statement in the form of the *FOSFA Combined Masters Certificate* shall be handed to the sellers/shippers or their Superintendent.

In the absence of heating instructions from charterers, the *FOSFA Heating Instructions (A5 - A8)* or the relevant *PORAM Heating Instructions*, whichever are

applicable, shall be followed and the temperature of the oil or fat shall be recorded daily.

Physical operations at loading and discharging shall be conducted in accordance with the *FOSFA Code of Practice for Member Superintendents, Part One*.

Prior to discharge all additional handling systems such as hoses and deck manifolds shall be inspected for cleanliness by a FOSFA Member Superintendent. At the commencement of discharge, line samples shall be taken at the ship's permanent connection for each cargo unloaded.

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Particular Warehousing Techniques for Goods Carried by Sea

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Abstract

A warehouse is a commercial building used for storage of goods while warehousing is the process of proper storage and handling of goods and cargo using scientific methods in the warehouse and making them available conveniently when needed. In today's economics, warehousing is considered as one of the most important aspect of trade.

Warehousing techniques are the systematic ways and means of receiving, storing, protecting and issuing materials and commodities for future use.

This article will point out few stages in the process of warehousing goods carried by sea and shows how good techniques can improve the efficiency and economy of a warehousing organization.

Key words: warehouse, storage, techniques, goods, sea ports

J.E.L. Classification: L91, P45

1. Introduction

Warehousing is just one element in the chain of interdependent activities known as materials management. It is the part of materials management concerned with the storage of the kind and quantity of goods that consumers and users require [6].

It is well known that some commodities are produced in a particular season only then, to ensure their off season availability, warehousing is needed.

On the other hand, some products are produced throughout the year but their demand is seasonal so, again warehousing is important and needed in such cases.

For the companies which opt for large scale production and bulk supply, warehouse is an unavoidable factor. Warehousing help

companies ensure quick supply of goods in demand. Production of goods and their movement are important for the companies for continuous production of goods.

Warehousing is also important for price stabilization especially when national political interests dictate a price control. For necessary goods, the Governments store them in the warehouses and control its supply in the market as per the price fluctuations.

Another important need of warehousing is for bulk breaking. Consider a trade agent who imports goods from a country for a large number of buyers in his own country. He first takes the goods to his warehouse and breaks it into small parts for supply to the buyers.

When it comes to cost saving, there is warehousing that helps the traders with cross docking. All the goods are consolidated in the warehouse and then stuffed into containers as per their destination. This is especially beneficial for small traders who export low quantity of goods.

2. Functions, types and characteristics of a warehouse

Major functions of a warehouse are: storage and protection of goods, risk bearing, financing, processing, grading and branding, transportation.

There are three main types of warehouses, each having its own specific characteristics [1]:

Private warehouses: these are owned by the manufacturers or traders/distributors. Private warehouses are used to store exclusively owned goods. These are usually preferred by farmers near their fields, wholesalers/distributors/retailers near their territory, manufacturers near their factories, and exporters/importers near ports. Private warehouses offer better control over movement and storage of goods and less chances of error. Along with this, product specific storage techniques can be opted in

private warehouses. On the other hand, higher operation costs and inflexibility in storing different products are the major disadvantages of private warehouses.

Public warehouses: these warehouses are meant for use by general public. Anyone can store their goods in public warehouses for a nominal rent. These warehouses can be private or state owned. In case a private company wants to start a public warehouse, it has to compulsorily obtain a license from the government. Besides this, the operations of these warehouses are also regulated by government agencies. These warehouses are less expensive and more cost effective. They are flexible enough to store different kinds of products. Public warehouses offer better utilization of money as the user pays only for the space occupied. But public warehouses are not considered goods when it comes to such goods which require special handling techniques. Also the chances of error are more here due to common storage of all goods.

Government warehouses: are owned, managed and governed by a state government. They can be used by both private companies and government agencies for storage of goods. They are thus also considered a form of public warehouses owned by government. Government warehouses offer better security and safety of goods due to high involvement of government. They are very less expensive but require considerable paper work to be done.

An ideal warehouse will present following main characteristics:

- mechanical appliances should be there to lift, load and unload goods;
- should be conveniently located near highways, railway stations, air ports, sea ports etc. for loading and unloading of goods;
- it should be spacious enough;
- food storage warehouses should have enough facilities to prevent food from perishing;
- proper arrangement to save goods from sunlight, dust, rain, moisture and pests should be available;
- sufficient parking space should be there to facilitate quick and easy loading and unloading of goods;

- security arrangements should be strict and round the clock.

3. Warehouse Management System

The main aim of warehouse management system is to fulfill its functions with economy, speed and efficiency [6].

This should be designed to suit the types of goods in store and the patterns in which they are received and issued. Storage location systems should enable orders to be put together and made ready for distribution when they are wanted. Stock has to be maintained in good condition and handled with care.

A warehouse management system, also known as a WMS, facilitates and controls the movement and storage of materials housed within a warehouse. These systems automate transactions and allow stock to be located, quantities of stock to be assessed, and warehouse tasks to be directed.

As a matter of fact, due to the advanced technology of warehouse management systems, all warehousing functions can be optimized. This optimization can include all inventory movements, as well as the provision of all information flowing in between the movement of inventory.

Warehouse management systems are being used by, and are of great use to all types of businesses. While businesses of all sizes use them, small to mid-sized business have been showing a growing interest in these systems.

Even though smaller to mid-sized businesses may have less inventory to keep track of than larger businesses may, the streamlining facilitated by a warehouse management system is still of great usefulness to them. These systems allow for the faster movement of product, which in turn improves the bottom line of any business.

The integration of a WMS within an organization results in improved operating practice overall. It allows space within a warehouse to be maximized, and allows for the more effective use of labour, equipment and inventory.

Once a warehouse management system is implemented, an improvement in the accuracy of inventory, as well as an improvement in flexibility results. Of course

labor costs are reduced, and customer service is enhanced.

The process by which information can be updated in electronic inventory, due to the integration of a WMS results in higher levels of accurate results. The accuracy of WMS results allows for a reduction in the amount of red tape within a business, as well as the altering of inventory information in a streamlined, simple manner.

Captured electronic data can be used for the purpose of monitoring the working practices within a business. This in turn ensures that the merchandise is always replenished when necessary, making the taking of physical inventories unnecessary. Manual data entry can result in errors. However, electronic operations involving warehouse stock through warehouse management systems, results in a greatly reduced rate of error, or even no rate of error at all.

4. Conclusions

Amongst warehouses, those located in maritime ports have a particular interest in respect of goods flow upon beginning or completion of a sea passage.

In an ideal world, warehouses would not be needed at seaports. Consignments would be off-loaded directly onto waiting trucks, railway wagons or barges and taken straight off to their ultimate destinations. This would be particularly true for commodities or goods arriving as full container loads (FCLs).

In the real world things do not always run so smoothly. Goods may have to be accommodated temporarily in the port area for two main reasons [1]:

- the right number or type of trucks or railway wagons are not or cannot be made available for onward transportation at the time a ship is discharging its cargo;
- there may be delays in completing documents or satisfying port or customs formalities. For example, goods may have to wait before they are assessed for import duties. Damaged consignments may have to wait before they are inspected for insurance purposes or the documents themselves may not be in order.

Delays are costly. Holding up a ship in port incurs expensive demurrage charges. Keeping goods "stored" in railway wagons

also runs up charges. In addition to these direct costs are the indirect costs accruing to the importer who is not receiving any return on his goods and who may well be paying interest on the investment.

Delays are even more disastrous for cargoes which can perish or deteriorate.

Fast off-loading and streamlined onward transportation will benefit importers, end users and a country's economy as a whole.

As more and more goods are transported in containers, and particularly of the Roll-on/Roll-off type, portside warehouses are used less and less.

More typically, these port warehouses are used today for storing smaller items or packages *destuffed* from LCL containers until they can be removed to other or final destinations.

Dutiable items for which the levy has to be paid before they can be removed are stored in bonded warehouses. A charge is made for this facility.

Some ports limit the time in which goods can remain in bonded warehouses for the set rental. After the given period, interest may be charged on the outstanding duty. Damaged packages may stay in bonded warehouses until they are inspected by port authorities, customs or insurance assessors.

A great deal of quayside space is often needed for storing containers awaiting their onward journeys or return.

Ports usually have an open area for cargoes which can be stored outside without a great risk of deterioration - steel sheets or metal ingots, for instance. These yards must be kept secured.

Whether to store an item inside the building or in a stockyard will depend on three things: the nature of the product, the climate and the amount of space available.

Storekeepers need to know which materials can and which cannot withstand exposure to the local climate. Plastic pipes may be fine outside in temperate climates, but can distort in extreme heat. Other products may dissolve, rust, rot or crack if they are kept outside.

If goods are normally issued in bulk, they will be repacked and stored in cases or on pallets after checking. If other items are normally issued individually, it will be better to *break bulk* after checking, and store them as individual packages or separate items. It

may be necessary to store a product both ways to cater for the needs of different users.

If delivery of a small quantity from a counting or handling unit of a package becomes unavoidable, only one package should be opened at a time. The contents of this should be accounted for before the next package is opened.

Well-defined commodities of a reasonable and stable range could usefully be arranged in a logical sequence by commodity. Commodities needing special storage facilities, such as fuels, lubricants are often grouped in this way.

So are various kinds of bulk grain or bulk cement. Grouping products of a technical nature is always advisable.

It may suit a multi-purpose warehouse to have a different location system for separate groups of goods or for different buildings. Some flexibility will be inevitable: heavy or very bulky items cannot be placed safely on high shelves, for instance.

All stock received into the warehouse must be marked to identify each lot or consignment. The marked items will then be placed according to the location system selected, and according to size, packing, volume or type of material [4].

Details to be marked should include a description of the contents or a catalogue code number plus the quantity and date (or date code). This information may be written on a label attached to the item or on a bin tag on the place where the item will be stored.

Closed cases should be marked on two adjacent sides. Goods can be marked by manufacturers or suppliers according to the purchaser's instructions.

Given precise instructions, they can print the necessary details on the labels, including an alpha-numeric code or a bar code (or both).

Most of goods and cargoes carried by sea fall into below categories having particular warehousing techniques prior or after a sea passage is completed [5]:

Raw material storage: any material required or used for the production process. Warehouse locations are generally located in the factory building, so the company can save the costs of storage because it does not require a special building for it. Warehouse so called because its function is well stockroom store stock for specific needs.

Storage of semi-finished goods: In the manufacturing industry, we often find that the work piece has to go through some kind of operation in the process. This procedure often had stalled because of a subsequent surgery required processing time is not the same. As a result, goods or materials have to wait until the machine or operator who is doing it.

Finished Product Storage: most of times they are stored at the sea ports before being loaded onboard vessels for the sea passage to final consumer.

In addition to the above three kinds of warehouse, there are several other kinds of warehouse needs to know:

For Suppliers Storage: Warehouses nonproductive goods storage and will be used for the work of packing, maintenance, and storage of office supplies.

Storage components: Warehouse to store the components are ready assembled. Warehouse is commonly placed adjacent to the assembly area or can also be placed separately in the storage of semi-finished goods.

Salvage (rescue): In most of the production process, it is possible some will be wrong workpiece done. As a result, items requiring rework to repair, so the quality of production in the fix. Therefore, companies need an area to store any of the workpiece before reprocessing. Workpieces can not be repaired will be scrap or waste is placed in a separate location.

Waste: Warehouse used to store materials or components wrong way and could not be repaired.

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Marine Transport by Container – Moisture and Condensation Damage

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Abstract

Marine transport by container is the most economical and safe way of shipping for almost any kind of cargo. But putting cargo into a closed steel box also entails a permanent risk of moisture damage for the majority of cargoes carried by sea.

Such damage may result in substantial losses and costs. Certainly not every shipment suffers moisture damage, and most of those that do, suffer only limited damage. However, lots of moisture damage remains unrecognized, because it is considered "normal" and only few shippers have a good system of feedback from the receivers of their goods. There may be lots of things they don't know and thus no adequate steps are taken to reduce or even eliminate risk of damage.

Although along the years the subject has been covered by extensive literature, due to continuous technological progress and implementation of modern shipping techniques, there is a need to highlight those developments which bring an improvement to the marine transport by containers, and this is main purpose of this paper.

Key words: container, moisture, condensation, marine transport, damage

J.E.L. classification: L91, R40

1. Introduction

While cargo theft on piers or warehouses is generally recognized as a major loss exposure for shippers or consignees, and efforts are made to stem such attacks, still too little attention is paid to loss as a result of excessive moisture in the shipping container. That's ironic, because the container development was, in part, a response to cargo theft and poor aboard ship stowage [3].

Excessive moisture damage can occur not only in marine shipping, but also to cargo

shipped by rail, truck or air under inland marine coverage.

Temperature changes as well as other natural elements can result in the build-up of moisture and the formation of mold and mildew, rust on metal, discolored or peeling product labels and unwanted product odors.

These destructive results stem from extreme climatic changes which occur along shipping routes and include fluctuations in temperature and humidity.

Condensation develops in the air space inside the shipping container fouling the contents and invisible until uncrated.

In addition, humid air trapped inside containers, or certain hygroscopic (moisture - containing) items within them, such as wooden pallets, can intensify the moisture problem [4].

This type of irreversible damage can lead to millions of dollars in escalated shipping and materials costs, increased claims, higher insurance premiums and, in extreme or repeated cases, cancellation of the insured's marine policy.

Condensation is the result of a recipe of factors: air movement in the hold of a vessel or intermodal container; inherent moisture content of the cargo and/or its packaging, temperature variation between ship/container and cargo; and time period that this difference is maintained [8].

It occurs when there is a temperature difference caused by [5]:

- changes in latitude, as the vessel and cargo travel from one climatic state to another. Something as simple as the cold steel of a vessel's hull plying through warm waters can trigger it;
- presence of artificially warm air on cold steel hull or container surfaces. This may occur when the vessel or container is exposed to temperature ranges, such as hot, humid days when stored or stowed in the open, followed by cool, dry nights. It can also occur when cargo or container is

placed near the engine room bulkheads or other latent heat source;

- spontaneous heating of the cargo due, among other things, to the growth of microorganisms, insects or oxidation.

The pattern of moisture damage may seem random. The moisture processes are examples of strongly non-linear physics.

That means that very small differences in the cargo and voyage conditions can have a huge effect of the outcome. That is why you may have few consecutive perfectly safe shipments and the next ones may be a disaster.

This means that there is always a risk of moisture damage in the next shipment, even if the last one was ok.

2. Moisture damage can be prevented

All containers contain moisture from the time of loading and in the cargo. No container is airtight. Moisture will move in and out of the container during the course of the voyage – so called "container breathing". The objective of a moisture protection program is to prevent the buildup of moisture in the air to levels where it may cause damage [1].

Storing pallets inside or outside is often enough to make the difference between no damage and "disaster". Simply adjusting the temperature of the cargo at loading can prevent damage. Thus it is well worth to make what improvements are at all practical, and the balance will then have to be taken up by the packaging and the absorbers.

A minimum requirement is of course that the container is watertight against rain and spray. That is usually the case, but especially the bottom side and the doors are vulnerable to damage that may not be noticed.

Certainly no container is airtight, but a container in good condition allows air (and moisture) to move in and out of the container only slowly, over hours perhaps. That significantly reduces the amount of moisture moving into the container under common circumstances (container breathing).

For a moist cargo, such as agricultural commodities, it is usually better to leave the vent holes open.

A container that has been washed before loading, brought in from outside into a warm

loading area or stored in a humid place, may contain lots of water. In particular, attention must be paid to the container floor. The humidity of the wood should not be above 18%.

All pallets and other wooden dunnage must be dry. Preferably the moisture content should not be above 18% and certainly not above 20%. It is easy to check the humidity with a small handheld device commonly used in the construction industry and costing a couple of hundred Euros only [1].

Some cargoes are entirely dry and don't contain any moisture, e.g. pure metal products without corrosion protection or surface treatment.

But most cargoes contain moisture, if only in the packaging that usually include wood, cartons, paper etc. Most of this moisture is bound in the material and is not easily released, but even a small percentage can cause problems. Even if the product appears dry at loading is no guarantee against things going wrong in a container where temperatures may later on reach 60-70C [1].

Some cargoes unavoidably contain large amounts of moisture, even after having been made as dry as practical. They require a more sophisticated moisture protection installation.

Particular attention should be given to the storage of containers, pallets and dunnage and certainly not to speak of the cargo. Even under a tarpaulin dry pallets or crates stored outside, can quickly absorb significant moisture.

Wet or snowy tarpaulins, truck wheels or even shoes may introduce a lot of water into the container. Again beware of wood, including the container floor that may look dry but in reality be very moist.

A more subtle consideration is to make the cargo have the same temperature as the container during and after loading. It is especially dangerous to load a cool cargo under warm and moist conditions. Moisture containing warm cargo loaded into a cold container, eg a reefer, is also a problem [6].

As the doors on the container are closed a certain amount of air is enclosed. Under normal conditions the amount of moisture contained in the air is usually insignificant in comparison with that which will be exchanged with the outside and the cargo during the voyage.

But when loading under tropical conditions the amounts of moisture involved may be greater by a factor 10 or more, and special consideration will then need to be taken to quickly absorb the surplus moisture [1].

Even a completely sealed package may suffer moisture problems as a result of temperature variations. Most packaging materials let moisture through and moisture will move both into and out of the packages during the voyage. This can be advantageous in a dry container, where the cargo will dry out into the container air. But it is of course a danger if there are moisture problems in the container.

A properly designed moisture protection considers the entire logistic chain and may involve a combination of absorbers placed within the cargo as well in the container and several layers of barriers with different properties chosen so that the net effect of the moisture migration is positive [8].

It is usually an advantage if the cargo is closely stuffed and there is as little free air as possible in the container. The pallet wrapping should have openings at least on the bottom.

3. Modern techniques for reducing risk of cargo damage by moisture and condensation

The most effective way to reduce the risk of moisture or humidity damage in the shipping container is the use of container desiccants. Specifically developed to combat condensation during long-haul transport via air, sea, or land, container desiccants contain a clay compound capable of absorbing up to half their weight in moisture [3].

These desiccants activate whenever the dew point is reached and condensation starts to form inside the shipping container. The desiccants, which were designed to accommodate cargo containers, are a cost- and labor-efficient solution for moisture prevention.

The lightweight, environmentally-safe bags are simply placed in between packages of cargo as they are being loaded into a container prior to shipment, and removed upon arrival.

According to Hans Ruhlandt, regional vice president for the National Association of Marine Surveyors, Inc. (NAMS), a non-profit

organization dedicated to the enhancement of the marine industry and the marine surveying profession, "Desiccant products can prove to be a priceless commodity to worldwide shippers, whose cargo can travel through different climates and experience extensive lag time in transportation" [3].

Ruhlandt explains that cargo is often held up in non-climate-controlled storage areas or hot, sun-drenched docks for extended periods of time, which can cause or intensify the formation of condensation. Ruhlandt cites desiccant technology as one of the most effective means of addressing moisture problems. "As surveyors, we are called upon by the insurance companies to evaluate packing methods and make suggestions to prevent claims. We recommend desiccants whenever we evaluate a cargo load of high-tech or moisture-sensitive products, such as computers, metal products, or cargo that consists of metal cans," says Ruhlandt. "In many cases, desiccants can prevent claims to insurance companies and thereby reduce premiums" [3].

Marine insurance policies calculate premiums on a per hundred dollar value basis (for example, 50 cents per hundred dollars). In many cases, if the insured can demonstrate to an underwriter that a desiccant product can reduce risk, a lower premium per hundred, such as 40 cents, can be negotiated. This type of reduction, when multiplied over hundreds of cargo containers can mean millions of dollars in savings for a large commercial exporter [3].

Marine insurance policies calculate premiums on a per hundred dollar value basis (for example, 50 cents per hundred dollars). In many cases, if the insured can demonstrate to an underwriter that a desiccant product can reduce risk, a lower premium per hundred, such as 40 cents, can be negotiated. This type of reduction, when multiplied over hundreds of cargo containers can mean millions of dollars in savings for a large commercial exporter.

A company that uses desiccants, however, must first be knowledgeable about their use. "In the absence of engineering, the use of a desiccant is a futile effort," says John Colletti, CMS, of John R Colletti Associates (Pittsburgh, PA), a company that specializes in marine cargo surveying [3].

Colletti describes a recent example in which a cargo container that utilized desiccants was opened, only to find the desiccants soaking wet and excess moisture in the bottom of the container. "The shipper had the right idea, but there was not enough research done to calculate the proper amount of desiccant. As a result, the cargo was destroyed by moisture," he explains.

4. Conclusions

Following ten steps were found as being a good practice checklist needed to be followed for a container shipment preparation [5]:

1. Ensure that the application of preservative or rustcorrosion inhibitor is uniform on exposed metal surfaces.

2. Inspect the container to ensure it is clean, dry and suitable for use. Containers should be as airtight as possible, with no holes, poor door seams or other defects where moisture/water can enter. The best and easiest way to inspect the weather-tight integrity of a container is to stand inside and close the doors, looking for any light entering through roof, sidewalls or floor. Obviously, it is advisable to perform this test in daylight hours and in a somewhat open area, not under the eaves of a loading dock.

3. Ensure that the packaging used, whether wood, plywood or corrugated, does not contain excess moisture. Wood/paper can hold significant moisture. Corrugated cartons should be of high grade. Poor quality, short-fiber material falls short in any shipping environment. If it is exposed to moisture, it tends to rapidly weaken, causing handling/storage problems.

4. Place desiccants throughout the stow during loading and more at the rear after completion of loading. Since desiccants absorb moisture as soon as they are exposed to air, they should be kept in original packaging until ready for use.

5. Select appropriate number of desiccant bags or strips (a rule of thumb = 32 one-pound bags of desiccant for a 20-foot container for a typical 30-40 day overseas voyage) depending on certain parameters.

6. Ensure the product can operate in the likely climatic conditions; e.g., some of the strip-type moisture absorbing products applied with glue to the sidewalls of the container will lose their adherence at extreme

temperatures, and can be damaged during handling.

7. Finish cargo loading as quickly as possible and then close the doors. Cargo loading should be uninterrupted and fast; desiccants can saturate quickly in humid conditions. If they are already saturated, they will not protect the cargo.

8. Schedule shipment so it can go immediately to the port of loading and be loaded onto the ocean vessel as soon as practical.

9. Consider inserting inexpensive temperature and humidity indicators inside the container to ascertain what conditions were experienced during transit.

10. Use the results of the initial shipments to gauge the amount of desiccant/protection needed for future ones.

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The Impact of Economic Crisis on the Romanian Small and Medium Enterprises

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Abstract

This paper conducts an analysis of the impact of the global economic crisis on the Romanian small and medium enterprises (SMEs) and provides some relevant policy suggestions at the end. First, the paper analyzes the impact of the global economic crisis on the Romanian SMEs, focusing the discussion on the causes and resulting problems from SMEs. Secondly, this paper reviews the impact of the economic crisis on the Romanian SMEs, presenting the evolution of SME sector during the crises. Third, the paper presents the countermeasures taken by the government, focusing on its support policies for SMEs and the problems exhibited in the implementation of those policies. Finally, the author makes policy suggestions for boosting the development of SMEs.

Key words: financial crisis, economic crisis, small and medium enterprises.

J.E.L classification: F62, F65, F68

1. Introduction

Small and medium-sized enterprises have always played an important role in economic and social life of any country. The dynamism, flexibility, adaptability, mobility, innovative potential are some of the features that small and medium-sized enterprises have and which are considered essential for the harmonious development of the economy of any country, ensuring the cohesion of the economic structure, healthy economic growth and creating new jobs.

In Romania, SMEs generate dynamism and profitability, competitiveness, increase the employment rate of the labor force, so we

can say that it works successfully in the direction of reducing the monopolist role of the of the big enterprises. According to the President of the National Fund of Credit Guarantee for Small and Medium-Sized Enterprises (FNGCIMM), Aurel Șaramet, SME sector in Romania contributes with 65% of the gross domestic product of the country and ensures as up to 67% of the employment of the work force.

In the economic-financial crisis situation, the most affected area is by far that of SMEs. The SMEs Sector was the first which "chest with the crisis" and from this sector it is expected the recovery signal.

The impact of the economic crisis on the activity of SMEs in the global economic crisis started in 2008, it was felt, as it is normal also in Romania, as a result of globalization. Knowing the consequences of globalization, many European States acted preemptively to lessening the effects of the crisis. In Romania, the crisis found totally unprepared Romanian officials who declared that the effects of the crisis will not affect very much the Romanian economy. This explains the delay with which the Romanian authorities acted to reduce the effects of the crisis. Thus, the negative effects of the economic crisis were felt most in the SME sector that was depleted by the cost of the economic crisis, especially those in sectors such as trade, construction and real estate. The number of SMEs under bankruptcy increased. This is due to the fact that the pace of lending to SMEs decreased what prevents their development and has the effect of reducing the Bank's solvency.

2. The influence of economic crisis on the romanian SMEs

The global financial crisis has affected the sector of small and medium-sized enterprises in Romania in two ways.

On the one hand the economic crisis affected the business environment, due to the fact that large companies with which the SMEs collaborate were affected.

The second way the economic crisis affected the financial and banking system, which was the most vulnerable and most volatile. The system has limited the availability of credit to SMEs. The crisis began because of the situation on the real estate market and the securities that banks ask for SMEs access to finance are especially real estate guarantees and in this situation the fall in value of the real estate market conducted to difficulties for SMEs to obtain new loans or even able to maintain credit lines for the development of production.

The main difficulty with which the Romanian SMEs were faced, both because of the economic crisis and because of chaotic actions of the Government are:

- ensuring the necessary funding and liquidity due to the blockage of crediting;
- drastic reduction of demand for products and services at the national and international level, reflected in the reduction of exports and domestic sales;
- taxation and extremely high fiscality;
- high increasing of the raw materials, energy and food prices;
- variations of the exchange rate and inflation
- legal framework, the bureaucracy and the numerous administrative barriers for SME activity, insufficient measures to support SMEs in crisis [1].

In this context, we consider that it is important to highlight the impact of the economic crisis on the activity of the Romanian small and medium enterprises. For this reason, in the spring of 2011 National Council of Private Small and Medium Enterprises in Romania (CNIPMMR) held a survey on a sample of 1723 entrepreneurs, representative at the national level in all size classes, regions, age categories, forms of organization and legal branches of activity [1]. In the selected sample, the trade

companies occupied the lion's share with 39%, followed by those in the industry (17.22%), transport (10.5%), services (12%), the rest being shared by the tourism and construction companies.

Because the owner of the bankrupt firms could not be contacted (because they closed or companies have expressed willingness to provide information), the study presented two categories of survey results:

- a first category of results refers to the evolution of activities within SMEs being investigated between October 2008-March 2011 : 44,44% of the companies pointed out that they have decreased their activity, 42,87% of the companies operated at the same parameters and 12,69% of companies had an ascending evolution.
- the second category of results has in view the feedback from the Romanian entrepreneurs regarding the evolution of SMEs whose activity is known very well (suppliers, clients, competitors etc.) during the October 2008-March 2011. The survey reveals that 39.22% of enterprises have reduced their business, 24, 02% of the companies were bankrupt, 27, 25% worked at the same parameters and 51% of companies had boosted their activity.

Although the information provided by the entrepreneurs on the other firms may be affected by the subjectivism, we believe that the situation presented is relevant in order to make a complete image regarding the evolution of the SME sector during the October 2008-March 2011.

In the following lines we present situation of the 1723 investigated SMEs, stating that among them there are companies who have ceased operations due to bankruptcy. Taking into consideration the establishing year of the firms, we can observe that the companies with under 5 years of age have higher percentages of companies operating at the same parameters (48.16%) and who had an ascending evolution (17,71%) and SMEs in 5-10 years registered a greater proportion of the entities that have reduced activity in the reporting period (51,39%) [2].

Examination of economic agents depending on the field they activate emphasizes mainly the following items:

- The construction enterprises registered the lowest proportions of organizations that worked in the same parameters (31,94%) and increased their activity (8,33%) and a higher percentage of firms that have decreased their activity (59,72%) due to drastically decline in the last period of this sector,
- SMEs in the field of transport register a higher proportion of companies who have kept the volume of activity (51.18%);
- Industrial units have the highest percentage of SMEs who have boosted activity (19.34%) and the tourism companies had the lower share of economic agents which decreased activity (35.29%).

It may be concluded that a considerable part of small and medium enterprises in Romania were faced with big problems, due to the economic crisis [3]. As in other countries in the world and the EU, they have made the hard face of the economic crisis; the situation is explained by the fact that SMEs are generally more vulnerable to contextual turbulently than large firms.

Analyzing the economic performance of SMEs in 2011 compared with 2010, the situation seems to have improved, because the results were the same in 35.76% of the organizations, much better in case of 28.10% of cases, the weakest in 21.52% of enterprises. Worth mentioning is the fact that, despite these difficulties, over 20% of SMEs have invested in new technologies, more than 10% in improved computer systems and over 30% were able to launch new products.

In 2011 21.221 companies have suspended their activity with 68.1% less compared to 2010, when 66.420 have been suspended. Most of the companies that have suspended their activity were from the Bucharest-2.616 companies (compared to 2010 10.910) and the counties of Constanța-1.249 companies (3.036 in 2010), Arad 877 companies (1.833 in 2010), Brașov-854 companies (2.881 in 2010) [4].

The areas where it was registered the highest number of suspensions of activity was wholesale and retail; repair of motor vehicles and motorcycles-6.974 companies, construction 2.681 companies, professional, scientific and technical-1.802 companies and manufacturing-1.539 companies.

And the number of voluntary removals dropped last year from 186.144 in 2010 at 56.245 voluntary removals (minus 69.8%). The highest number of voluntary removals was recorded in the municipality of Bucharest-13.352 companies and in the counties of Cluj-2.806 companies, Prahova 2.271 and Constanta 2.096.

In 2010, the number of companies that went bankrupt was raised to 38.175, 85 times more than in 1995.

3. Microeconomics and macroeconomics possible measures for boosting the development of SMEs

At microeconomics level, what should do a SME in this situation? What measures the managers of the companies should undertake to resist the crisis and be able to return to profit and to boost their company? These are questions which exist in the mind of many business people who hold or are involved in the management of companies, and not only them. There are several important steps that any manager should take in order to withstand the vicissitudes of economic crisis:

- reduce costs as much as possible by eliminating expenses that are not absolutely necessary for the current task (especially the Exhibitor costs of third parties);
- boosting labour productivity translated in the most efficient possible use of the workforce;
- selection of markets on purely economic criteria;
- strengthening the portfolio of customers stable and financially profitable.

At macroeconomics level, the government should formulate policies to mandate that banks to lend to the SMEs, or provide good incentives for the banks to lend to SMEs willingly, and increase the ratio of bank loans to SMEs.

Economic recovery is contingent on access of SMEs to financing. The economic crisis has affected the relative size of the funding instruments required by SMEs: demand for investment loans and leases fell dramatically, while the demand for credit for working capital and guarantees increased. Access to finance has been restricted by commercial banks due to the financial crisis,

affecting small and medium enterprises by reducing net profit and cash flow.

Commercial banks can make use of financial product innovation based on mortgage guarantees to help SMEs obtain bank loans. Proceeding from the scope of the entire industrial chain, banks can issue credit based on the comprehensive business chain and effectively inject funds into relevant enterprises according to the business's transactional relationships. This will allow banks to provide flexible financial products and services. In terms of modalities for financing the supply chain, the strength of creditability of core large enterprises can be utilized to help SMEs obtain financing from banks. This will lower bank exposure to loan risks to some extent [5].

Commercial banks should improve services for SMEs. First, the banks should, in light of SMEs' unique characteristics, have a department dedicated to the management of financing services for SMEs and set up a center for operation for SMEs credit business, with dedicated account managers for SMEs services. Second, in terms of enhancing the efficiency of loan approval, banks should simplify the approval procedure and combine the establishment of SMEs loan relationships, ratings, credit approval, and mortgage pricing into one basket service.

The government must also initiate capacity building support services for both banks and the SME sector. Banks must be capacitated such that they'll be able to lend not merely on the basis of collateral, but rather, on the basis of SME risk using several indicators. Concurrently, SMEs must receive assistance to make them more credit-ready.

A benign business environment is usually a key determinant for the development of SMEs. Evaluation of this environment includes barriers to entry and exit, property rights protection, contract enforcement, and the functioning of the public service system.

Several steps can be taken to reduce SMEs' tax burden. These are:

- Encouraging the establishment of SMEs;
- Reducing SMEs' fees and expense burden. Currently, SMEs' burden in taxes and surcharges is excessively heavy, and therefore it is necessary to abolish all unreasonable fees and charges to create an easy and relaxed environment for SME development;

- Accelerating the promulgation of tax breaks for SMEs;
- SMEs' ability for self-construction can be strengthened as well.
This can be done by:
- Strengthening technological innovation capability.
- Strengthening financial management, improving financial systems, and enhancing credit grading.
- Building brand awareness to enhance competitiveness. The global financial crisis is a good opportunity for corporate upgrading, and SMEs must be responsive to updating products, developing new products, and building their own brands on an active and constant basis.
- Boosting the construction of SMEs credit systems for further market development. [5]

The government should also improve the public service system for SMEs. To do so, the government must: Accelerate the construction of bases for small enterprises business startups, lower business startup costs, enhance advisory service capabilities for business startups, and support SMEs in various industrial parks and zones. Organize and boost technical service resources to provide support and services for SMEs' industrial upgrading. Improve commercialized services for SMEs. It is necessary to boost allies and mergers of SMEs, develop supplementary industrial and product chains based on large industries and key projects, and enhance the subcontract capability of large enterprises. It is important to implement the planning for SMEs service systems well, and to strengthen credit guarantees and services. Technological innovation services, business startup training services, market development services, and management advisory services must also be implemented so as to accelerate the establishment and improvement of a commercialized service system for SMEs.

According to National Union of Employers from Romania (UNPR) for financial crisis measures should be taken such as:

- To guarantee bank deposits and the involvement of the guarantee fund to protect SMEs and start-up sites;

- Ensuring the economic stability of the State;
 - For companies listed on the stock exchange, taking into account the possibility of delisting during the crisis;
 - For SMEs, the implementation of a financial plan and prudent investment, conservation of labour force;
 - Linking economic measures taken at European level with the national level [6].
- Among other proposed solutions, it can be noted the following:
- payment by businesses of the central government debt (outstanding invoices, and received not invoiced) but no local administration; debt-payment deferral of outstanding obligations of economic operators affected by the financial and economic crisis;
 - the compensation paid VAT to the fee;
 - exemption from taxation of reinvested dividends;
 - Unlocking lending into the economy;
 - the minimum tax, return to measures to reduce fiscality in case of companies which pay anticipated taxes;
 - return to the policies of the decrease the level of social insurances;
 - changing the payment of VAT, i.e. VAT payment at collection;
 - Quick change and a major reduction of red tape to access EU funds.

4. Conclusions

Regarding the stimulating the development of the SME sector has done very little. The European Commission recognizes the fundamental role of SMEs in the economy, they representing the most numerous number of companies, with a key role in getting out of the crisis and relaunching the economy.

The negative effects of the economic crisis were felt especially in the SME sector which has been depleted by the cost of the economic crisis, especially those in sectors such as trade, construction and real estate. The number of SMEs in bankruptcy has increased due to the fact that the pace of lending to SMEs had decreased which prevents their development and the effect of their banking solvability. Many economic bodies: UNPR, CNIPMMR, UNPR, have

proposed a number of solutions for helping the SMEs, but the Romanian Government fails in adopting measures to reduce the effects of the crisis. SMEs can act promptly applying the solutions for adapting to the new market conditions and can try to identify new markets and new solutions. Like the entire society and entrepreneurs must come back and reconsider the fundamental things related to their business: quality, customer proximity and understanding, with the expense budget and business economy.

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The World's Biggest Multinational Corporations in 2010 and 2011

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Abstract

The multinational corporations represent the main actors in the process of globalization. The aim of our paper is to analyze the evolution of the first ten biggest MNCs in the world by their turnover and profit in the period 2010-2011. The research type is a literature review. Despite the financial turmoil, the world's biggest MNCs obtained impressive revenues and profits in 2011. In a highly competitive global market, these corporations have proved their ability to be successful in a turbulent business environment.

Key words: multinational corporations, turnover, profit

J.E.L. classification: F23

1. Introduction

The big corporation has evolved into one of the main institutions of society [1]. During the time, many researchers and professors have focused their interest on the multinational corporations (MNCs). Firstly, the large managerial business enterprise emerged in the economy in the last half of the nineteenth century. Secondly, large corporations have begun to dominate the American economic landscape since the end of the Second World War [2]. Thirdly, the world's biggest corporations produced a huge amount of goods and services.

A multinational corporation can be defined as "an enterprise that engages in foreign direct investment (FDI) and owns or controls value adding activities in more than one country" [3, p. 3]. The size of today's MNCs is greater than ever [4]. Some authors consider that MNCs have become so powerful that they threaten the democratic order of human society [5]. In this respect,

they obtained revenues bigger than many nation-states. Other authors emphasise that they contribute to the economic and social progress of human society [6].

In spite of the economic and financial turmoil, the world's biggest MNCs had a pretty good year in 2011. They posted record revenues of \$ 29.5 trillion, up 13.2% over 2010, and total profits of \$1.6 trillion, up 7% over 2010 [7].

The aim of our paper is to analyze the evolution of the first ten biggest MNCs in the world by their turnover and profit in the period 2010-2011. The research type is a literature review.

The second part of the paper is dealing with the evolution of these major MNCs in the global market in the period 2010-2011. Conclusions are presented in the final section of the paper.

2. The evolution of the world's biggest MNCs in 2010 and 2011

The MNCs represent the main actors in the process of globalization. Based on the tables and graphics presented above, we can sum up the following remarks for the year 2010:

- i. Regarding the top 10 MNCs according to their turnover (Table 1):
 - three corporations were American (Exxon Mobil, Wal-Mart), three were Chinese (Sinopec Group, China National Petroleum, State Grid), two were from Japan (Toyota, Japan Post Holdings), one was from Great Britain (BP) and one was Dutch (Royal Dutch Shell);
 - six MNCs had their business portfolio in the petrochemical industry (Royal Dutch Shell, Exxon Mobil, BP, Sinopec Group, China National Petroleum, Chevron), one was a retailer (Wal-Mart), one came from the auto industry (Toyota), one from the electric energy distribution (State Grid)

and one activated in the field of postal services and financial-banking sector (Japan Post Holdings);
- the American colossus Wal-Mart occupied the first place.

Table 1. The first 10 MNCs worldwide based on their turnover in 2010.

No.	Corporation	Turnover
1.	Wal-Mart (USA)	421,849 billion USD
2.	Royal Dutch Shell (Holland)	378,152 billion USD
3.	Exxon Mobil (USA)	354,674 billion USD
4.	BP (Great Britain)	308,928 billion USD
5.	Sinopec (China)	273,421 billion USD
6.	China National Petroleum (China)	240,192 billion USD
7.	State Grid (China)	226,294 billion USD
8.	Toyota Motor (Japan)	221,760 billion USD
9.	Japan Post Holdings (Japan)	203,958 billion USD
10.	Chevron (USA)	196,337 billion USD

Source: [8]

ii. Regarding the top 10 MNCs after their profit (Table 2):

- four corporations were from the United States of America (Chevron, Exxon Mobil, Microsoft, AT&T), two from China (Industrial & Commercial Bank of China, China Construction Bank), one was from Russia (Gazprom), one was Dutch (Royal Dutch Shell), one from Brazil (Petrobras) and one Swiss (Nestle);
- five MNCs were from the petrochemical field (Gazprom, Royal Dutch Shell, Petrobras, Chevron, Exxon Mobil), two placed their activities in the banking sector (Industrial & Commercial Bank of China, China Construction Bank), one operated in the food industry (Nestle), one in software (Microsoft) and one was from the telecommunications sector (AT&T);
- the Swiss giant Nestle occupied the first place in the top.

Table 2. The first 10 MNCs worldwide based on their profit in 2010.

No.	Corporation	Profit
1.	Nestle (Switzerland)	32,843 billion USD
2.	Gazprom (Russia)	31,894 billion USD
3.	Exxon Mobil (USA)	30,460 billion USD
4.	Industrial & Commercial Bank of China (China)	24,398 billion USD
5.	Royal Dutch Shell (Shell)	20,127 billion USD
6.	China Construction Bank (China)	19,920 billion USD
7.	AT&T (USA)	19,864 billion USD
8.	Petrobras (Brazil)	19,184 Billion USD
9.	Chevron (USA)	19,024 billion USD
10.	Microsoft (USA)	18,760 billion USD

Source: [8]

In the year 2011 the top has changed as follows:

i. Regarding the top 10 MNCs according to their turnover (Table 3):

- four corporations were American (Exxon Mobil, Wal-Mart, Chevron, ConocoPhillips), three were Chinese (Sinopec Group, China National Petroleum, State Grid), one was from Japan (Toyota), one was from Great Britain (BP) and one was Dutch (Royal Dutch Shell);

- seven MNCs had their business portfolio in the petrochemical industry (Royal Dutch Shell, Exxon Mobil, BP, Sinopec Group, China National Petroleum, Chevron, ConocoPhillips), one was a retailer (Wal-Mart), one came from the auto industry (Toyota), one from the electric energy distribution (State Grid);

- the American retailer Wal-Mart has lost his global domination and Royal Dutch Shell became number one in the world.

Table 3. The first 10 MNCs worldwide based on their turnover in 2011.

No.	Corporation	Turnover
1.	Royal Dutch Shell (Holland)	484,489 billion USD
2.	Exxon Mobil (USA)	452,926 billion USD
3.	Wal-Mart (USA)	446,950 billion USD
4.	BP (Great Britain)	386,463 billion USD
5.	Sinopec (China)	375,214 billion USD
6.	China National Petroleum (China)	352,338 billion USD
7.	State Grid (China)	259,141 billion USD
8.	Chevron (USA)	245,621 billion USD
9.	Conoco Phillips (USA)	237,272 billion USD
10.	Toyota Motor (Japan)	235,364 billion USD

Source: [7]

ii. Regarding the top 10 MNCs after their profit (Table 4):

- four corporations were from the United States of America (Chevron, Exxon Mobil, Microsoft, Apple), two from China (Industrial & Commercial Bank of China, China Construction Bank), one was from Russia (Gazprom), one was Dutch (Royal Dutch Shell), one Australian (BHP Biliton) and one British (BP);

- five MNCs were from the petrochemical field (Gazprom, Royal Dutch Shell, Chevron, Exxon Mobil, BP), two placed their activities in the banking sector (Industrial & Commercial Bank of China, China Construction Bank), two in software (Microsoft, Apple) and one was from the extractive industries (BHP Biliton);

- the Russian giant Gazprom occupied the leading position in the top. In the last four years, the Russian company was twice no. 1 and twice no. 2.

Table 4. The first 10 MNCs worldwide based on their profit in 2011.

No.	Corporation	Profit
1.	Gazprom (Russia)	44,459 billion USD
2.	Exxon Mobil (USA)	41,060 billion USD
3.	Industrial & Commercial Bank of China (China)	32,214 billion USD
4.	Royal Dutch Shell (Shell)	30,918 billion USD
5.	Chevron (USA)	26,895 billion USD
6.	China Construction Bank (China)	26,180 billion USD
7.	Apple (USA)	25,922 billion USD
8.	BP (Great Britain)	25,700 billion USD
9.	BHP Biliton (Australia)	23,648 billion USD
10.	Microsoft (USA)	23,150 billion USD

Source: [7]

The MNCs acting in the energy business have always occupied best places in the Global 500 largest corporations. Led by Royal Dutch Shell, oil refining generated \$5 trillion in sales due to the rising demand for energy in emerging markets [7]. The same emerging markets have played a major role in bolstering the financial sector in 2011. In the third place, the automotive industry performed well, especially in Asia.

On the other hand, a fundamental shift occurred in the relation to the geography of the biggest MNCs. The number of Chinese companies in the Global 500 largest corporations increased rapidly from 11 companies in 2002 to 73 companies in 2011. There are diverse Chinese companies in this top, from state-controlled resource giants (e.g., China National Petroleum) to big automakers (e.g., Zhejiang Geely Holding group) and banks (e.g., Industrial & Commercial Bank of China). It is important to note "the presence of new companies like Lenovo and Geely that grew up by first selling "good enough" products to the large

mid-tier market in China and later expanded to become global players (by acquisition of the Thinkpad division and Volvo, respectively)” [9. p. 1].

3. Conclusions

In the last century, the business world at the global level has undergone fundamental changes. As key players in the world economy, MNCs are heavily engaged in cross border investment and international trade.

Despite the financial turmoil, the world’s biggest MNCs obtained impressive revenues and profits in 2011. In a highly competitive global market, these corporations have proved their ability to be successful in a turbulent business environment. A new wave of MNCs, located especially in the emerging markets, has become a strong competitor for the American corporations.

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Transnational Corporations and the Globalization of Competition

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Abstract

The historical process and moment in which the world today finds itself is the transition from world economy to the integrated global economy. Globalization is a reality that must be assumed and analyzed carefully, extracting conclusions from the work of those who benefit from this process, noticing its weaknesses and anticipating possible ways of avoiding or correcting negative effects. The rapid rhythm of changes induced by globalization generates new and vast opportunities for those able to find appropriate responses to new conditions, but also exposes to new and serious risks those who can not adapt. It is increasingly clear that today's corporate survival is conditioned by their ability to completely reorient both in terms of their own internal organization and of their relations with the environment in which they operate.

Key words: transnational society, competition, globalization, competitiveness, foreign direct investments.

Clasificare J.E.L.: F23, F60.

1. Introducere

The real dimension of complexity of the economic universe in which we live today can be better perceived to the extent that we understand that, in its turn, the large modern corporation is a true agent of globalization. Transnational corporations are fundamental in competition globalization. Transnational production interposed global competition within domestic markets, so many companies are forced to produce at the international border of efficiency or go out of business.

2. Global competition

Transnational corporations have grown in recent decades because they have internationally exploited competitive advantages. These advantages result from scale economies, superior management techniques and / or global sales networks.

Initially, global competition meant U.S. corporations entering foreign markets. Beginning with the 70's Japanese and European companies reached productivity levels similar to those of the U.S. which resulted in direct competition with each other. This was reflected in foreign direct investment flows as many transnational corporations launched their activities or strengthened their activities on major markets. Because of that, after the 70's, U.S. companies have lost significant market shares in favor of their competitors.

Transnational companies are among the most innovative companies are responsible for most private expenditure on research and development. Technological innovation has helped the *selection of the value chain*[1] (value chain consists of activities that are interwoven to enhance enterprise value: supplying, manufacturing, distribution and marketing of goods and services)[2], through which the production process can be divided and distributed across the globe. Transnational expansion reflects thus their ability to innovate and their ability to exploit it internationally.

In the XXI century, competitive advantages not only consist in products and technologies, but also depend on the speed with which innovation occurs and the speed with which new products can be created and distributed. This acceleration of global competition has been greatly enhanced by the revolution in information.

Competition is much older than globalization. With globalization, however, the first gains unprecedented momentum.

Competition can be considered a real driving force of progress, its level being an important determinant of the competitiveness of products and services.[3] Some studies reveal that high rates of productivity growth are closely linked to strong competition, a long-term upward trend in productivity leading to improved competitiveness and at the same time, a real increase of the GDP per inhabitant. Also, through competition, the benefits of cost savings and innovation turns into benefits for consumers in the form of lower prices, a high quality and a wide range of products. The more powerful, more dynamic the fight (competition) on the domestic market of a country, the more competitive those companies are abroad. Competition, governed by the laws of the market, improves the economic performance of a country. In the contemporary economy, the competitive game is indeed a tough one, with winners and losers, but on long-term the losers can return to the market becoming the winners.

In an open and liberalized global economy, increase of the competitiveness of companies has become a major challenge. Becoming competitive is not only the goal for businesses, transnational corporations, but also governments that conclude regional agreements.

In a market economy, firms compete with each other to win consumers. Competition is a stimulus for companies to have the best performance, producing quality goods and services at the lowest prices. The competition encourages entrepreneurial activity and the entry of new firms on the market, rewarding efficient corporations and sanctioning inefficient ones. In ideal market conditions, firms react flexibly and quickly to changing market demands and endless entries of new firms. The ability of firms to adjust and the speed at which they do it are a measure of their effectiveness and, by extension, their competitiveness.

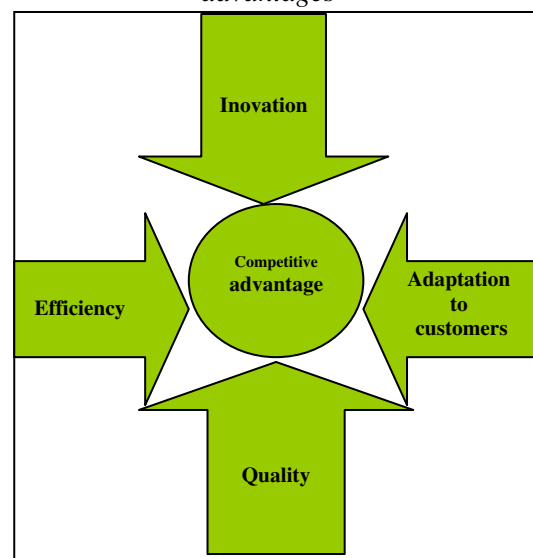
Competition means *survival of the best*. Faced with increased competition and seeking higher profits, current market participants may be tempted to distort or eliminate competitors to obtain and abuse of market power.

The transnational corporation, by its very nature, tends to abuse its market position and to use excessive power. It will never have, and it is natural to be so, the initiative to create a competitive environment. In contrast, when it will encounter weak reactions, the economic environment will be dominated by the corporation and shall have the characteristics of a monopoly or an oligopoly [4]. As a result, government policy interventions are required to maintain and encourage competition. In recognition of this need, governments in many countries implement competitive policies to maintain and encourage competition, including laws and policies that deal with anti-competitive practices.

Globalization and liberalization, facilitated by rapid changes in technology, have created a new dynamic of competition.

Profound changes in the world economy under the impact of globalization caused changes also in the structure of factors of competitiveness, so, in order of importance, cost factor is surpassed by the following: *quality, speed of transactions, customer features adaptation, product image, after-sale services*.

Figure No. 1. Leverage of competitive advantages



Source: Adapted from Hill C., Jones G. [5]

In Porter's conception, international competitiveness of firms depends, on long-term, on their ability to innovate continuously, their ability to generate and maintain competitive advantages. Success in business requires to irrevocably adopt a

winning mentality, the condition of leaving the platoon being innovation, and the prize is considerable reduction of restrictions imposed to the firm and of the threats that it needs to face.

Business globalization therefore depends on the ability of innovation of firms and their ability to effectively organize cross-border networks of production and distribution with the help of advances in communication technology and management techniques.

Economic crisis reflecting distrust in the financial system, a significant decrease in the volume of stock transactions, a disturbance of market mechanisms[6], emphasizes the global competition of transnational companies.

3. Transnationality attribute of dynamic companies

As local and national economic spaces and environments open to the global economy it becomes increasingly obvious that large corporations rather than national economies are units of economic coordination.

For a transnational society it has become possible and advantageous to take advantage of the differences of wages between regions, market potential, standards and employment, taxes, environmental regulations, human resources etc.

Companies get involved in international production because they have a specific competitive advantage which is best exploited in this way. The advantage may consist of a patented product or a technique, but may also include management techniques, networks of distribution or trumps as qualifications and expertise of the company or its staff.

International corporate action takes place on the basis of functional structures circumscribed to certain world strategies. Because of that, the synthetic expression of globalization is the momentum which production organization acquired on regional or global basis as well as integration based on new criteria, of functional type, of activities within it. Flows of resources (financial and real) that enable this international production are *foreign direct investments*, while *economic operators generators of almost all these flows - and also the organizers of*

production processes abroad - are modern big corporations.[7]

Although transnational corporations vary in their capacity to organize production and intra-firm trade, they supply markets around the world and produce from locations situated on all continents. Even if transnational corporations do not supply each national market, their activities, taken together, determined the transition to a more intense global competition due to global production systems.

Transnational companies now compete globally, but ... remain rooted in the economic and cultural center of their country ... they mostly extract their competitive advantage from the national base and apply global strategies to cope with the competition. [8]

Porter believes that the most important choice a firm needs to make refers to how to compete: globally or by finding niches that can build a defensive strategy needed to compete on one or a limited number of national markets. Alternatives, he says, are as follow [9]:

- *global competition with a broad line of products*

This strategy is directed towards global competition with the entire line of products in the industry, with global sources of competitive advantage or differentiation required to obtain a position characterized by low total costs. Implementing this strategy requires substantial resources and a long period of time.

- *global focus*

This strategy targets a certain segment of the industry, in which the company will compete globally. The segment is chosen keeping trace of the obstacles that stand in the way of global competition so that they are as small as possible and the position of the firm can be defended against incursions of global competitors who resort to a broad line of products.

- *national focus*

This strategy seeks obtaining advantage from the differences between national markets, focusing on the focalized approach of a specific national market, allowing the company to exceed corporations that compete globally.

- *protected niche*

This strategy seeks countries with government constraints that exclude global competitors, requiring that the product mostly be made locally, using high tariffs. The company builds its strategy to comply with domestic markets subject to such limitations and pays special attention to the government of the host country to ensure that they receive proper protection.

The fact is that, at present, transnational corporations are *key entities* of economic activity as well as value creative agents, who globally allocate resources much needed to support economy growth processes. In other words, transnational corporations not only assert themselves as key entities subject to the impact of challenges of the globalization process, but also as the main forces in shaping this process.

Their primacy in terms of production, trade, investment and technology transfer in the world is unique. Transnational companies have developed from national companies to global concerns that use foreign investments to exploit their own competitive advantages.

4. Conclusions

Transnational companies are recognized as major companies with verified competition skills, which can not only comply with ordinary competition so far, but also to global competition, which is actually triggered by all of them.

By their economic, financial, technological, scientific research strength, transnational companies are a challenge for all businesses in the world, a call to a tough competition where those who manage to adapt, withstand competition and the weak are eliminated. So then, should accuse these giant companies that promote a struggle for

global primacy? Do we eliminate competition? It is wrong to fight for competition? If we do not remove it, then we must accept that there are winners and losers.

Transnationality is not an attribute of firms that are weak, but of the modern, dynamic, profitable, thus economic progress carriers.

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Section I
International Affairs and European Integration

Subsection 2
European Integration

The Labor Legislation after the 18th Century

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Abstract

The legal framework governing labor during this period was not specialized, as labor relations were absorbed in the civil relations of property. Thus, the labor relations between people were "camouflaged" by human relationships regarding property, meaning that property regulation aimed at labor regulation.

Key words: Labor Code, Employment agreement, Association agreement

J.E.L. classification: K31

1. Introduction

Labor legislation has undergone significant changes as a result of the development of the productive forces and of the capitalist relations of production, which led to the numerical increase of the proletariat [1].

2. Primary legislation

The freedom of association and organization was established in Article 27 of the Constitution of 1866 [2], and the professional associations were created and activated during this period on the basis of statutes and programs which had to be approved by the central bodies of state administration, i.e. in principle by the Ministry of Interior [3].

The law for the organization of occupations, of 1902, regulated the establishment of corporations based on the principle of compulsoriness until the entry into force of the Law for the organization of occupations, loan and labor insurance, in 1912 - the first Labor Code of Romania [4].

In Transylvania, the provisions of Law no. CXLII of December 21, 1867 have regulated the freedom of workers' association and organization, establishing the rule of submission for the approval by the competent central government authorities. Subsequently, other regulations were adopted on workers' associations, which did not differ essentially from the previous period.

In terms of miners and women's work, the legal rest and working hours were gradually enacted following the development of capitalist relations and the numerical growth of the proletariat. In that period, there have been developed for some industries several regulations referring also to the working hours of full age men, with no general rules in this regard.

Similar regulations are met in Transylvania, where industrial law provisions (of 1872 and then of 1884) were referring to the workday, child labor and legal rest.

3. Social security regulation

The problem of social security was both a concern in legislative forums and an important claim of the proletariat, and it was regulated by the law on the organization of occupations, loan and labor insurance, in 1912. This law introduced the insurance of workers against accidents occurring during work; the insurance was compulsory for businesses and professions where engines of all kinds were used, for construction companies, mines, other exploitations etc. [5].

The regulation of social securities in Transylvania was conducted by the provisions of Law no. XXVIII, in 1893, and by the Law of 1907, by means of which social securities became compulsory for several categories of workers. The law

created social security funds subordinated to the State social security office.

In 1919, by Decree no. XIX, the Diligent Board expanded social securities to farm workers. The workers' fee was based on social securities.

4. The settlement of labor disputes

The settlement of labor disputes had been provided by different laws that were regulating the activity of workers in various industries; significant references were made to strikes. In 1906, the miners' right to strike was denied and the Law against unions, professional associations of civil servants, counties, municipalities and public establishments (in 1909) was also prohibiting the right to strike. There was established an emergency procedure on labor disputes and the district court was the competent court in settling such disputes [6].

In Transylvania, there were developed a series of laws that have regulated labor disputes, such as the Law no. 13 of 1876 concerning the regulation of relations between employers and domestic servants; the (industrial) Law no. 17 of 1884; the Law no. II of 1898, which was regulating the relations between employers and farm workers.

Until the First World War, there were known only the individual employment agreement and the apprenticeship agreement. The individual employment agreement was governed by the Civil Code which, in old Romania, also included the lease contract; in Transylvania, the individual employment agreement was governed by the Industrial Law no. XVII of 1884, which included provisions for journeymen and industrial workers.

The apprenticeship agreement was regulated for the first time in Romania by the law on the organization of occupations, loan and labor insurance, in 1912, and, in Transylvania, by the industrial law, in 1884.

The Law on occupations, of 1902, provided a system of corporate based social insurance, the beneficiaries being exclusively the craftsmen. The Law on occupations created the commissions of arbitrators which, in case of conflicts, were to reconcile the employer and the employee; later, there were established reconciliation commissions

which were conducting proceedings prior to the trial of labor disputes by district courts. Similarly, the (industrial) Law of 1884, applied in Transylvania, provided for the establishment, in every corporation, of a conciliation committee composed of employers and journeymen [7].

The Law on Workers' Insurance of 1912 provided for compulsory securities. According to this law, the burden of risk in case of accident was falling on the employer (article 140) and the disease risks was falling on workers (article 125) [8].

By adopting the Labor Code (1912) - the Law for the organization of occupations, loan and labor insurance, Romania became part of the group of countries with a long tradition in regulating labor relations[9].

Also, the adoption of the Law on the organization of occupations, loan and labor insurance was part of the concerns of that time for regulating labor relations. Thus, up to that time, there had adopted the following laws:

- May 2, 1887 – *the Law to encourage a national industry*;
- June 16, 1891 - *the Law of servants*;
- 1894 – *the Regulation of unsanitary industries*;
- April 21, 1895 – *the Mining Law*;
- March 6, 1897 – *the Law of Sunday rest*;
- 1901 – *the Law on vocational education*;
- March 5, 1902 – *the Law on occupations*;
- February 22, 1905 - *the Law on child and women's labor in industry and mining*;
- 23 December 1907 – *the Law on agricultural pacts*;
- 1909 – *the Law against unions, professional associations of civil servants, county, communes and public establishments*;
- February 10, 1910 – *the Law on the safety measures for boilers, mechanical and electrical installations*. [9].

The establishment of the International Labor Organization - UN specialized agency - on April 11, 1919, gave "a new breath" to the activities in the field of social securities. It is known that, for this organization, labor and social issues are not subjects of purely internal nature in the Member States [10]. Therefore, from the very beginning, there have been adopted several agreements on social securities, such as the Convention no. 3/1919 on maternity protection etc.

5. Conclusions

The objective process of the development of capitalist forces and relations of production led not only to the numerical growth of the proletariat, but also to the adoption of the legislation governing labor relations and collective labor conflicts in their various aspects.

By the early nineteenth century, labor jurisdiction was not differentiated from general jurisdiction. The individual labor conflicts were settled in civil or criminal trials, as appropriate, and the collective labor conflicts were known as the manifestation of rebellion and revolt.

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Procedural Aspects Regarding the Merger Control Within the EU

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Abstract

The European examination process of mergers proposes an efficient analysis, transparent and adjusted to merger economical circumstances. The European examination of merger has an administrative side and the European Commission itself has the decisional authority to impeach or not over a transaction. The European Commission's decisions in this field are submitted to the judicial examination of the European courts. Within this article, we intend to outline the main steps of the evaluation process of concentrations at the European level, as well as the manner in which it is conducted the concentrations' investigation.

Keywords: merger, economical concentration notification, merger investigation

Clasificare JEL: G34, K22

1. Introduction

The elements of the modern market cannot be separately submitted to analysis: the private property generate competition, the competition occurs within the system of interdependent markets, the state administrates the actors occurrences on the market, everything within a strongly defined legal framework, which should paralyze the

inevitable temptations to monopolize the economical power, by obtaining a dominant position on the market and thus by setting the prices.

The merger control regulation imposed itself as a natural consequence to the need to ensure a proper evolution of the market, in the absence of a perfect competition. The main purpose of the merger control was to provide a regulation for the changes occurring on the market, in order to allow its development, yet, in the same time, to protect it against anti-competitive behaviors. In such sense, the European Commission developed a set of procedures under which is conducted the merger control, since it is of high importance whether, by means of this merger, the enterprise gains a dominant position on the market, with a negative influence on the competition. Therefore, the merger between the mobile telephone operators Vodafone and Mannesmann was allowed only after it had been demonstrated, by the participant enterprises, that the new company would not have a dominant position on the market [3].

2. European procedures in merger controls

The Commission has the competence to control the non-observance of the primary and derived law and to impose the legislation in cause, aiming to its observance by the particulars, Member States and institutions. In such sense, pursuant to art. 105 para. 1

TFEU (in the domain of the competition) the Commission ensures the application of the principles related to competition established by the art. 101 and 102 TFEU, by investigating the supposed cases of infringement of the principles stated in the TFEU. In case of declared infringement, the Commission proposes appropriate measures in order to stop it, by imposing certain penalties and charges [2].

A merger can be accepted if it is established the fact that it does not lead to the limitation or the distortion of the market competition, if it is ascertained, after examination, that it is compatible with a normal competitive environment, or if the parties can prove that the operation contributes to the effective economic development, the positive consequences complete the negative one and it put in countenance the consumers [4].

The administrative procedure for the application of the communitarian law regarding the competition was included, initially, in the Council's Regulation no. 17/62/CEE, granting the Commission the exclusive authority to apply the art. 81 para. (3) of the EC Treaty. Its implementation was made by the Commission. In certain situations in which, in the Commission's opinion, they did not contradict the provisions of the art. 81 or 82 of the EC Treaty, the first could state, officially (art. 2 of the Regulation), that the respective situation of fact does not fall under the incidence of the art. 81 and 82 (*negative clearances*). Such a negative assertion may have legal consequences only for the Commission. If breach of art. 81 and 82, the Commission could force the aimed legal persons to put an end to the certified breach (art. 3). When a breach is certified, there could be applied financial penalties according to art. 15. Such a penalty, applied as consequence of the art. 16, should aim forcing the legal person to conduct a particular behavior for the future.

The Regulation 1/2003 [1] aimed, first of all, disencumbering the Commission in this matter. The normative instrument excluded the possibility to exercise an anterior control of the legality, by introducing only the possibility of a posterior control of this aspect and, last but not least, excluded also the possibility to grant individual

exemptions and negative assertions, keeping only the system of legal exemptions (block). The benefit of these block exemptions could be pled under any jurisdiction. Many of the provisions of the old regulation were kept, yet the balancing point of the new regulation being, in present, the aspects concerning the competitive regulations' breaches.

In order to improve the process, to implement properly the principle of "one-stop shop" and to insure an efficient control, the concentrations of communitarian dimension shall be notified to the Commission within the term provided in Article 4:

"Concentrations with a Community dimension defined in this Regulation shall be notified to the Commission prior to their implementation and following the conclusion of the agreement, the announcement of the public bid, or the acquisition of a controlling interest."

Notification may also be made where the undertakings concerned demonstrate to the Commission a good faith intention to conclude an agreement or, in the case of a public bid, where they have publicly announced an intention to make such a bid, provided that the intended agreement or bid would result in a concentration with a Community dimension."

From the content of the Article 4(1) it can be ensued that the notification may be made at any instant of the period prior to the conclusion of the agreement, the announcement of the public bid or after the acquisition of the controlling interest and even though there is no agreement or public bid, but it can be proved the enterprises' plan to merge into a Community dimension concentration, it should be concretely.

Usually, the notification is made in collaboration, between the merging parties or the enterprise acquiring the control under the circumstances of a concentration by means of acquisition of the controlling interest by an enterprise over another. The form of the notification and the manner in which this should be done are described in the Regulation 802/2004 of implementation of the Regulation 139/2004 and in the CO form. Although it is called a form, the CO form is more likely a draft, containing 11 sections, each of them indicating what kind of information shall be submitted to the

Commission. The volume of the requested information is very high, and the correct and complete submission is of great importance for the observance of short terms for decision-makings by the Commission. If the notification is not complete or incorrect and misleading, the Commission's decision shall be delayed. The requested information in the CO Form refers to the description of the concentration, the parties engaged, the details of the concentration, the owners, the form and nature of the control, support documentation, affected markets, context of market, improvements, cooperative effects of common enterprises and a statement signed by the enterprise's representatives.

What actually happens is that, whenever a concentration is not notified according to the Article 14(2)(a) of the Regulation, because an entity does not, either intentionally or out of negligence, notify a concentration according to Article 4 and 22(3), prior to its implementation, the Commission has the powers to apply penalties which cannot overpass 10% of the turnover aggregated to the concerned enterprises.

The first enterprise to receive such penalty was Samsung (33000 ECU), for the reason that it did not submit a notification in time. Since then, numerous penalties were applied, and their number is continuously increasing. An example for this is the 20 millions euro fine applied to the company Electrabel, in 2003, when it undertook the control over Compagnie Nationale du Rhone, without any prior notification. The final decision C(2009) 4416 of the Commission on the 10th of June 2009, ascertained that the claimant breached the Article 7 paragraph (1) of the Regulation no. 4064/89 by accomplishing operations of concentration with Community dimension prior the notification and before its announcement as compatible with the common market [5].

Although the system of allocation of cases between the Commission and the Member states functions correctly in most cases, there are also situations in which assigning the cases on the grounds of certain numerical level of turnovers does not always have as consequence a correct division between the commission and the competitive national authorities. The Commission itself explained the impossibility to divide the powers

between itself and the Member states only on the grounds mentioned above.

In such context, the Regulation 139/2004 was conceived starting with the idea that on the grounds of the two indicators taking into account the turnovers there may occur a correct assignment in all cases, and, consequently, it was introduced a flexible mechanism to allow the transfer of cases from the Commission to the Member states and vice versa. In such sense, articles 9 and 22 were simplified and clarified. Additionally, the Regulation allows the parties in the concentration to be a part in the establishment of the jurisdiction by submitting a reasoned application to the Commission, before notifying the concentration at the level of the community or nationally. The reasoned application is made by completing the CM form, available in the annex 3 of the Regulation 802/2004. Complementary information about the system of submissions and especially about the mechanism of pre-notifying submission is offered by the Commission in its Note regarding cases assignment [4].

Within the Article 4 4(4) it is stipulated that whenever a concentration has a Community dimension, the parties engaged have the opportunity to submit a reasoned application to the Commission, prior the notification, proving that the concerned concentration affects significantly the competition on a distinct market of a Member state and ask for its examination completely or partially by that Member state in particular. Whenever the parties submit a reasoned application, the Commission has the obligation to inform the Member state in question, without delay, and the Member state has a period of 15 working days within it can approve or disapprove regarding the examination of the case submitted.

If the Member state approves, the Commission has 25 working days, since the moment the reasoned application is received, in order to decide whether it sends the case or not. If until the 25-day delay expires, the Commission does not adopt any decision, it is considered that the decision taken is to send the case. In order to send a case, the Commission must analyze if the legal conditions are fulfilled, consult the principles stipulated in the Note regarding cases assignment [4] and verifies if the authority to

which the case should be sent is the one to have the powers to analyze it. When the Commission decides to send the case, it is not necessary for the parties to send a notification to the Commission, and the case shall be analyzed according to the national law.

Article 4(5) of the Regulation stipulates that before making a notification nationally, the parties engaged in a concentration with no Community dimension and which can be examined according to the national law of the competition in at least three Member states, can submit a reasoned application, soliciting that the concentration in question should be examined by the Commission. Such as the case of submission to a national authority, the Commission must inform the Member states about this submission without delay. They must express their agreement or disagreement within 15 working days. The procedure is closed when one of the Member states disapproves. Yet, if they all agree, then the concentration will be considered as having Community dimension and it shall be notified by the Commission, any no Member stat having the right to apply the national law.

The procedure of the examination of concentration provides also a suspension period in its implementation. Such period is regulated by the Article 7(1) providing that a concentration with a European dimension, or investigated by the Commission as a consequence to the submission pursuant to Article 4(5), cannot be implemented prior the notification and not until it is declared compatible with the Common Market. This obligation under suspensive condition encumber the enterprises to make transactions or to act together by coordinating commercial activities or prices, until the Commission does not decide that such practices are incompatible with the Common Market.

Yet, the Commission may admit certain derogations from this suspensive condition, when it receives a request in such sense, while the Article 7(2) provides itself a derogation for the public bids or for a series of transactions with fixed assets, under the condition that they are notified to the Commission and that the purchaser does not exercise his right to vote or to do so only to maintain the total value of his investments.

Article 7(2) stipulates:

"Paragraph 1 shall not prevent the implementation of a public bid or of a series of transactions in securities including those convertible into other securities admitted to trading on a market such as a stock exchange, by which control within the meaning of Article 3 is acquired from various sellers, provided that:

(a) the concentration is notified to the Commission pursuant to Article 4 without delay; and

(b) the acquirer does not exercise the voting rights attached to the securities in question or does so only to maintain the full value of its investments based on a derogation granted by the Commission under paragraph 3."

If the enterprises does not respect these provisions, Article 14(2)(b) offers the Commission the powers to apply penalties, which should not overpass 10% of the turnover allowed to enterprises that, intentionally or out of negligence, breach the suspensive condition. Ant transaction made by breaching the non-observance of the suspensive condition may become valid only if it is authorized by the Commission by means of a decision.

3. The investigation regarding the merger control

The date when the Commission receives the correct and complete notification of a concentration marks the starting day of initiation of the first phase of the investigation. An innovation introduced by the Regulation 139/2004 is that of the possibility for the enterprises to notice a concentration of Community dimension to the European Commission, prior to the conclusion of a mandatory agreement, with the condition of the existence of good faith intent to do so.

In this phase of the investigation, the Commission realizes a detailed evaluation of the market conditions soliciting information under the form of a questionnaire, which is sent to the main consumers and active competitors on the relevant market. Phase I of the investigation closes within 25 working days since the receipt of the complete notification by the Commission. This term limit can be extended to 35 days, when is

pled the Article 9 or when are submitted engagements of the parties to make the concentration in question compatible with the Common Market (with the conditions that such engagements are submitted within not more than 20 days since the notification). During the whole period of this procedure, there exist a permanent communication between the parties and the Commission, so that the Commission receives all the information necessary for the correct evaluation of the case.

At the end of the first phase, once the Commission had evaluated the market conditions and realized an analysis of the possible effect of the transaction on the relevant market, it shall adopt a decision pursuant to Article 6. This decision can establish that either a concentration does not have a Community dimension, or a concentration is compatible with the Common Market. The Commission may declare a concentration a being compatible with the Common Market, be it conditional or unconditional with the receipt of the engagements offered by the parties. In such case, according to Article 6(1)(b) the decision to declare a concentration compatible includes restrictions directly related and necessary to the implementation of the concentration.

The Commission may declare the concentration generates serious doubts regarding its compatibility with the Common Market – in such case, the Commission assertion is certified by a decision and are initiated the procedures for the initiation of the second phase of the investigation. In such case, this is how it drafted Article 6(1)(c): *"Without prejudice to article 9, such proceedings shall be closed by means of a decision as provided for in Article 8(1) to (4), unless the undertakings concerned have demonstrated to the satisfaction of the Commission that they have abandoned the concentration."*

Where the Commission has not taken a decision in accordance with Article 10(6) within the time limits set, the concentration shall be deemed to have been declared compatible with the Common Market.

The deadlines for the second phase of investigation start since the day of the announced decision in the first phase, which shows that the concentration in question

raises serious doubts regarding its compatibility with the Common. During the second phase, the Commission conducts a more detailed analysis of the market and the parties engaged have the right to access the file and solicit a formal hearing. It is important for us to mention that the Regulation provides the systematic call of internal boards of juries of mutual examination, conceived in order to improve the quality of the verification already considerable regarding the validity of the preliminary conclusions of the investigators.

The general term for the closure of the second phase is of 90 working days. This period of time could be extended with 15 more working days when the parties offer commitments (the commitments must be offered within not more than 65 working days). At the parties' request or the solicitation of the Commission, with the parties' agreement, the period may be extended with another 20 working days. It results that the maximal period of closure for the second phase of the investigation is of 125 working days. Yet, this period can be extended over the maximal term, when the investigation is suspended because of lack of response from the parties. If at the end of the term the Commission does not adopt any decision, it is considered that the concentration in question is compatible with the Common Market. Pursuant to the Article 8, at the end of the second phase of the investigation, the Commission can declare the concentration compatible with the Common Market, to declare that the respective concentration, as a consequence of a modification, is compatible with the Common Market or to declare that the concentration is incompatible with the Common Market.

4. Conclusions

The accomplishment of the single market, by opening the borders, dissolving the tax barriers and almost completely removing the non-tax barrier, represented new challenges for companies and investors. The easiest solution, in such hypothesis, was considered the increasing dimension of companies, in order for them to adapt to the new demands and objectives launched on a market in a continuous transition. National law has

become insufficient and ineffective regarding the avalanche of acquisitions and mergers. The conditions offered to the new European climate have become more and more stimulant. The most sensitive problem turned out to be that concerning the establishment of the type of merger which could be places under Community control, in parallel with the division of powers between national and communitarian authorities.

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International Protection of Human Rights

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Abstract

Man enjoys the rights inherent in human beings wherever they are, regardless of status or region where they were born, live, work, regardless of nationality, race, sex, religious and philosophical beliefs, wealth, because these have a universal character, which is the cornerstone of the equal and inalienable rights, as a corollary of freedom, justice, security and peace in the world.

Over time the human rights institution experienced a laborious but also long crystallization process so that now it appears as a very complex institution that is both nationally and internationally regulated.

Keywords: Legal protection, Human rights, The international society

J.E.L. Classification: K33

1. Introduction

International protection of fundamental rights and freedoms of individuals defines a set of rights, freedoms and obligations of men to one another, of states to protect and promote these rights, of the entire international community to ensure the rights and freedoms in each country, intervening in situations when human rights might be violated in a particular state.

2. Content

The institution of Human Rights is bivalent because it includes principles, mechanisms, procedures related to domestic law, but also to the international law while being a national law institution, integrated within constitutional norms, but also an institution of international law, configuring features of a legal principle applicable to

relations between states.

Human rights issues today enjoy a wide interest, but also an undeniable recognition of the complexity and originality of this legal institutions and of the fact that without these rights one can not enforce a democratic society - natural condition for the affirmation of the dignity of every individual - nor create the normal legal matrix indispensable to the cooperation of nations.

The issue of human rights is not only an internal matter of states, it is one of the major problems of the contemporary world, whose compliance and enforcement demonstrates the ability of understanding and cooperation of all states and peoples that favor democracy, freedom, understanding, multiforme cooperation, tolerance and friendship among all nations and states, ethnic and religious groups in order to safeguard peace and security in the world.

The contemporary human society, the human community can not develop harmoniously and upward if this dimension is ignored or despised, because its violation is meant to lead to delays, failures or even convulsions in society.

Over time, states and international governmental organizations created by their association and non-governmental organizations have established legal rules, techniques and methods suitable for the rights and ensuring their effective implementation. Thus was established the international responsibility of States for violating human rights, for ignoring international standards in this regard. The problem of not respecting human rights is not only a national problem, but an international, global one, in whose respect the entire international contemporary community and primarily the United Nations is interested.

The affirmation, respect and guarantee of human rights by the domestic law of states and by an effective international control by

the United Nations and the specialized agencies is likely to lead to the prevention of violations and the correct application of international law that enshrines the human right to life, dignity, security, peace, property, to protect itself against the social and political harm to their person, their sacred rights, against all discrimination.

Human rights were affirmed, proclaimed, established by legal, institutional and material means so that the person is protected and safe from the harmful effects of wars and other acts of barbarity or manifestations of ethnic, religious, philosophical and political intolerance.

Human rights and fundamental freedoms always represented a difficult topic unavoidable in the public debate. The explanation is that there is no man in this world, that is, consciously or unconsciously not interested by the way their rights and freedoms are protected.

The fact that the human being was born to develop and tends to their full development, which is useful to society and to them at the same time, determines the individual's personal freedom.

The loss of this freedom leads to degradation and killing any relationship that a human is subject to. The policy theme is the importance of how the need for human rights is put into question, by those who come to power. In a healthy governance where freedom is ensured, based on love for the country, all citizens must attend the governance all with liability, interest and perseverance.

Also, human rights and personal freedoms open a social issue, because in fact this was one main reason that these rights exist today. It should be emphasized that regardless of the capacity that a state has, these rights can not be neglected and one has to understand that acceptance of these rights dimension for each of us, no matter, race, color, social status is essential for the success of a perfect cohabitation.

The respect for human rights, means poverty eradication and the access of all people to a decent life, that contemporary human society with its possibilities has to provide to all its members based on the achievements of science and technology and national use of material resources and financial, so that each individual be

interested in the progress of society and his staff. This implies a harmonious relationship between man, the state and society, a mutually accepted through common interest solidarity.

Plenary Respect for Human Rights implies equality between men and women, full equality between the sexes so that society can benefit from the constructive contribution of all its members able to express their political will and consciously participate in appropriate decision making process to achieve the community interest.

Given the many issues concerning equality, language and national culture arising from the consequences of war and evolution of society, the field of collective rights was embraced and developed in peace treaties, as object of concern to the League of Nations. Thus, it was recognized as an international obligation, the equality of minorities to the dominant nations, specifying the key aspects of equality (using mother tongue, creating minority language schools and so on).

Until the Second World War, the constitutions of most states contained provisions regarding human rights, but for abolition of slavery and protection of minorities, fundamental human rights had not gained international legal dimension.

3. Conclusions

Public international law contributes to social progress through its three branches formed by the three categories of topics: international law of states, of peoples and individuals. In his classic acceptance public international law ensures the protection of individuals with diplomatic protection.

Protection of groups is achieved through preventive diplomacy and protection of individuals by ensuring human rights. The three categories of complementary interests know a focal point their legal, nationally and internationally guaranteeing.

Public international law has gradually transformed over time into a law of peace (despite regional conflicts), meaning that, today, concerns of the international community as a whole and of the individual member states focus on man and solving all its problems peacefully. However, violence is present both as a form of intolerance, as well

as an external way of resolving or influencing complex problems countries in the international community at present are facing.

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Freedom of Expression Principle

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Abstract

According with the Universal Declaration of Human Rights, the ideal of free human beings can not be achieved unless conditions that allow everyone to enjoy their economic, social and cultural as well as civil and political rights are created

Freedom of expression is a fundamental human right to publicly express their thoughts, opinions, religious beliefs and spiritual creations of any kind.

Keywords: Legal protection, Human rights, Freedom of expression

J.E.L. Classification: K33

1. Introduction

Personally I think that freedom of the press is essential for the pluralistic culture and thus democracy. A free press means a diversity of information and views on which people can adhere according to their own convictions.

Article 29 (1) of the Constitution states that "freedom of thought, opinion, and religious beliefs can not be restricted in any way. No one may be compelled to adopt or adhere to a religious belief contrary to his beliefs."

Article 30 of the Constitution deals with freedom of expression. According to para. (1) "Freedom of expression of thoughts, opinions or beliefs, and freedom of any creation through speech, writing, images, or other means of communication in public are inviolable."

2. Content

Man is free to express themselves as long as it brings no harm to others or society as a whole. Thus, freedom of expression may not harm the dignity, honor, privacy of person

and the right to their own image.

The right to privacy and freedom of the press is guaranteed by numerous international and national legal instruments. But these are not absolute, can overcome limitations. These limitations are set forth by legal rules in general. When press freedom should be determined by the right to privacy, the problem of identifying the boundaries between the two values arises.

Due to evolution of the content of the right to privacy, his delineation from the freedom of the press is better made at the international or national courts level, through the analysis of several cases than through simple analysis of regulations.

From this jurisprudence further principles, applicable standards in this area, will evolve.

European Court of Human Rights has clarified as much as possible the most common problems concerning the relationship between privacy and freedom of the press. This court affirms the role of the press in a democratic society, but considered necessary to sanction them when they, by virtue of fulfilling the obligation of informing the public, violates the privacy of individuals. Journalists will be granted the freedom of the press only when acting in good faith and in compliance with ethics, and most of Europe ethical codes require compliance with the right to privacy.

Court recognized the right to privacy of public figures, saying that they hold this right even if their private life sphere, however, is narrower than for ordinary people.

The press is not free to disclose any aspect of life these people if that does not serve the interest of debate. The need to meet general interest is present also in regard with the disclosure of certain aspects of the private life of ordinary people, but analysis of this interest is more severe in this case.

In its jurisprudence, the European Court has established a determined aspect in shaping the relationship between privacy

rights and press freedom namely that privacy may exist in public places. Although it seems to complicate this situation due to difficult differentiation of public and private activity, to identify public spaces from the private, the Court determines that any person has the right to respect for his privacy when they are in a place where it can be legitimately expected they are not seen by anyone or only by a handful of people.

So, through the study of the jurisprudence of the Court, as well as nationally solved situations in different countries, the relationship between press freedom and the right to privacy is no longer characterized by vagueness. Even if the standards outlined appear sufficient and generally applicable, each press interference with privacy must be analyzed taking into account all circumstances of the case.

Regarding the Romanian jurisprudence in this area, few existing decisions are consistent with the direction followed by the European Court, but as the phenomenon included Romania as well, the number of legal actions of people whose privacy was violated by media will surely increase.

In the Constitution of Romania there are other hurdles generally on the exercise of rights and freedoms. As amended, the new Constitution art. 49 (1) states that "to exercise certain rights or freedoms may be restricted only by law and only if necessary ..." Article 49 (2) provides restrictions on the first paragraph that "restriction can be ordered only if necessary in a democratic society. The measure must be proportionate to the situation that caused it to be applied without discrimination and without prejudice to the right or freedom. "

3. Conclusions

Americans enjoy more freedom of expression than any other nation. The legal basis of American free speech is the First Amendment "Congress is not allowed to make any law" says the First Amendment, "the benefit of a particular ideological settlement ', or prohibiting the free practice, or to reduce the freedom of speech or press, or the right of people to peacefully assemble and petition the government to seek to redress the problems. Absolutization of freedom leads to anarchy, and thus

destabilize the entire system of democratic principles. Limitations and restrictions of freedom of expression in the media should be expressly provided by law, although any international document on human rights provides for states to establish certain restrictions on freedom of expression.

The legal nature of the right to self-image is controversial. The dominant view is that the right derived from the right to privacy, assuming its respect and respect each individual image. According to the fundamental law, freedom of expression may not harm the dignity, honor, privacy of person and the right to their own image. Defamation of any country, nation, any instigation to a war of aggression, to national, racial, class or religious incitement to discrimination, territorial separatism or public violence and obscene conduct contrary to morality are forbidden. These acts prohibited by the Constitution are criminalized by the Penal Code and other special laws containing criminal provisions. Defamation and insult are two of the most common offenses committed by the press.

The realization of human rights process is not harmonious, does not evolve by itself. It remains an area of struggle and challenge for domestic and international law, for access to power, resources and their distribution respectively. Therefore actions in favor of human rights start from the need that the state, society, through various forms of action, ensure equal rights and the exercise of individual rights become an instrument of participation, of the redistribution in favor of all, especially those who are or become disadvantaged, to avoid exclusion, marginalization or removing them out of social life.

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Romania and the European Security and Defence Policy (ESDP) / Common Security and Defence Policy (CSDP)

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Abstract

Romania has been involved in the field of security and defense, named until December 2009 ESDP (European Security and Defence Policy) and is now subject to the CSDP, even before joining the EU, recorded at the 1st of January 2007.

Today, Romania is an active participant in CSDP, both political dimension, dedicated to support interests identified by Member States as common security and defense, as well as the operational, contributing in a large number of EU crisis management [1].

Key words: european integration, national security, european defense policy, Community Policies, crisis management.

J.E.L. Classification: F52

1. Introduction

Romania's reporting to the construction of the European security and defense construction assumes that it represents a higher stage, necessary in the development of the European Union's capacity to manage, military and non-military means, crisis occurred in Europe and in its vicinity. At the same time, Romania considers necessary to maintain complementarity of this process with the development of NATO, so the European defense does not constitute an element of contraposition to the Euro-Atlantic defense effort.

Romania said that the early participation to the Common Foreign and Security Policy (CFSP) may be an important opportunity to prepare our country for EU accession and participation to ESDP, a natural continuation of participation to CFSP.

Romania has decided to avoid redundancy in relation NATO - EU security and defense, and against creation of separate structures within NATO. Romania believes that the

development of ESDP should be NATO-WEU-EU cooperation principles adopted by the North Atlantic Council in Berlin (1996), Washington (1999) and Brussels (2002)[2].

Romania's efforts on this dimension concerns the convergence of their foreign policy with the Common Foreign and Security Policy (CFSP). As an EU member, Romania supports an EU more capable, more active and coherent, including the European Security and Defence Policy (ESDP) in accordance with the guidelines of the European Security Strategy. Romania also supports the operationalization of security and defense component of the EU.

From the 1st of January 2007, Romania has been fully participating at the activities of political and military structures of the European Union in various formats, such as defense ministers (informal meetings and conducted in the format of the General Affairs and External Relations), political directors of ministries defense of EU Member States, EU Military Committee meetings including the chiefs of staffs of EU Member States, Political Military Group meetings, etc..

EU membership has also led to join the European Defence Agency (EDA), a structure that plays a key role in developing defense capabilities for crisis management operations under ESDP. In this context, Romania is interested in participating at European initiatives armaments cooperation and draft defense research and technology developed under the Agency [3].

Participation in the development of the European Security and Defence Policy is one of Romania's defense policy priorities. For this purpose it has been created the Department of Defense Policy and Planning, a specialized structure for managing this problem, responsible for coordinating the fulfillment of the responsibilities of the Ministry of Defence in the context of EU integration.

2. Romania's participation in ESDP/ CSDP missions

Romania has been actively involved in numerous missions and operations conducted under the European Security and Defence Policy (ESDP) since 2003, realizing the importance and extent of which they will acquire in the context of EU approaches to promote the rule of law functioning of respect for human rights and good governance, and related fields, all of which directly affect international stability and security. Strong commitment of our country is confirmed by placing among the top countries in terms of seconded experts and equipment provided, but also added value in making decisions in the field.

Romania supports the strengthening of what has become the Common Security and Defence Policy (CSDP) after the coming into force of the Lisbon Treaty, recognizing the operational usefulness and contribution to the European construction. Therefore, our country does not hesitate to contribute to CSDP missions according to its real potential and resources [4].

Romania's national contribution, along with the other Member States, covering both civil and military landing. Thus, Romania is present in many missions conducted under ESDP, conducted on three continents: EUPM (civilian mission in Bosnia and Herzegovina), EUFOR Althea (military mission in Bosnia and Herzegovina), EUJUST LEX (integrated mission in the rule of law for Iraq), EULEX Kosovo (rule of law mission in Kosovo), EUPOL Afghanistan (civilian mission in Afghanistan), EUMM Georgia (monitoring mission) and EUNAVFOR ATALANTA (naval mission to combat piracy in the Gulf of Aden) [5].

Romania response to the recent crisis in the Caucasus illustrates the ability and determination of our state to play an important role in the expression of the Union's external policy. Romania is contributing to the EU Monitoring Mission in Georgia with a team of monitors operating under the direction and coordination of Ministry of Foreign Affairs. These missions have been helping transform ESDP into an important pillar of EU foreign policy in line with the interests of Romania [6].

It is a substantial participation from the point of view of a state that joined the EU in 2007 and it fully reveals the interest and Romania's commitment in maintaining international stability and security. Although the most important part of Romanian experts headed detachments to the Balkans, the Black Sea and the Wider Middle East, Romania has not neglected the participation in missions in remote regions such as Afghanistan and the Gulf of Aden, following the fast acquisition of expertise as comprehensive in an area that will occupy a central role in the development of the European Union, something that emerges from the Treaty of Lisbon [7].

Under the Partnership for Peace (PfP) the Romanian army has proved necessary qualities in implementing the European security and defense policy: capacity of projection, sustainability, interoperability, flexibility and mobility. Participation of Romanian army in peace support operations is another element which emphasizes the viability of Romanian military organism internationally [8].

NATO membership and involvement of Romania in the development of ESDP have highlighted the need to ensure a set of capabilities (personnel and equipment) to allow our country to support their promotion of foreign policy objectives through participation in international missions and operations, including civil dimension. Romania's objective was compiling a reserve capacity and personnel available on short notice for sending civilian and / or military under NATO or the EU, and developing a training center in the field of post-conflict reconstruction in Romania [9].

National progress towards facilitating the process of generating employment and secondment of experts in civilian CSDP missions have been an EU integrated report. Romania is on honorable position, having already approved a national concept in civil capacities.

According to the study "Is the EU able to reconstruct states drift? A review of civilian capacities in Europe", conducted by the European Council on Foreign Relations and released on October 15, 2009, Romania was mentioned in Chapter Diligents (second from a group of five, after Professionals), along with Italy, France.

In January 2010 - a time of European statistical centralization - Romania ranked number three after deployment, with 205 civilian experts present in five European missions after France (225) and Italy (214). In the present, our country has expanded its presence with civilian experts seconded in six civilian missions, their number has been reaching 218.

Romania will continue to work towards exploring ways to diversify and optimize the contribution of civilian experts from EU missions. Part of these efforts is the development of the *National Strategy for strengthening civilian capabilities for crisis management* by ministerial working group coordinated by the Ministry of Foreign Affairs, according to the decision of the Supreme Defence Council, from the 21st of January 2010 [10].

3. Romania's contribution to the development of EU civil and military capabilities

For effective EU action in the field of ESDP, Member States agreed on the need for capacity building, civil and military, dedicated to this purpose. European Defence Agency (EDA) has a central role in the development of military capabilities, and also reducing fragmentation at European level in this field of strategic importance. Romania, according to the needs and interests for Equipment, involves with EU partners in a number of programs to develop cutting-edge capabilities to achieve the greatest possible added value of these efforts.

To demonstrate its involvement in the development of ESDP, Romania has contributed to the successful completion of the Civilian Headline Goal 2008 (directory document on the development of civilian capabilities for ESDP) and actively participated in the Civilian Capability Improvement Conference (November, 2008)[11].

The contribution of our country to Headline Goal 2010 (Headline 2010 / GD 2010) of the EU is a strategic priority. From this perspective, Romania was actively involved in the development of ESDP capabilities even before the actual membership, since 2000, by participating in

the planning process forces and European capabilities [12].

Effectives and resources made available by Romania are intended for peacekeeping missions, search and rescue missions and humanitarian missions. In accordance with the commitment made in the autumn of 2000, Romania offered forces that have a different composition, depending on the type of mission to be performed, as follows [13]: for peace support missions: since 2001, a company of infantry, a group of divers (COSAR), a monitor (an inland waterway vessel carrying artillery) and a military police platoon; since 2002, a battalion of genius; since 2003, an infantry battalion, a military police company, a company mountain and diving vessel intervention ("Gregory Antipas") latter could be used for search and rescue missions.

The available forces have different efficiency levels. Since submitting the request, they are ready for action in the following terms: 15 days, divers group, 30 days, ground forces and 60 days, naval forces.

Later, at the Capability Improvement Conference, held in Brussels in November 2001, the government from Bucharest has provided a new set of forces, about 3,700 troops and 75 military and police to improve EU civilian crisis management [14].

In March 2003, Romania has reiterated his desire to contribute with forces to the EU Rapid Intervention Force and the EU civilian instruments for crisis management. In May 2003, at a meeting of EU Defence Ministers from other countries, Romania detailed its national contribution to EU Rapid Reaction Force missions.

But, on the one hand, Romania's offer for European Rapid Reaction Force is basically the same as for peacekeeping operations conducted under the coordination of NATO and, on the other hand, from mid-October 2003 became operational NATO Response Force - Quick reaction Force of NATO, composed of elements integrated land, sea, air and special forces - Romania will have to differentiate the offer for the two organizations if it wants to participate, so well said by an active way to both rapid reaction forces [15].

In March 2006 was sent to the military responsible structures of EU the Romania's

available offer. This contribution included military personnel and skills from all walks of armed forces, has been harmonized package of forces available to NATO and was recorded in the EU Force Catalogue Supplement 2006.

4. Conclusions

From the 1st of January 2007, after joining the EU, the offer of forces and capabilities of Romania has been included in the EU Force Catalogue revised in 2007. In early 2007, following the request of the EU Military Staff, Romania has supplemented its contribution to cover part of the deficit in capacities achieved at EU level.

Romania's involvement in the development of EU defense capabilities also refer to operational fast response capabilities, particularly the EU battle groups. In this respect, Romania is participating in two formations of this kind: a battle group having Greece as framework nation, plus Bulgaria and Cyprus, which is available for EU in the second semester of 2007 and the first half of 2009, another group of fighters having Italy as framework nation plus Turkey, which will be operational and available to the EU in the second semester of 2010 [16].

On the 10th of November 2008, the EU announced concrete steps to increase its military capacity. Thus, progresses an European project for an air transport fleet ("Airbus") until 2014, by contributions from Germany, Belgium, Spain, Greece, France, Holland, Portugal, Czech Republic, Romania, Slovakia and Luxembourg. The project adds a modern satellite surveillance network [17].

At the meeting of the Supreme Council of National Defense of 21.01.2010 it was analyzed and approved the Plan to use the forces and means of the Romanian Army which will be available in 2010 to participate in collective defense missions, peace support, humanitarian assistance and type coalition outside the Romanian territory.

The SCND has approved an additional 600 troops to forces acting in the theater of operations in Afghanistan, the maximum number which can be reached is 1798 troops. In 2010 the Romanian Army will participate in missions outside the state with a number of 3753 troops, deployed forces, 2342 soldiers,

and forces command deployable, 1411 soldiers.

Also, during the SCND meeting, Foreign Minister Teodor Baconschi presented the concept for building national civil capacities in crisis management (Civilian crisis management), developed for participation of Romania in the European Security and Defence Policy. The document is the starting point in developing a national strategy to define the vision and principles of Romania's participation in civilian capabilities for crisis management operations [18].

On the 7th of July 2010, Kees Klompenhouwer[19], Director of the Civilian Planning and Conduct Capability [20] of the General Secretariat of the EU Council and EU Civilian Operations Commander, who was visiting Bucharest approached topical Common Security and Defence Policy (CSDP), such as the implementation of the Lisbon Treaty and the participation of national experts to the EU civilian missions for crisis management.

The Director of CPCC presented the progress of the EU civilian mission mandates, noting the important contribution of the EU in international security. He thanked for the significant participation of Romania to the EU civilian missions, reflected in our country's ranking in third place at EU level in terms of participation in such missions. He also thanked for solid and varied expertise that Romania provides to the EU in these missions (police, soldiers, diplomats, judges, experts in the field of human rights etc.)[21].

Romania will continue to participate in the development of CSDP and try to assume a position more involved in ensuring European security.

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Common Security and Defence Policy towards Implementing the Provisions of the Lisbon Treaty

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Abstract

European Security and Defence Policy (ESDP) represents the actual Security Policy of the European Union.

The Lisbon Treaty represented a new chapter in strengthening the institutional framework to address this area, noting the establishment of the post of High Representative for Foreign and Security Policy, the establishment of the European External Action Service (EEAS) and concrete steps in implementing the provisions on CSDP objectives.

Key words: European Security Strategy, High Representative for Foreign Affairs, the European Neighbourhood Policy, humanitarian missions, international agreements.

J.E.L. classification: F52

1. Introduction

European Security and Defence Policy (ESDP) represents the actual Security Policy of the European Union. Basis of this policy were made at the Franco-British conference in Saint-Malo in December 1998, where it was intended to achieve an autonomous EU military force [1].

ESDP was then discussed by the Treaty of Amsterdam (1997) and by the Treaty of Nice (2000). Debates around European security and defense policy were boosted by the success of NATO in Bosnia (1995) and Kosovo (1999), successes that demonstrated, how big was the capability gap between Europeans and Americans, difference that EU leaders wanted to reduce. Debates have centered on the Petersberg tasks. Regarding policy instruments, ESDP will include three elements: military, civilian and conflict prevention [2].

The decision to implement an independent European Security and Defence Policy was taken by the European Council in Cologne in June 1999.

Thus, the Cologne decisions were founded the European Security and Defence Policy (ESDP) institutional conceived as part of the second pillar of the EU - CFSP. Subsequently, the Helsinki European Council in December 1999, adopted the Global Objective of ESDP - called Helsinki Headline Goal, which aimed at making the Union a set of forces and capabilities necessary for the implementation of the EU's Petersberg missions. Therefore, they have established institutionalized ESDP which became operational since 2003 [3].

2. European Security and Defence Policy (ESDP) / Common Security and Defence Policy (CSDP)

ESDP is actually the military component of the CFSP. ESDP covers the following areas: "humanitarian and rescue tasks; peacekeeping tasks; tasks forces for crisis management; missions disarmament; military advice and assistance tasks; conflict prevention missions; stabilization operations at the end of conflicts".

ESDP has several key features which can be summarized as follows: 1. Does not involve the creation of a European army, but evolve in a consistent manner and coordinated with NATO; 2. Can mean a specialization of Member States on military functions. Specialization consists of placing each EU country, who will want to do it, on the field as it has all or only part of its military technology and skill. The advantage of such a construction would be, militarily, abate and prevent dilution means. This idea needs to mature, and European countries are still at different stages of reflection. In other words, there is still no consensus, 3. Exclude any form of territorial defense. This remains

the exclusive competence of national states and NATO, 4. Works closely with NATO in crisis management missions execution and conflicts, especially in terms of infrastructure and logistics [4].

ESDP was defined as the holder of credible operational capabilities that can rely CFSP. Integral part of the CFSP, ESDP EU offers the possibility of using military or civilian resources for international conflict prevention and crisis management. ESDP completes the range of means available to the Union in CFSP and external relations in general. The used means are national assets and ESDP provides a framework to identify and develop these capabilities, coordinate them and use them independently. ESDP can also be a purely military instrument enabling the EU to conduct armed forces in peacekeeping missions, or, where appropriate, peace enforcement [5].

In December 2001, the EU decided to combat terrorism through political, institutional, military means. In the center of EU strategy were placed: conflict prevention, stabilization risk areas (Petersberg tasks)[6].

The EU has concluded or it is still involved in 20 missions in the European Security and Defence Policy, reflecting its international commitment in regions such as the Western Balkans, the Middle East and Sub-Saharan Africa. Several examples illustrate the Union's commitment to the Balkans. These missions, although the institutional framework of ESDP, are often involving a third pillar – Justice and home affairs (JHA) – police missions.

EU intervention in conflict - as for example operations EUFOR CONCORDIA - in Macedonia ARTEMIS - in DR Congo, EUFOR ALTHEA - in Bosnia-Herzegovina, missions to restore peace and maintain it, justified that the EU has become a major player in European security since 2000, while being a consumer of security, and a supplier in the making [7].

EU initiatives on areas of strategic security, called quiet and friendly neighborhood, are part of the European Neighbourhood and Partnership Instrument (PEVP). They aim, as Professor Theodore Frunzeti, specialist in international relations, geopolitics and geo-strategy, appreciates the realization of the concept of European security, and the performance, in time,

powerful and reliable Eurasian entity that actually is placed in work, but the other terms and other coordinated the ancient Eurasian geopolitical heartland of Harfold J. Mackinder. EU needs such a geopolitical reconfiguration of the Eurasian space, because, on the one hand, compelling energy requirement and, on the other hand, the need to rebuild continental power, but not necessarily to combat maritime powers, but in a very different political and strategic dimension closely linked to long-term economic development and modern management of conflictuality which is becoming increasingly difficult in the current geopolitical formula, too fluid and full of tension, unresolved problems, frozen or open wars [8].

There are four such initiatives, which are reflected in the Neighbourhood Policy and Partnership of the European Union: 1. Euro-Mediterranean Partnership; 2. Northern Dimension; 3. Black Sea Synergy; 4. Eastern Partnership. European Union creates with these areas, in fact, some impact geopolitical bases, which seeks, first, creating solid bridges of cooperation and partnership with the East and South, a circle or semicircle of strategic safety and expansion of the European Union influence and implement control mechanisms and diminution of conflictuality [9].

3. Lisbon Treaty innovations in security and defense policy

In 50 years, Europe has changed a lot - as entire world. The world has evolved, challenges and threats have diversified and Member States can no longer deal with the new realities. This requires new rules, a process of modernization, cooperation to bring solutions for functional Union to achieve its objectives.

The Lisbon Treaty was a notable step in the attempt to create a more democratic and transparent Europe [10]. Common Security and Defence Policy (CSDP) is a relatively recent EU instrument of the Intergovernmental pillar, evolving as a concept since 1998 (Franco-British summit at Saint Malo) and operationalized in 2003 - when it was adopted the European Security Strategy (ESS) and launched the first

missions - and created for the fulfilling of the objectives set by strategy [11].

The Lisbon Treaty is a new chapter in strengthening the institutional framework to address this area, noting the establishment of the post of High Representative for Foreign and Security Policy, the establishment of the European External Action Service (EEAS) and concrete steps in implementing the provisions regarding the CSDP objectives.

The Lisbon Treaty clearly defines the role of the EU in foreign policy and security policy [12]. Lisbon Treaty innovates considerably CSDP, pursuing the objective of strengthening the security dimension of the EU. A number of modifications are made, and that change the old way of running the ESDP (set to become a Common Security and Defence Policy) and therefore formalize the transformation of ESDP in CSDP, while preserving its intergovernmental character and principle of unanimity [13].

The Lisbon Treaty contains two important institutional innovations that will have a significant impact on the Union's external action: the appointment of a "permanent" President of the European Council for a period of two and half years with the possibility of renewal and the appointment of a High Representative for Foreign Affairs and Security Policy, which will be the vice-president of the Commission and he will have the task of ensuring consistency of the Union's external action. The Lisbon Treaty provides to the Union to act more effectively and consistently worldwide. Combining various components of foreign policy, namely diplomacy, security, trade, development, humanitarian aid and international negotiations, Europe will gain a firmer position in dealing with partner countries and organizations around the world [14].

At the Extraordinary European Council on the 19th of November, the First President of the European Council was elected in the person of former Belgian prime minister Herman Van Rompuy, who takes over his new mandate starting the entry into force of the Treaty.

Regarding the Union's external action, the Lisbon Treaty establishes the office of High Representative for Foreign Affairs and Security Policy. The High Representative cumulates also the position of member of the

European Commissioner with the rank of vice-president. At the European Council from the 19th of November, it has also been decided who will occupy this position for the first time respectively Mrs. Catherine Ashton [15].

The impact of EU interventions becomes stronger with the creation of a new European External Action Service. This resource is based on the EU institutions and Member States to assist the High Representative.

The Treaty confers to the Union a single legal personality who enabled it to conclude international agreements and to join international organizations. Therefore, the EU can speak and act as one entity [16].

Military capabilities will remain still in the service of Member States and can be offered as resources in the development of CSDP operations, on a voluntary basis, but the concept of permanent structured cooperation (Permanent Structured Cooperation) allows Member States that want and fulfill the criteria and have made commitments on military capabilities set out in the 10th Protocol annexed to the Treaty of Lisbon in the development of ESDP capabilities, a top military integration. Treaty will also introduce an initial fund management operations and improving capacity to support the European Defence Agency.

A very important aspect for increasing EU crisis management missions, under the Treaty of Lisbon is to extend the coverage of the mission beyond the existing humanitarian type, peacekeeping and crisis management, including peace enforcement (known as the Petersberg tasks), to include joint disarmament operations, military advice and assistance provision, combating terrorism [17].

4. Conclusions

The Lisbon Treaty is institutionalizing the custom of "implementation of a mission" by a group of Member States which are willing and have the capacity to undertake such a task on behalf of and entrusted by the Council. The foundations of so-called "coalition of the willing" formally recognizing such operations, as was the case initiated by France in Artemis mission in DR Congo [18].

Defining the role the EU should play in the world, the Lisbon Treaty takes into account the problem of Common Security and Defence Policy, recognizing that it is part of the common foreign and security policy. In this context, it is introduced a "solidarity clause" whereby the EU and Member States are asked to act jointly if a Member State becomes the target of a terrorist attack [19].

The proposed reforms of EU regarding defense dimension (treated as a separate chapter, as in the draft of the Constitutional Treaty) aims to promote in a sustainable manner the ESDP, which could lead to the emergence of a progressive common defense, but only if there is consensus on this dimension in the European Council. The most important innovations of the ESDP introduced by the new Treaty are permanent structured cooperation, mutual assistance clause in the event of armed aggression, extending the range of Petersberg tasks, the solidarity clause, the consecration of the European Defence Agency.

Permanent structured cooperation refers to initiating a type of enhanced cooperation regarding capacities (joint projects) between Member States with advanced military capabilities and maintain close working relationships. Through this mechanism, they may assume a leading role in the development of European capabilities in anticipation of the most demanding missions ahead of other nations in the Union [20].

Other provisions of the Lisbon Treaty on CFSP / CSDP are: Union acquires legal personality - which means that the EU will now be able to conclude on their own, international agreements (Article 47 of the Treaty of Lisbon) and the pillars structure is removed, the establishment of the President of the European Council and the new High Representative is tasked with the role of ensuring coherence between EU institutions and between them and the Member States [21].

The provisions of the Lisbon Treaty aimed at the development of a Common Security and Defence Policy more transparent, more coherent and more effective to increase the importance of the EU as an international actor.

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Belgium's Role in the Process of European Monetary Integration

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Abstract

The aim of this paper is to analyze the role of Belgium in the process of European monetary cooperation. Since Belgium was one of the founding members of the European Economic Community (EEC) and a strong supporter of monetary cooperation, we believe that its role regarding monetary integration was extremely important and somewhat underestimated in the literature. This does not mean that large states did not have a significant role, or that the role of Belgium was more important than that of Germany or France.

Nevertheless, by supporting economic cooperation through its diplomatic efforts and creative proposals, Belgium played an active role in the process of European monetary integration. For Belgium, the idea of an integrated Europe was represented by exchange rate stability. Even in extremely difficult situations, Belgium did everything possible to keep the European Monetary Union (EMU) on the agenda.

Key words: European monetary integration, economic and monetary cooperation, monetary policy, EMU creation.

J.E.L. classification: F15, F33.

1. Introduction

It is often said that the large Member States of the European Union (EU) were the main supporters of the European Monetary Union. Moravcsik, for example, believes that the process of EMU creation cannot be understood unless we admit that the EMU has served the economic interests of the dominant three Member States, namely France, Germany and England [1].

Dyson and Featherstone [2] also analyzed the role of large Member States. Their conclusion was that four of the Member States (the above plus Italy) supported the EMU project not only in order to protect their economic interests, but for several other reasons. First of all, the fact that the elites of these countries had realized the importance of creating a monetary regime based on the principles of price stability and central bank independence; secondly, the aim of institutionalizing monetary convergence, achieved through the Exchange Rate Mechanism (ERM) of the European Monetary System (EMS).

Others believe that the Member States accepted the creation of EMU because this arrangement provided the monetary authorities of the Member States with a new vision of how to develop monetary policies. In 1980, the monetary authorities of the states included in the ERM followed de facto the German policies. So, they actually had no say in the policy-making process, while in the case of EMU they would have regained the possibility of expressing their opinion regarding the monetary policy through the Governing Council of the European Central Bank. Other analysts argue that the EMU was created only due to an agreement between France and Germany, meaning that France agreed to support the German reunification only if Germany agreed with the EMU. This hypothesis, however, was not confirmed by the German and French leaders.

We believe that it would be wrong to attribute the EMU creation exclusively to the Franco-German alliance or to convergence of the interests of the four large countries. Without ignoring, however, the role of the Franco-German negotiations at crucial moments or the importance of the four states, the EMU project was a collective,

multilateral achievement, to which all the Member States, including the small and medium states, brought their contribution.

In this context, we should note that introducing the single currency involved reviewing the Treaty of Rome. Therefore the decision was that of creating the Treaty on EU. Within the inter-governmental conferences and the summits of the European Council, the negotiating position of each country depends on the support of the other states, whether small, medium or large. In addition, the 1992 Treaty on EU could be implemented only if it was ratified by all the Member States (at that time 12 Member States). It is, therefore, important to analyze the contributions of the small and medium-sized states as well. The small and medium states of the EEC are more open and more dependent on other economies, they are convinced supporters of trade liberalization, they strongly focus on the policies that they consider to be important due to limited internal resources, they are characterized by less formal administration and bureaucracy and have a more special relationship with the Commission, due to which their proposals reach the Council much easier. Thus, it is not surprising that the small and medium states can have a significant impact on the EU policy-making process.

2. Belgium's role

Belgium has **always** had a pro-integration attitude regarding the process of European monetary integration, often playing the role of the European Commission ally. Its main concern was to keep the EMU on the agenda. During the preparations for the Hague Summit in December 1969, Belgium made significant efforts to keep the attention on the EMU project.

Belgium was devoted to the EMU project even during difficult moments. An example in this respect is the Tindemans Report, which tried to revive the EMU during the late 1970s. It invented the concept of a multi-speed Europe, because not all the states were able to be part of this monetary arrangement from the very beginning. The negotiations regarding the monetary size of the Single European Act represented another crucial episode. That is when the Treaty of Rome suffered its first significant revision.

Although it was clear that the EMU could not be represent concrete goal, it was essential to obtain the community *acquis* regarding the monetary aspects specified in the treaty. Belgium prepared its proposals carefully, making sure not to leave Commission isolated during the negotiation rounds. Afterwards, these initiatives became the basis of negotiations regarding the Werner Report and the Maastricht Treaty.

Subsequently, Belgium played a leading role in the actual development of the EMU, particularly getting involved in the preparations for the euro project, adopted within the Summit of Madrid in 1995, and in the preparations for the introduction of the euro banknotes and coins.

During the post-war period, Belgium strongly supported the European integration. The explanation for Belgium favoring the European integration and EMU refers to its characteristics of small and open economy, its geographic location and fundamental pro-integration attitude, mainly marked by the experience of the two world wars. EMU was mainly favored by the major political parties and key social actors (the unions). The academic community was also very interested in the European issues, the European integration being an important research topic [3].

In addition, the Christian-Democrats, who identified themselves with the European unification, dominated the postwar political scene. The former Belgian Prime Minister Mark Eyskens remarked: "Europe is a country that must be loved" [4]. The Belgian agreement regarding the EMU was also extended to the relations between the political and economic authorities.

For this European country, the European integration involved an important gain of influence. The European integration had instituted the European rule of law, limiting the power of large countries. The supranational actors of EEC, such as the European Commission or the European Court of Justice, were also limiting their power.

On the European scene, Belgium was an ally of the European Commission. This relation was based on their common goal, namely the creation of a more federal Europe. In addition, the fact that the Commission was positioned in Brussels facilitated the informal contacts. At the same

time, Belgium was strongly represented within the European Commission.

Belgium's vision on the structure and functioning of EMU is found in the Belgian draft of EMU in January 1970: "A project of monetary solidarity in three stages from 1971 to 1977" [5]. The main goal of EMU, as laid down in the Hague Summit in December 1969, was the creation of a European Monetary community. According to Belgium, two requirements had to be met: the unification of the economic policies and a degree of homogeneity of the economies of the Member States. Homogeneity referred not only to institutional homogeneity, but also to overcoming the disparities in the economic and social systems. Then, the project proposed several transfer mechanisms. Major institutional reforms were needed during the last stages. Creating a supranational institution was essential and involved reviewing the Treaty of Rome.

EMU was to be organized around two poles: first, a community monetary system, like the United States (US) Federal Reserve System, and a kind of economic government of some bodies which would have the necessary power to perform a single economic policy. The economic policy was defined by the budget and income policies. For the budget policy, the new EU institutions were to establish a general context within which the Member States had to manage their budgets. The community budget was supposed to gain importance gradually. Finally, the Belgian draft proposed reducing the fluctuation margins progressively during the first stage, and parity change could take place only by mutual agreement.

The idea of a European economic government, launched by the European Commission during the negotiations on the Maastricht Treaty in 1991, enjoyed Belgium's support [6]. However, the concept was not adopted by the treaty. The economic policy remained essentially a national problem, causing a somewhat asymmetrical EMU [7]. The debates contributed, however, to the improvement of the treaty.

The Belgian integration strategy had a monetarist character. Monetary cooperation and integration were seen as a catalyst for economic convergence. Therefore, there was no need to wait for full convergence, as the

pure economists thought (for example Ungerer [8]). Exchange rate stability was central in the Belgian policies of promoting European monetary cooperation. The second area in which Belgium was involved regards credit and deposit facilities. Besides stimulating mutual monetary cooperation, these mechanisms were also a more efficient way of preventing speculations in comparison to national measures.

As chairman of the committee of experts of the Werner group, the Governor of the National Bank of Belgium at that time, Hubert Ansiaux, left its mark on the proposals regarding the development of the mutual support mechanisms. Subsequently, Belgium agreed to offer the European Monetary Cooperation Fund sufficient responsibilities and resources as to facilitate a real coordination of the monetary policy from the very beginning. Even during the European Monetary System period, the representatives of Belgium struggled to consolidate the credit mechanisms of the EEC.

In November 1995, Belgium reacted positively to the proposals regarding the Stability Pact for Europe coming from Germany. However, the Belgian Finance Minister Philippe Maystadt highlighted the need for signing a pact for monetary stability, which would focus on the exchange rates between the single currency area and the other EU Member States, besides the pact for budgetary stability [9]. In fact, he resorted to a fundamental Belgian idea according to which exchange rate stability is essential in any single market. In addition, the pact would have helped the other Member States in the process of convergence. The debates led to the creation of a new exchange rate mechanism, the so-called Exchange Rate Mechanism II (ERM II) [10].

Despite its monetarist vision, Belgium agreed with the need for parallel progress in two areas: economic and monetary. At the same time, the Belgian authorities were convinced that sustained monetary cooperation could not exist in the absence of sound economic principles and economic convergence. Economic policy coordination had to occur by recommending the Member States appropriate measures and by increasing the efficiency of the mutual coordination of the national measures.

Within the EU, Belgian representatives were known to facilitate compromises and to support agreements. Coming from a relatively small country, Belgian politicians were always forced to take into consideration the views of the other players. In addition, being a multi-cultural country, in which several languages are spoken, they are used to negotiate with people coming from other cultures. The Belgian officials often used their intellectual and diplomatic skills in order to contribute to reaching compromises at European level.

Belgian diplomats tried several times to stimulate the Franco-German reconciliation, in order to support the European integration process. Ever since the period of negotiations on the Treaty of Rome, the exchange rate remained a subject of hot debate. According to Van Tichelen, one of Belgium's negotiators, one of the issues frequently discussed was whether the exchange should remain national or become a Community issue [11]. Another example is the Belgian contribution to the preparations for the EMS, when chairing both the Monetary Committee and the Committee of Central Bank Governors. Although it was never implemented, the Belgian idea of a "divergence indicator" represented the beginning of an agreement regarding the EMS in December 1978. This episode shows how, through sustained diplomatic efforts, a relatively small country can have an impact on the processes of the EU.

Another example is Belgium's proposal within the Inter-governmental Conference on the Treaty of Maastricht to name the institution of the second stage of EMU the "European Monetary Institute". It worked as a bridge between France, which had proposed the creation of the European Central Bank and Germany, which favored the Council of the Central Bank Presidents.

3. Conclusions

Belgium played a significant role in the creation of EMU. Monetary integration was extremely important for this country, which is why it made significant efforts in order to facilitate its achievement. As an open economy, Belgium was going to benefit from a fixed exchange rate regime and subsequently from the single currency.

Although it sometimes played the role of a mediator between Germany and France, its main purpose was to enhance European integration through the creation of institutions that would be able to develop economic and monetary policies.

Although its strategy regarding EMU had a strong monetarist character, Belgium agreed with the need for parallel progress in two areas: economic and monetary. Belgium always had a pro-integration attitude and was a constant ally of the European Commission. Without its contributions, the European economic and monetary integration process would have not been the same.

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Role of Romanian Public Administration in Policy Development of Social Integration of Foreigners

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Abstract

The paper aims to analyze an issue Romania is facing at present, namely the phenomenon of integrating immigrants into the community, both from the perspective of governmental policies, and from the point of view of implementing these policies into practice.

As Member State of the European Union, Romania had to align to the European standards and to perform its activity in the field of immigration in full accordance with the position of the other state.

If in the past Romania mainly had a role of transit country for the migrant flows coming from the Eastern states, in their path to the Western, highly economically developed states, at present, Romania is also becoming a destination country.

Keywords: Foreigners, social integration, public institutions

J.E.L. Classification: K 33, O38

1. Introduction

In recent years, although Romania has retained its largely state transit character, it began to become more of a destination state.

Romania is exposed to migration routes (legal and illegal) in the countries of Eastern Europe, originating in the Middle East, Southeast Asia and Africa. Although in some EU Member States were registered migration trends in countries of Central America and South America, these have not yet been reported in Romania, due to its geographical position and low

attractiveness for citizens from these countries.

Alien is a person who is in the territory of a State without its nationality, but of a different state. [1] The concept can be understood lato sensu, by foreign understanding any legal subject, both natural person and legal person with no citizenship or nationality of the State in whose territory exist or work, or stricto sensu, referring only to individuals. The common element in both senses of the term alien is the reference to a state where a non-national jurisdiction to enter into a legal relationship, regardless of its nature. When a person leaves the State of nationality has, it continues to be a national of that State, but the legal order of the country he came, the person is "foreign". If a person reached in international waters, she gets no stranger the to any state.

Government Emergency Ordinance no. 194/2002 concerning the regime of aliens in Romania, provides in art. 2, letter a) that the alien is a person who is not Romanian citizenship. French Ordinance No.45-2658 of 2 November 1945 mentions in art. 1 that all persons that have not French nationality or not have any nationality are considered foreigners.

Also, the European States members of the Schengen Agreement of 14 June 1985 were agreed in Article 1 of the Convention implementing the Schengen Agreement, signed on 19 June 1990, that the alien means any person other than the citizens of Member States of the European Union .

2. Institutional Framework

In the context in which Romania became a full member of the European Union on 1 January 2007, border control

according to European practice is established by EC Regulation 562 of 15 March 2006 on the Community Code on the rules governing the movement of people across the border and Directive no. 38 of 29 April 2004 the European Parliament and the European Council on the right to free movement and residence in Member States for Union citizens and their family members.

In this context, a better organization of our public administration was necessary.

In order to cope with the new challenges. Thus, Romania, as country on the Union's outer border, entered a new period which implies the efficient security of its external borders, migration control, as well as the preparing and adoption of the necessary measures that converge towards the elimination of internal borders control (for the purpose of subsequently acceding to the Schengen space).

All these reasons required closer collaboration between the competent authorities in the field and a system reformation in order to fulfill the requirements. In this sense, it was necessary to create a competent institution in the field of migration, asylum and aliens' integration, including with respect to their right to work.

Successful implementation of migration policies depends on involvement and responsibility of each institutional actor (Ministry of Administration and Interior, Ministry of Education, Research, Youth and Sport, Ministry of Labour, Family and Social Protection etc.) is responsible for integrating aliens into its activity field, the coordination and monitoring of the policy belonging to the Ministry of Administration and Interior, by means of the Romanian Immigration Office, which also has the duty to offer, through its regional structures, specific services in view of facilitating the integration in the Romanian society of different categories of aliens. It has the role of observing the obligations undertaken at the international level, by means of the legal instruments our country has adhered to, and of protecting the national interest, by achieving a balance between the rights and the obligations of these categories of persons.

3. Analysis of Migration Policies

According to the Romanian legislation, only the aliens who received a certain form of protection (recognized refugees and aliens benefitting from conditional humanitarian protection) benefit of special measures aimed at facilitating their integration in the Romanian society.

Since year 2004, Romania has manifested its interest to elaborate unitary policies in the field of migration, asylum and the social integration of aliens, which to ensure the harmonization of the internal legislative framework with the international law and the Community acquis.

Also, the Romanian state aimed at the development and modernization of the institutional framework necessary for implementing the policies in the field, at adopting a modern management in the field of human, material and financial resources, and at the unitary coordination of the authorities with duties in the field, for the purpose of eliminating the situations of overlapping competences and of the efficient use of these resources.

According to the Romanian legislation in effect, the aliens legally living in Romania enjoy the same rights and liberties as the Romanian citizens (with some exceptions), rights guaranteed by the Constitution, the legislation, but also by the international treaties our country is a party to.

Hence, the aliens benefit from the application of the national regime, enjoying a wide range of rights and liberties. Thus, the revised Romanian Constitution refers, especially in Title II, Chapter II „Fundamental rights and liberties” to any persons, therefore including aliens. In the specialists' opinion, the justification consists in the fact that aliens and persons without a country first have the quality of human beings and, implicitly, a series of primary, inalienable and imprescriptible rights, such as the right to life, dignity, liberty, freedom of conscience etc. However, from the legal point of view, certain rights can belong solely to Romanian citizens, who, by means of the citizenship bond are indissolubly tied to the Romanian state. In this sense, we refer to the political rights (to elect and to be

elected in the representative authorities at the national level), to the occupation of certain public, civilian or military positions or dignities; also, aliens cannot organize, establish or be part of political parties or any other similar organizations or groups, or to initiate, organize, finance or attend manifestations or meetings that breach public order or national security.

The guiding lines of the policy regarding the social integration of aliens in Romania are found in the National Strategy regarding Migration adopted by Government Decision no.498/2011, document that expresses the general principles and the guiding lines for establishing the policy of the Romanian state with respect to the admission, stay, leaving of the territory by aliens, to the work force immigration, to granting the forms of protection, as well as to combating illegal immigration.

Also, National Strategy increase the level of inter-institutional coordination for the efficient management of legal immigration, especially of the purpose of work and increase coordination of institutions with competences in the social integration of aliens, development of institutional capacity, logistics and human resources of management institutions responsible for immigration and asylum

Overall, foreigners enjoy the fundamental rights of Romanian citizens, except political rights benefiting from civil, economic, social and cultural rights under the same conditions as Romanian citizens.

During their stay in Romania, foreigners are required to comply with Romanian law. Foreigners may leave the country at any time and may enter the country, in compliance with regulations relating to entry. Foreigners establish his domicile in Romania are required to register with the police and to regularly target identity documents.

Alien who does not fulfill their obligations under the law can be returned to their country of origin or departure, or may be sent to the country of destination.

Every state establishes legal condition of foreigners according to their own interests. This law follows from the principle of state sovereignty. [2] Foreigners on the territory of a State shall

respect the laws of the State of residence, respect and loyalty, not to take action against the receiving State. [3]

According to legislation, foreigners who were granted a form of protection in Romania have provided access to the following rights: the right to employment, right to housing, the right to health care and social assistance, social security, right to education, and by carrying out specific cultural accommodation, counseling and Romanian language, contenting in integration programs.

Regarding social policies, aliens who gained a form of protection are registered as person looking for a work place with the local agency for the occupation of the work force or at the work point in whose territorial area the respective alien resides.

Also, social households are assigned to aliens who gained a form of protection in Romania, by the competent authorities of the local public administration, on the basis of the eligibility criteria applicable to Romanian citizens.

In the situation when the persons who underwent the integration program cannot receive a social household from the local authorities, they can rent a house, and the Romanian Office for Immigration can subsidize their rent by up to 50%, for a maximum period of one year.

In what concerns the right to education, to the citizens of third countries, gained a form of protection in Romania there are provided free courses for initiation in the Romanian language for minors, as well as for learning the Romanian language for the adults. They are organized by the county and City of Bucharest school inspectorates, according to the methodologies approved by the Ministry of Education, Youth and Sport.

Also with respect to access to the social assistance system, it is performed in the same conditions as those established by law for the Romanian citizens, The aliens who gained a form of protection in Romania can benefit of a reimbursable aid from the Ministry of Labour, Family and Social Protection, which can be obtained for a period of 6 months, with the possibility of extending it for another 3 months. The reimbursable aid amounts to the value of the minimum wage in the economy, for

each family member, as is granted following a social investigation. Practice has proven that refugees have access to this aid.

In order to increase the administrative capacity regarding the migration phenomenon, on the date of January 21st, 2009, 4 European funds afferent to the General Program Solidarity and to the management of migratory flows 2008-2013 were launched, which are administered by the Ministry of Administration and Interior, respectively the General Direction of European Affairs and International Relations and the Romanian Office for Immigrations (as Contracting and Payment Authority), represented as follows:

- European Refugees Fund III (ERF III), having as objective the support and encouragement of the efforts made by the Member States to allow refugees and displaced persons in the territory and to deal with the effects of this admission, considering the communitarian legislation in the field;

- European Fund for the Integration of Third-Country Nationals (FI), having as objective the aiding of the efforts made by the Member States in allowing third-country nationals with different economic, social, cultural, religious, linguistic and ethnic backgrounds to fulfill the residence conditions, and the aiding of their integration into the European societies;

- European Return Fund (RF), having as objective the support and encouragement of the efforts made by the Member States to better manage the return, under all its aspects, on the basis of the integrated management concept and by establishing common actions which to be applied by the Member States or certain national level actions that contribute to the fulfillment of the communitarian objectives related to the solidarity principle, taking into account the communitarian legislation in the field and with the full observance of the fundamental rights;

- Outer Borders Fund (accessible starting with 2010).

4. Conclusions

Increasing awareness of the population regarding immigrations will implicitly lead

to easier acceptance of foreigners by the Romanian society and thus to respect national legislation.

In conclusion, we can say that the social policy in the field of immigration – the dimension aiming at the aliens’ integration – has as goal the support of the aliens domiciling or residing on the territory of the host-country to actively participate to the social, economic and cultural life of that respective society and, by means of that, to contribute to the development of a mutual relation based in trust and responsibility between the aliens and the community.

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European Institutional and Organisational Tools for Maritime Human Resources Development

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Abstract

Seafarers need to continuously develop their career, at all stages of their professional life. This paper presents some tools of institutional and organisational career development. At insitutional level there are presented vocational education and training tools provided by the European Union institutions while at organisational level are exemplified some tools used by private crewing companies for maritime human resources assessment and development.

Cuvinte cheie: maritime human resources, human resources management, seafarers, navigation

Clasificare J.E.L.: J24, M12, M54

1. Introduction

Taking into account that in a competitive, free market system, efficiency is gained when individual participants act in their own self interest [1], maritime human resources should act in their own self interest and should take into consideration the need to develop their career at all stages of their professional life in order to have an efficient response to the continous changing environment of the competitive society.

The need for professional development, education and training is usually more noticeable in the case of fresh graduates and seafarers in the early years of their careers. But also, those with more years of experience at sea need to have the opportunity to progress and learn. Sometimes in their case the process of professional development using vocational education and training tools based on e-technologies prove to be challenging. This paper presents two types of examples of development tools used at the

European Union institutional level and at the organisational level of a private crewing company, both proving useful in development the careers of working seafarers at any age.

2. EU vocational education and training tools for maritime career development

According to the Report of the Task Force on Maritime Employment and Competitiveness and Policy Recommendations to the European Commission from June 2011, the European Union's institutions has developed a number of instruments on vocational education and training useful for development of maritime human resources that include the ones below [2].

1. The European qualification framework based on the learning outcomes approach. It aims to relate different countries' national qualifications systems to a common European reference framework. In each country, a national coordination point has been designated for this purpose.

The core of the framework consists of 8 qualifications levels described through learning outcomes (knowledge, skills and competence). The associated learning relate to the complexity and depth of knowledge and understanding, the degree of necessary support or instruction, the degree of integration, independence and creativity required, the range and complexity of application/practice the degree of transparency and dynamics of situations[3]. European qualification framework is promoting better understanding and transparency of qualifications across EU and is essential for developing a European employment market, promoting mobility and lifelong learning. In Romania, an incorporating computer into the evaluation of learning outcomes imposes the adaptation of

certain paradigms such as e-assessment to the standard framework of competencies formation (as adopted by Romania's CNCIS–Romanian National Qualifications Framework for Higher Education, following the European qualification framework)[4].

2. The European credit system for vocational education and training [5]: based on the learning outcomes approach, it helps to validate, recognise and accumulate work-related skills and knowledge acquired during a stay in another country or in different situations, so that these experiences contribute to transfer credits from one qualification system to another, or from one learning „pathway” to another. According to this approach, individuals can accumulate the required learning outcomes for a given qualification over time, in different countries or in different situations. ECVET points are a numerical representation of the overall weight of learning outcomes in a qualification and of the relative weight of units in relation to the qualification.

The number of ECVET points allocated to a qualification, together with other specifications, can indicate for example, that the scope of the qualification is narrow or broad. Allocation of ECVET points to a qualification is based on using a convention according to which 60 points are allocated to the learning outcomes expected to be achieved in a year of formal full time VET [6].

3. The Europass [7] is a single portfolio of documents to support job and geographical mobility to enable individuals to present their qualifications and skills using a standard format understandable to employers throughout Europe.

One of the Europass documents, beside the well-known Europass CV, is Europass mobility which describes the skills and competences acquired during the europass mobility experience, activities/tasks carried out, job-related skills and competences acquired, language skills and computer skills, organisational skills and competences like for example in the case of a seafarer, the good capacity in organising the tasks carried out during a voyage period, identifying priorities and managing efficiently relations with other members of the crew.

Another key competence example would be the digital competence that involves the

critical use of Information Society Technology (IST) for work, leisure and communication. It is underpinned by basic skills in ICT: the use of computers to retrieve, assess, store, produce, present and exchange information, and to communicate and participate in collaborative networks via the Internet. Use of IST requires a critical and reflective attitude towards available information and a responsible use of the interactive media; an interest in engaging in communities and networks for cultural, social and/or professional purposes also supports competence. [8]

The Europass portfolio can be widely available to be seen by the interested parties (employers, head-hunter companies etc.) through upload on e-technologies platforms of mass communication.

4. The last vocational and educational tool presented in this paper but not the least, the European Quality Assurance Reference Framework for Vocational Education and Training [8] helps state institutions to develop, improve and assess the quality of their Vocational Education and Training systems through a common tool for quality management practices which includes the establishment of national reference points for quality assurance in the case of maritime transport.

All of these institutional tools would not prove useful without a proper technological e-system of mass communication.

3. Organisational tools for maritime human resources development in private crewing companies using e-applications

3.1. Research methodology

Several observations were made at a Romanian maritime personnel recruiting company from Constanta between September and October 2011.

The crewing company was established in 2008. Starting with the last half of 2011, the company's strategy to develop maritime human resources included the use of e-technologies and e-applications for crew evaluation and development. In the example below, the crewing company has a digital database with crew seafarers that have competencies and experience in working on chemical tankers. The electronic applications

Matrix of experience and Matrix of crew change are made in Microsoft Excel and require shore personnel with ICT skills able to operate in Excel.

3.2. Research Results

Experience Matrix application is used to record and monitor seafarers experience and its performance.

The application is based on the 2011 edition of the International Convention on Standards of Training, Certification and Watchkeeping for Seafarers (STCW), and the STCW Code, including the 2010 Manila Amendments provisions, which updates standards of competence required, particularly in light of emerging technologies, introduce new training and certification requirements and methodologies, improve mechanisms for enforcement of the Convention's provisions and detail requirements on hours of work and rest, prevention of drug and alcohol abuse, and medical fitness standards for seafarers [9].

According to this international convention, the safe operation of a vessel depends on the skills and experience of the officers responsible for the implementation of the safety management system.

Consequently, vessels must be equipped according to a system based on the complementarities between seafarers' level of experience and familiarity with the company processes and procedures.

3.3. Matrix of experience

For the first application, it is envisaged crew combination and association according to the following table which contains data recorded in the matrix of experience.

Table 1: The principles of seafarers' combinations depending on the level of experience

Type of experience	Senior deck officers: Master+officer 1	Junior bridge officers: Officer 2 + Officer 3
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Experience to the post	Together, the two should have an experience at sea of more than 3 years; the master must have an experience of at least six months at sea and first officer an equivalent experience of at least six months at sea.	At least 1 year at sea
Ships operating experience	More than two calendar years	More than 1 calendar year
Experience in a specific type of tank	More than 6 years at sea	N/A
Experience on all types of tanks	N/A	More than 1.5 years at sea

In the example provided below, the matrix makes such combinations for mechanical engineers. The application makes similar combinations for all the crew ranks, like master, chief mate, officer of the watch, 2nd engineer, engineer officer, helmsman, motorman/fitter, cook, cadet, electrical officer or ordinary seaman. A special attention should be given to the development of the master career, as the master of the ship is considered the strategic crew member leading the activity on board from the operational and managerial point of view [10].

Depending on the data recorded by this application and by the matrix of crew change application, it is established a schedule of crew change from ships, in parallel to the methods of financial reward, the bonus award related to experience and seniority in the company.

Seafarers experience matrix includes the following information: name of seafarers, their functions, from master to ratings, first salary level, the current salary and bonuses awarded for experience and seniority in the company, years of experience on the current function, years of experience on chemical

tankers and vessels (in the example from figure 1), indicating the periods of boarding (on-sign) and disembarking (off-sign). The Matrix also records whether the crew members have an available certificate of competency and the date of issue.

At employment, candidates complete standardized forms for applying for the job, stating details of their education, training and certification, experience gathered from previous jobs, medical records and other information necessary to evaluate the applicant's qualifications. The employment application is verified by the personnel of the recruitment company in order to analyze the consistency with basic criteria for employment of the company, agreed with the shipowner's company.

Experience and appropriate certifications specified in the employment application are recorded in the Matrix of experience. Depending on the time period in which the shipboard service was conducted, the Matrix of experience calculates a coefficient of the experience years and depending on this it will be given salary allowances and the possibility to develop the career through professional advancement.

In figure 1 is represented the experience matrix for chief engineers, sent by the company on various ships owned by shipowners, the customers of the crewing company.

Figure 1: Tools for maritime human resources development at organisational level –Matrix of Chief Engineers Experience

	A	B	G	H	I	J	K	L	M	N	O	P	Q
1	Crewmembers' Names	dd.	1st salary	2nd salary	3rd salary	4th salary	5th salary	6th salary	7th salary	Experience Years	C1 on-sign	C1 off-sign	
2			next ctr.	\$12,500	€ 0	0.58	1st rank experience =	0.3	09.06.10	28.08.10			
3			27.10.10				years in rank =	0.7	15.01.10	28.08.10			
4							operators continuity =	0.3	09.06.10	28.08.10			
5	chief engineer (>3000kw) 05.12.2007						rank wet experience =	0.5	15.01.10	03.04.10			
6							chemicals wet experience =	0.9	11.05.09	25.08.09			
7							tankers wet experience =	0.9	11.05.09	25.08.09			

3.3. Matrix of crew change

In the Matrix of crew change it is recorded the name of crew members sent on different ships, wage levels, landing on request time

period and the landing period referred in the contract and the names of the land employees that can replace those who request to return to shore. In the following figure is a screenshot of such an application.

Figure 2: Tools for maritime human resources development at organisational level – Matrix of crew change

	A	B	C	D	E	F	G	H	I	J
1	RELIEF MATRIX									
2										
3										
4										
5										
6				o/b	today	after cr-chg	budget	budget		
7		on	name on	mths	salary	salary	min.salary	max.salary		
8		Nava 1		contract = 4mth +/-1						
9	Master	20/11	Nume 1	5,5	1	\$12.000	1	\$0	\$0	\$0
10	C/O	10/02	Nume 2	2,8	2	\$8.500	2	\$0	\$0	\$0
11	2/O	10/02	Nume 3	2,8	3	\$4.800	3	\$0	\$0	\$0
12	3/O	20/11	Nume 4	5,5	4	\$3.700	4	\$0	\$0	\$0

4. Conclusions

Both at macroeconomic institutional level and at microeconomic organisational level, tools for career development prove useful for development of maritime human resources.

At first appearance the career development tools presented in this paper have nothing in common except their utility in developing the seafarers. The argument for choosing these two separate categories of tools is reported to the necessity to approach the development of maritime human resources in the E era in a holistic perspective, at both macro and micro levels.

Also should be taken into consideration another essential common feature like the fact that all of the described tools would not prove useful without a proper technological e-system of mass communication.

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The European Framework for Safeguarding Financial Stability

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Abstract

Financial stability, as a result of the recent financial crisis, has become one of the most debated issues in the economic and political environments. Therefore, this paper aims to analyze the concept of financial stability within the European Union, describing the actual supervisory structure and emphasizing the need for changes related to new supervisory arrangements and new institutional mechanisms, in order to protect and maintain financial stability over longer periods of time.

Keywords: financial instability, european regulatory framework,

JEL Codes: E61, F33, F36, O52,

1. Introduction

The development of a single financial market is one of the long-term objectives of the European Union, especially after the introduction of Euro. After the creation of the European Central Bank, one remained issue was the optimal structure of financial supervision in the single financial market. In order to support the European financial integration and to preserve financial sector resiliency, it is necessary a high degree of coordination of regulatory and supervisory actions.

Some of the initiatives regarding a more regulatory and supervisory coordination among member states are: a) on the *regulatory* side, the establishment of the Lamfalussy framework, which aims to speed up the legislative process governing the European financial system, providing more uniform and better technical regulation, and facilitating supervisory convergence in support of financial integration and stability; and b) on the *supervisory* side, the establishment of supervisory colleges in

charge of monitoring large cross-border groups.

The negative effects of the current financial crisis on European Union members' countries induced the necessity of a more urgent coordination/centralization. There are now two main issues for regulatory and supervisory reform that must be approached: a) the expansion of the cross-institutional and cross-border scope for regulation while safeguarding constructive diversity; and b) the need for effective and coordinated supervisory actions and mechanisms.

2. The Financial Stability Challenge

"For mature financial systems, the financial stability objective may be formulated as: maintaining the smooth functioning of the financial system and its ability to facilitate and support the efficient functioning and performance of the economy" (Schinasi, 2009). In order to achieve financial stability, it is necessary the implementation of specific mechanisms that should prevent financial problems from becoming systemic and/or threatening the stability of the financial and economic system, while maintaining (or not undermining) the economy's ability to sustain growth and perform its other important functions. But this doesn't mean that all financial problems must be prevented from arising. There are two important aspects that must be emphasized: a) it is impossible for a dynamic and effective financial system to avoid market volatility and turbulence; in addition, it is impossible for all financial institutions to perfectly manage the uncertainties and risks involved in providing

financial services and enhancing financial stakeholder value; b) it is undesirable the creation and imposing mechanisms that are over-protective regarding the market stability or over-constraining regarding the risk-taking of financial institutions (these constraints

could diminish the extent of risk-taking to the point where economic efficiency is inhibited; moreover, the mechanisms of protection or insurance could, if inadequately designed and implemented, create the moral hazard of even greater risk taking).

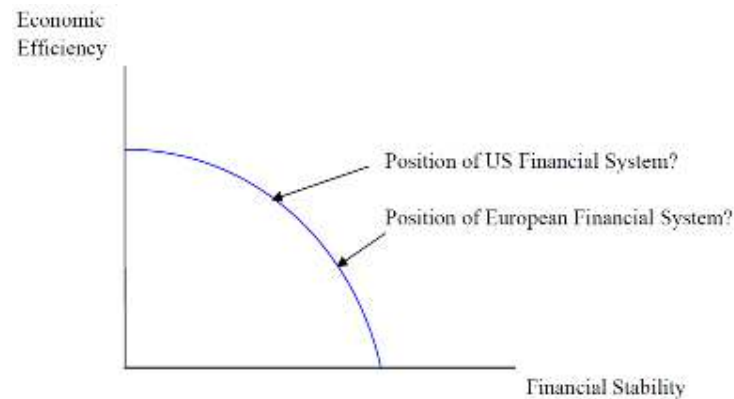
Maintaining the economy's ability to sustain growth and perform its other important functions is an important aspect of the challenge of financial stability. The achievement and maintenance of financial stability should be balanced against other and perhaps higher-priority objectives such as economic efficiency. A financial stability induced by an over-restricting financial regulatory system could decrease the probability of destabilizing asset price volatility, asset market turbulence, or individual bank failures, but this type of “stability” could also dramatically reduce the economic and financial efficiency.

3. Stability and efficiency cannot be so neatly separated

Therefore, there is an *ex ante* trade-off between achieving the economic and financial efficiency and the economic and financial stability. For example, if it taken into consideration a certain asset market, where the price is sensitive to incoming information (a feature of many asset markets), it is possible to limit the variability of the asset price by imposing restrictions in the market that would inhibit the ability of traders to price-in every small piece of information, but from a trader's and investor's perspective, such restrictions will inhibit the efficiency of the market's ability to price and allocate resources in the presence of uncertainty.

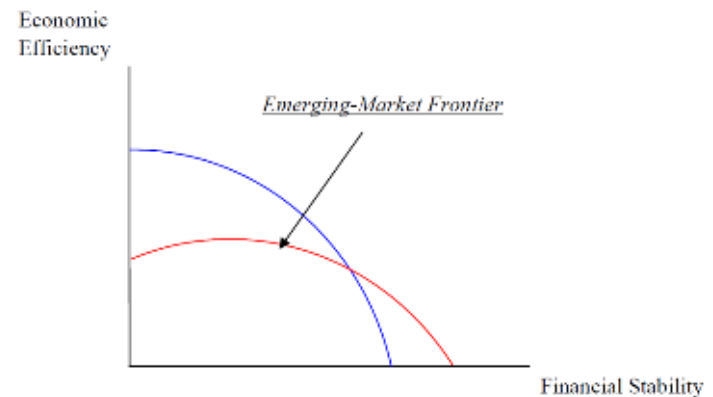
But it is possible to maintain / improve efficiency, while still allowing the financial system to innovate, evolve, and support the economic system. If the cost of this is a higher asset price volatility or capital flow volatility, the economy will choose a point along this continuum of trade-offs (figure 1a) and figure 1b)).

Figure 1a). Mature Financial System Efficiency and Stability Frontier



Source: Schinasi (2009)

Figure 1b). Emerging-Market Financial System Efficiency and Stability Frontier



Source: Schinasi (2009)

4. Systemic risk in the European financial market

Taking into account the European process of integration and the resulting broader and deeper systemic inter-linkages across the European Union, there are some transmission channels that can increase the systemic risk and the probability of financial instability episodes in the European Union. The major transmission channels in the European financial market are: a) integrated money markets and other financial markets; b) integrated financial market infrastructures (payment systems; securities clearing and settlement systems and other market infrastructures: trading systems, OTC markets); c) major banks in concentrated domestic markets; d) emergence of pan-European banking groups with systemic relevance in several member states

(contagion through intra-group linkages and exposures among network of counterparties); e) centralization of business functions in banking groups; f) emergence of large and complex financial institutions with systemic relevance in several member states; g) increased foreign ownership of financial institutions and assets (Schinasi and Teixeira, 2006).

Thus, there are some sources of systemic risk and macroeconomic aspects that trigger the transmission channels that require regulatory attention: a) crises are often preceded by real estate bubbles; b) sovereign defaults pose a significant risk for the financial system; c) mispricing of assets was a major problem in the crisis and was exacerbated by mark-to-market accounting; d) mismatches in currencies can create significant problems but can be alleviated by currency swaps; e) contagion is a key concern for policy makers (Franklin, et.al., 2011).

5. Existing Framework for Safeguarding Financial Stability and the Ongoing European Debate

The European Unions' institutional architecture for financial crisis management and resolution reflects three principles: *decentralization, segmentation, and cooperation*.

Regarding the *decentralization* principle, the crisis management that seeks financial stability is implemented at national level by the prudential supervisors, central banks, treasuries and deposit insurance schemes. The European Central Bank and the national central banks of the European System of Central Banks have responsibilities related to financial-stability, especially regarding the payment systems and national policies on financial stability and supervision. The lender-of-last-resort is also a national responsibility. In the euro area, national central banks provide emergency liquidity assistance (although they do not have any more monetary-policy (as opposed to monetary-operations) responsibilities).

Regarding the *segmentation* principle, financial stability functions are *segmented* across sectors. Prudential supervision is implemented by single (cross-sector) supervisory authorities and national central

banks and, in some cases, is shared between the central bank and the supervisor. The prudential framework followed by supervisors is largely harmonized by the European Union's legislation, but the European Union's directives that harmonize the European financial sector couldn't create a strong common regulatory and supervisory framework, which had lead to a differentiation in the degree of convergence and quality of financial supervision. Supervision of banking groups and financial conglomerates is conducted separately by each of the supervisors. Thus, the coordination between supervisors requires "consolidated" and "coordinated" supervisors that have limited powers to override decisions by individual authorities. In the euro area, banking supervision and emergency liquidity assistance are provided by the national authorities. Although there are some harmonized elements of deposit guarantee schemes and banks' reorganization and resolution, they are differently developed in each member state.

Regarding the *cooperation* principle, there are some *cooperation* structures that provide the necessary information between national responsibilities in order to safeguard the financial stability.

But achieving a balance between member sovereignty and financial stability in the European Union is very difficult in an integrated European financial system, because of the differences in integration (which was slower in the banking sector (retail banking) and higher in the market place (wholesale markets)).

So, are there any incentives to cooperate in order to safeguard the financial stability of the European Union? Table 1 illustrates the incentives to cooperate among national Treasuries in sharing the fiscal cost of a banking crisis depending on the systemic importance of banks both in the host and home country (María and Schinasi, 2008).

Table 1: Incentives to cooperate and the outcomes of sharing costs of resolution

	Host
Home	<i>Systemic</i>
<i>Systemic</i>	<ul style="list-style-type: none"> - Contagion important and incentives to cooperate - If contagion is an issue at the European Union level, then burden sharing might consider using the European Union's private or public funds.

	Host
Home	<i>Non-Systemic</i>
<i>Systemic</i>	<ul style="list-style-type: none"> - Home authorities better placed to know financial situation of bank. Host has less of an incentive to cooperate with home authorities. - Reputational issues to be considered when settling burden sharing conflicts.

	Host
Home	<i>Non-Systemic</i>
<i>Non-Systemic</i>	- Minimum conflict

	Host
Home	<i>Systemic</i>
<i>Non-Systemic</i>	<ul style="list-style-type: none"> - No incentives to cooperate but home authorities better placed to know financial situation of banking group - Burden sharing conflicts. Most likely, burden on host country.

Source: María and Schinasi (2008)

6. The European Union's supervisory structure

Regarding the European Union's supervisory structure proposals, they involve the following elements:

- *Macro-prudential supervision*: the European Systemic Risk Board, composed by

the European Union's central bank governors, with a mandate in assessing the systemic risks, in issuing financial-stability risk warnings and in recommending and monitoring the implementation of macro-prudential actions by the national supervisory authorities.

- *Micro-prudential supervision*: the European System of Financial Supervisors, composed by the European Banking Authority, the European Insurance Authority and the European Securities Authority, with a mandate in ensuring the consistency of national supervision and strengthening the oversight of cross-border entities through supervisory colleges and agreement on "a European single rule book applicable to all financial institutions in the single market".

- *Market reform* of over-the-counter derivatives, which involves standardization and trading on platforms/clearing houses to make them more robust and transparent.

- *Raise international standards*, which include "regulation of alternative investment managers, amendments to capital requirements for trading book exposures and highly complex re-securitizations; enhanced disclosure of complex securitization exposures; bank remuneration policies (Schinasi, 2009).

7. Lines of defense against systemic risks and events

Taking into account the national, regional (European Union) and global levels, there are four mechanisms that aim to prevent the problems from occurring and/or becoming systemic and to manage them when they are systemic:

private risk management: a) financial-risk management at business-line levels; b) enterprise risk management at firm level; c) management controls at executive and senior-management; d) corporate governance at Board level; d) self-regulation via development/promotion of best business practices.

market discipline: a) sound accounting and valuation procedures for properly recording and valuing financial transactions/statements; b) timely reporting and disclosure to allow investors to assess risks; c) well functioning markets for price discovery and resource and

risk allocation; d) legal infrastructure for enforcement of financial contracts

public sector oversight: a) transparent and enforceable legal infrastructure; b) effective market regulation and surveillance; c) effective oversight of financial institutions (banks most heavily regulated/supervised; investment banks subject to SEC regulations; insurance/reinsurance lightly regulated; others institutional investors lightly regulated; unregulated activities).

crisis management and resolution mechanisms: a) deposit insurance protection to prevent bank runs; b) appropriate liquidity provision by central bank to keep markets smoothly functioning; c) lender of last resort operations to prevent market dysfunctioning and illiquid but viable financial institutions from failing; d) capital injections (private preferred to public) to maintain orderly transitions for institutions that are not viable (Schinasi, 2009).

8. New supervisory arrangements at European Union level

The financial crisis has confirmed that there is no such thing as an optimal or a superior financial supervisory structure. The taken supervisory reforms of the last 20 years (from a "single regulator" model to a "regulatory architecture by objective") have emphasized that the regulatory and supervisory arrangements at national level provided inadequate cross-border dimensions of regulation and supervision. Within the European Union, the crisis has exposed high gaps in the allocation of supervisory tasks and the absence of rules for burden-sharing in case of crisis of a large European Union cross-border banking group. Therefore, cross-border banking, although provide high benefits, also implies great challenges for financial stability.

The European Union's authorities are facing the financial "trilemma": the trade-off between financial stability, national supervision and integrated financial markets. Only two of the three objectives may be achieved at the same time.

The current structure of European Union's cross-border supervision implies a misalignment in incentives between home-country supervisors and host-country supervisors when managing a weak financial

institution. Thus, host countries are exposed to the impact of a crisis of local entities of foreign banks without adequate instruments of defense, in regard of both locally incorporated subsidiaries and local branches (which do not even have a separate balance sheet and income statement, being included in the parent company's accounts). The vulnerability of host countries may be higher with regard to branches, since the host supervisor is unable to ascertain the real situation of the parent bank.

Home/host conflicts are increased by asymmetries in financial resources, the human capital of supervisors, the financial and legal infrastructure and the risk exposures. Risk exposure for the host country is higher when the foreign subsidiaries is large within the country, but relatively small or functionally unimportant for the parent bank and the home country, as is typically the case in small countries with a strong presence of foreign banks. The agency problem is increased by cross-border banking groups typically centralizing key corporate functions (liquidity, IT, large corporate lending).

In the situation of a crisis of a cross-border banking group, the incentives involve strong home-country bias by national supervisors, which determines a higher priority to national interests with little regard for repercussions in the host country.

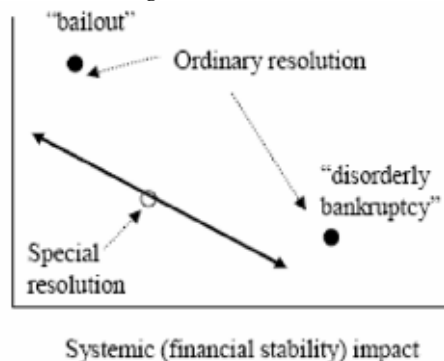
9. Recommendations

Based on the European approach, there can be made some recommendations, organized using two dimensions: "policy dimension" (macro-prudential, macroeconomic - fiscal and monetary -, and resolution policies); and "decision level" (national, European Union and global): 1) applying macro-prudential tools to prevent bubbles (national macro-prudential policy); 2) monitoring the national application of macro-prudential tools, exposure to cross-border banks and overall exposures of European banking system (European macro-prudential policy); 3) risk-weights for sovereign debt (global macro-prudential policy); 4) mark-to-market rules to avoid mispricing of assets (global macro-prudential policy); 5) eliminating tax-deductibility of debt (national monetary-fiscal policy); 6)

bankruptcy regime for countries (European monetary-fiscal policy); 7) standing foreign exchange swap facilities (global monetary-fiscal policy); 8) compatible bank resolution regimes including contingent capital (national resolution framework policy); 9) European-level deposit insurance and bank resolution framework (European resolution framework policy); 10) resolution framework on bank group level with ex ante burden-sharing agreements (global resolution framework policy) (CEPR, 2011).

Regarding the bank crisis resolution, there is a trade-off between the failure of a bank with negative consequences and the injection of public funds. One main reason for this is the lack of a special resolution procedure for banks that could stop the confidence crisis from spreading and that could limit the externalities. Figure 1 illustrates two possible outcomes together with a third possibility (which is superior to both), that is available when adequate resolution procedures for banks are in place before the crisis.

Figure 1 Fiscal cost and systemic impact in resolution regimes



Source: Čihák and Nier (2009)

An effective system that aims to manage banking crises must be able to keep depositors safe and to reassure counterparties that the economy is continuous and not deranged from its functions of systemic relevance.

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Financing the Administrative Capacity through European funds Case Study: Romania and Bulgaria

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Abstract

Joining the European Union relied in a significant manner on implementing a reform at the public administration level, a reform that encompassed substantial changes in both central and local administration, and also in the public service in general.

We further present the European funding opportunities for developing the administrative capacity of Romania and Bulgaria. The first part of the study is an overview of the pre-accession period, and afterwards the study presents the current financial period 2007-2013, but also analyzes the implementation status of the Operational Programmes that finance the administrative reform in both countries.

Key words: reform administration european funds Romania Bulgaria

J.E.L Clasification.: H83

Pre-accession administrative reform

In the pre-accession period, the main issues of concern for Romania and Bulgaria was modernizing the public service and improving the functioning of the ministries in order to achieve the same performances achieved at this level in any other EU Member State.

Therefore, part of the PHARE financing was oriented towards the reform of the central public administration, i.e. consolidating the administrative capacity of ministries and governmental agencies with responsibilities in public office, police or customs. The available financing supported projects that elaborated procedures and trained public servants, as well as

investments in software and hardware acquisitions.

Nevertheless, we should admit that the support received through Phare financing did not have a significant impact on the reform of the public administration. The Phare Programme failed in making a notable difference in the process of providing the citizens with better public services.

On the other hand, there are Member States that can show sustainability proofs for the projects that benefited from Phare financing. The level of technical and management expertise has risen, mainly due to Phare projects, but generally speaking, the administrative capacity at our national, regional and local level is still frail.

Even though it was designed with good intentions, the main reason why Phare did not have the expected results was that this type intervention came rather late, in 2002.

In 2006, the European Commission stated in the country report for Romania that the reform of the public administration had made some progress, underlining the important role the General Secretariat of the Romanian Government played in elaborating the strategic planning methodology for the public institutions, along with elaborating the evaluation methodology of the public policies impact.

Continuing the administrative reform in Romania

The reform did not end in 2006. The National Strategic Reference Framework (NSRF) 2007 – 2013 – the document that reflected the national priorities in achieving the objectives set by the Lisbon Strategy – presented the great importance Romania put on developing an efficient administrative capacity. One of the 5 thematic priorities of

the NSRF is precisely the development of the administrative capacity during the 7 years of the financial programming period.

The NSRF presents the fact that the **administrative capacity of Romania is insufficient**, statement echoed by the *underperforming management structures, unsatisfying abilities of the public servants, improper institutional cooperation, facts that lead to poor public services, thus endangering the socio-economic development*. Moreover, the document reflects the necessity to a continuous consolidation of European funds management to ensure the efficient spending of such grants with the aim of achieving social and economic well-being.

Romania needed to continue improving its public management, and, as a consequence, the Administrative Capacity Development Operational Programme (ACD OP) 2007 - 2013 was designed. ACD OP is exclusively financed from the European Social Fund.

The Programme is administered by the Management Authority for the ACD OP, a structure of the Administration Ministry.

The programme's beneficiaries are the central and local administration, the higher education institutions in partnership with public authorities and the NGO's with relevant activities for the administration, in partnership, as well, with public authorities.

The projects submitted in the 6 years of existence of ACD OP contribute the *"improvement of the policy formulating processes, public management, development of a modern, flexible and reactive public office system, along with improving the quality and efficiency standards in delivering the public services"*.

ACD OP Status

For the 2007-2013 period, the financial allocation from the European Social Fund (EFS) for the ACD OP is of 208 million euros, representing 1,08% of the total structural and cohesion funds allotted to Romania.

The major interest of the authorities in the administration reform processes is visible not only because of the considerable number of projects submitted, 1317, but also by the value of these projects, of more than 32% in relation to the 2007-2013 allotted budget.

The value for the approved projects is at 116,84% of the EU allocation.

Table 1: Submitted and approved ACD OP 2007 – 2013 projects status at 31st October 2012

Projects` status	
Submitted projects	1.371
EU contribution for the submitted projects	3.080.382.947 lei
Rejected projects	764
Projects in evaluation	38
Approved projects	420
EU contribution for approved projects	1.098.168.799 lei

Source: www.fonduri-ue.ro

The 208 million euros allotted budget is contracted by 110.49%.

Table 2: Signed contracts status with ACD OP 2007-2013 financing status

Signed contracts	
Contracts and financing decisions with the beneficiaries	404
EU contribution in contracts and financing decisions with the beneficiaries	1.038.418.383 lei

Source: www.fonduri-ue.ro

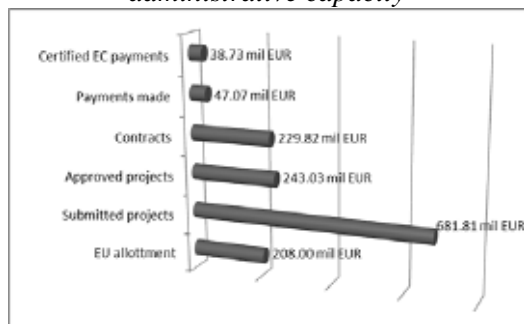
The submission of projects is at a rather good level, but the payments to the beneficiaries and the interim reimbursements from the European Commission are at an opposite one. The ACD OP absorption rate is 22,63%(as of 31st October 2012) of the financial allocation for 2007-2013 (pre-financing and reimbursements for the European Social Fund). Till the 31st October 2012, Romania claimed only 20,89% of the total sum and the EC certified only 18,62% of the sums in relation to the EU allotment(18,62% represents the real absorption rate).

*Table 3: ACD OP 2007-2013 Payments
status at 31st October 2012*

Internal payments status	
Prefinancing	24.238.005 lei
Reimbursements from EU contribution	188.426.606 lei
Total reimbursements	224.019.584 lei
EC payments status	
Reimbursement claims	43.450.187 euro
Interim reimbursements from the EC	38.739.983 euro

Source: www.fonduri-ue.ro

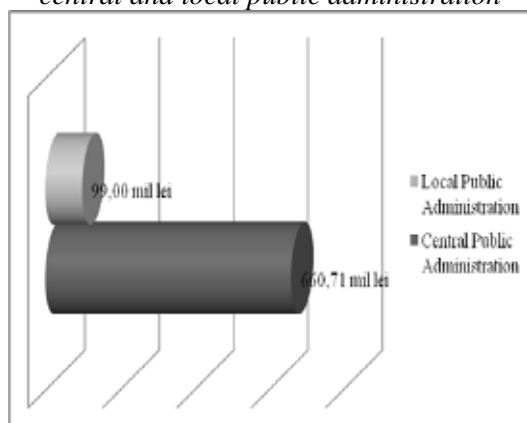
Figure 1: Allotted and spent sums from the ESF by Romania for developing the administrative capacity



Source: www.fonduri-ue.ro

According to a study published by the Public Policies Institute in November 2012, the most funds were accessed for modernizing the central public administration, in comparison with the local public administration that accessed only 15% of this sum.

Figure 2: Spent sums for developing the central and local public administration



Source: The Public Policies Institute

In the next chapter, we present in brief the financing sources for reforming the public administration in another Member State:

Bulgaria finances both the administrative and the judicial systems

For 2007-2013, Bulgaria prioritizes the development of the administrative capacity and the good governance, these being the key elements for economic growth and the creation of new workplaces.

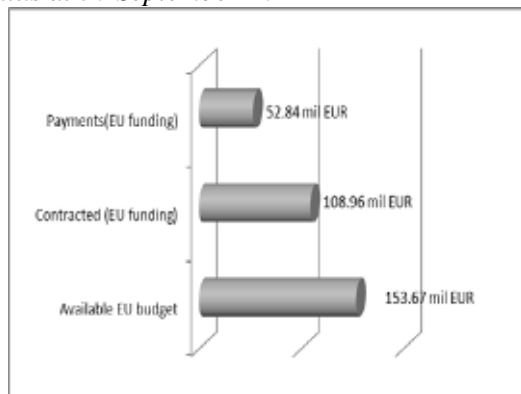
At the same time, accelerating the reforms of the state administration, by increasing transparency, will lead to the improvement of the citizen's and business environment's trust. Therefore, the Bulgarian authorities have included in the NSRF for 2007-2013 a series of activities strictly needed in order to develop an efficient state administration. For example: organizing the administrative structures, a better coordination between and within the administrative bodies, involving all stakeholders in the policies formulating process, increasing transparency in public administration, the development of human resources and ensuring efficient services for the citizens and the business environment.

The European funds destined to finance the aforementioned activities are granted from the European Social Fund through the Administrative Capacity Operational Programme 2007 - 2013. The Managing Authority for the programme is a structure of the Ministry for Finance.

The objectives of the Bulgarian programme are the equitable and open access to the services for the citizens and the enterprises and also to promote partnerships with the business environment, especially for designing policies and projects' development. Moreover, Bulgaria emphasizes on training the civil servants and the magistrates, facilitating best practices and experience exchanges, and also implementing IT&C systems within state institutions, therefore improving the services provided by state institutions through e-governance and e-justice systems.

The allotted budget from European funds to develop the administrative capacity in Bulgaria sums up to 2,30% of the structural and cohesion funds allocated to this country.

Figure 3: AC OP 2007-2013 Payments status at 30 September 2012



Information source:
<http://www.eufunds.bg/en/page/31>

As you can see in Figure 3, Bulgaria managed to sign contracts for 70,91% from the EU 2007-2013 allotment and to attract by the end of September 2012 34,39% of the EU allotment destined to improve the administrative capacity 2007-2013.

The beneficiaries of the programme are the central, regional and local authorities, judicial authorities, socio-economic partners and the NGOs.

Romania and Bulgaria are the only two Member States that designed a special OP for developing the administrative capacity.

The thematic objectives for the next financial period include the improvement of the institutional capacity and the consolidation of the public administration efficiency. The ex-ante conditions for accessing the European funds in the next 7 years is the existence of a strategy to improve the administrative efficiency of the Member States, including and reform of the administration, proving that the administrative reform will continue also in 2014-2020.

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The Principle of Contradiction in Civil Trials - Communication, Persuasion, Manipulation

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Abstract

I have chosen this topic because it is an interesting one and because it has not been yet approached, as far as we know. I make reference to the fact that this topic rises, although the majority is not directly involved within the activity of the Courts of justice; this topic has a greater impact on those who are involved within the law practice- legal advisers, lawyers, judges, prosecutors.

The chosen topic is an interdisciplinary analysis of the contradiction processes at the Court of justice. Our analysis aims at aspects of civil procedural law, criminal procedural law, communication law and the right to communication, psychology and legal psychology; through this scientific event we will demonstrate the interdependence of these notions. We will make a presentation of the concepts of process, the procedure of the development of a trial; then we will relate these notions to the notions of communication, persuasion and manipulation.

Key words: trial, contradiction, communication, persuasion, manipulation

J.E.L. classification: K 41

1. Introduction

Through this paper, we will discuss and develop a topic which has never been approached until presently, from this point of view. The novelty and the importance of the proposed topic have raised the interest for practitioners.

The topic of the article has an interdisciplinary character, as it approaches apparently different notions, which, in reality, are much related to each other. We will make an interdisciplinary analysis of the contradiction processes which aims to

analyze issues of procedural, and communication law, the right to communication, and aspects of psychology and judiciary psychology.

We will also analyze the civil trial, the criminal process, the communication techniques used within the public discourse, the manifestation of information transmission skills and of persuasion skills, used in order to persuade the Court of what we call "your right" or "your justice".

2. Romanian Law and Legal Proceedings

By approaching this topic from the viewpoint of the Romanian law, we will discuss about the procedure within the civil and the criminal trials.

The civil trial is the notice of the Court of justice by a person who states that one of his/her civil rights was violated (this person is known as the complainer) and the prosecution of this notice until the pronouncement of a Court decision.

The role of parties within civil processes is essential because they invest a court to resolve claims. Without parties and court we cannot speak about the existence of a civil trial. The position of these parties in common law procedure is contradictory.

In principle, the applicant is the person who formulates the action, chooses a procedural framework of the action, respectively, the contradictory parties, and the legal basis of the material and procedural law. The complainer chooses the court to which he/she addresses, unless the law provides otherwise, in the sense that he/she is imposed certain courts in relation to the material, territorial and personal competence of the defendant.

In support of his/her action and proof of the facts noticed to the instance, both the complainer and the defendant or any other party who intervened in the process on its

own initiative or at the initiative of the litigant parties, can invoke the exceptions and propose evidence or proof. The exceptions and, sometimes under the principle of the active role, the proof can be discussed and managed from the initiative of the Court.

In order to ensure the contradiction within the civil trial, the court has the obligation to bring all parties in discussion, under all *de facto* and *de jure* aspects on the basis of which the dispute will be resolved. Failure to observe this principle, which implicitly ensures the observance of the right to defense, is sanctioned by the nullity of the decision. As a result, both exceptions and evidence must be contradictorily discussed before the Court by the litigant parties and only afterwards the Court will take a decision regarding its administration.

Regarding the criminal trial, and here we have parties who are in contradictory judgment, in the sense that a person who feels that his/her rights are injured by a criminal act, sometimes has the discretion to formulate a criminal complaint, previous to the beginning of the criminal research - phase - or, for crimes which are strictly regulated by the law, the criminal trial can be promoted as a result of the notice "from office" of the empowered authorities.

Both in the civil and criminal trials, the statements and the requests to the Court must be proven, whether evidence or exceptions. In addition, evidence contradiction is discussed also in relation to the representative of the Public Ministry who has the obligation to supervise the criminal investigation, to directly participate to certain acts which are made during the criminal research phase and to participate in judgment meetings on criminal issues. In cases strictly determined by law, the prosecutor also participates to the trial of certain civil issues.

From our point of view, there is not too much difference between the influence of the three notions of communication, persuasion and manipulation of civil causes compared to the criminal ones. There is, however, a certain criminal "charm" that attracts the attention in particular, especially of the students during the years of study, and this charm can sometimes make a certain difference of the influence of the two types of processes.

3. European Law and Proceedings Before the ECHR

At the European level, we will analyze, in particular, the court procedure before the ECHR. The European Court of Human Rights (ECHR) has its origins in the European Convention of Human Rights in 1950, signed at Rome on 4th November, and entered into force in September 1953. The Convention represented the first collective effort in the direction of imposing and enforcing the rights stated by the Universal Convention. Initially, the Court has worked in tandem with the European Commission, but on the extent of the development of the activity between the years 1980-1990, the activity of the Court was not dependent on the Commission anymore.

The right to appeal to the European Court of Human Rights - the ECHR - is guaranteed by the Article 20 of the Romanian Constitution, according to which the constitutional provisions on the rights and freedoms of citizens will be interpreted and applied in accordance with the Universal Declaration of Human Rights, the covenants and other treaties to which Romania is a party; in the case of an inconsistency between these laws and the internal laws, the international regulations take precedence, unless the internal laws contain more favorable provisions. C.E.D.O. is not a court of control over national courts, as it cannot repeal or amend their decisions.

The individual applications may be addressed to the Court, according to the article 34 of the Convention, by any natural person, non-governmental organizations, or by any group of persons.

The procedure of a complaint addressed to C.E.D.O. has two distinct phases, namely:

The first phase when the request is examined in order to establish its admissibility or inadmissibility. If it is found inadmissible, the complaint will not be registered in order to be solved by the Court. If the complaint is found admissible, it goes to the next phase.

The second phase, in which the complaint is registered; it also includes establishing the facts, an attempt to an amiable resolution, and if this attempt fails, there will be made a report by means of which the Court will be

noticed; the latter will then pronounce a decision.

From the moment when the application was declared admissible, one of the official languages of the Court must be used, if the president does not authorize the further use of the language in which the report was done; in this case, the party who has requested the authorization has to provide for the interpretation or the translation in English or French of the spoken or written observations, and to assume the costs which result from it.

The procedure before of ECHR is contradictory and public.

The application must be completed accurately. If there are more complainers, the required information will be given for each of them, using, if necessary, a separate document. If the party designates a representative, it must be a legal adviser or lawyer, a person able to profess into one of the State parties to the Convention and to be a resident in the territory of one of these states, or to be another person agreed by the Court.

The facts constituting the grounds of the complaint must be explained clearly, concisely and in detail, aiming at the description of the events in the order in which they have occurred, mentioning the accurate data. When the facts refer to several distinct applications, each application must be presented separately. The provisions of the Convention that have been violated have to be shown as precisely as possible, or when certain encroachments in the exercise of the rights they warrant are authorized by the Convention, one should explain the reason for which it is considered that the respective encroachment was not authorized.

All resolutions and documents attached to the application must be submitted in copies; originals should not be submitted because they will not be returned. The Court cannot retain any anonymous request, or a request which is basically the same with a previous one examined by the Court, or a request which is already subject to another international court of investigation or of regulation, and if it does not contain new facts.

If the application is not filled with all necessary data, it is possible that the ECHR does not register and consider the respective request. The Court may ask the parties to

provide for any information relating to facts, documents or to other items that it considers relevant, and to invite them to provide for complementary observations in writing.

Even before deciding on admissibility, the Chamber may decide, at the request of either party, either *ex officio*, getting an audience, the parties being invited to pronounce on the main raised issues. Once it has been decided to retain an individual petition, the Court may invite the parties to provide for other items of evidence, as well as written observations. These written observations or documents can be forwarded only within the period fixed by the President of the Chamber or by the speaker-judge, and in the case when this deadline is not met, they will not be added to the file, with the exception of the case where there is a decision contrary to that of the President of the Chamber.

4. Communication, Persuasions and Manipulation

Returning to our topic, we will analyze, as I said, through the concepts of communication, persuasions and manipulation the principle of contradiction within the Court of judgment.

We can state that the development of a process represents a real art of displaying the proof in certain moments of the judgment, in relation to what it is requested in the application for the judgment call or to what it is stated during the observance formulated within the case. Even if the Romanian judicial system is not founded on the customary law, where the rhetoric and the means of verbal presentation of *de facto* situations and evidence determine the solutions that the jurymen establish, within our judicial system, the processes are judged on the basis of certain "tactics" that the parts, and in greater measure, the counselors for defense prepare them in order to convince the court about "their truth".

Here intervenes the influence of the three notions, and the part which controls them the best has the most chances for winning.

Communication means information, notice, news, report, relationship, connection; these would be the synonyms which have been offered by the explicative dictionary for the notion of communication. Although it

seems simple, the sense of communication is far more complex and full of meaning.

Communication has a lot of meanings, a lot of goals and a lot of methods of expression and manifestation. There is a concrete definition of communication, but at least it can be said that communication is the intentional transmission of data, of information.

The art to communicate is not a natural process or an ability that we are born with. We learn to communicate. This is the reason why we have to study what we learn, in order to use our knowledge more effectively. Any communication process involves creation and exchange of meanings. These meanings are represented by "signs" and "codes". It seems that people have a real need to "read" the meaning of all human actions. Observing and understanding this process can make us more aware about what happens when we communicate.

By persuasion we understand the action of convincing someone to do or to choose something, in one way or another.

The person who takes a decision often does it on the basis of other types of reasons than the logical or logical-concrete ones, being convinced of the apparent "need" or "importance" of the respective element or action.

By manipulation, we understand the action of influencing public opinion by specific means, so that the manipulated people have the impression that they act under their own ideas and interests. In reality, however, they overtake an opinion (reason, idea, evaluation etc.) that does not belong to them, but which has been induced by different means.

Manipulation is a natural human tendency (the interpersonal relationships are mostly win-loss relationships), a tendency which transfers extremely easily on the public plan, under the conditions in which the system of values that leads the social behavior has become relative.

The obsession of obtaining results at any costs also leads to questionable visions from a moral point of view (visions that nobody sanctions) at the level of the development of theories (we may exemplify by means of the

neurological-linguistic programming, which is increasingly fashionable lately, including public communication).

Practitioners can form (if they aim at it) an instinct of fairness but few are those who have the required maturity, responsibility and verticality. Sometimes values and principles are only decoratively accepted.

Manipulation also has the name of "symbolic violence", because the so-called violence occurs in an abstract way, ideally, at the psychological level, in order to determine someone to believe or to do something. Thus, knowing the de facto situation, as well as other aspects or features, we can be determined to believe what a person or a group of people proposed themselves to make us believe.

If we were asked who influenced us, we would convincingly reply: "nobody". This is the principle which manipulation is based on: our determination of not letting ourselves "tricked", of believing what we want to believe. Unfortunately, however, manipulation brings us in the situation in which we want what others have decided that it must exist, so they achieve their goals.

Thus, after we approach the topic and the established notions, and after we analyze the papers which will be presented by the participants, we will be able to achieve our purpose along with the choice of this topic.

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The Intention of the Legislator and the Intention of the Parties in Contractual Matters

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Abstract

The innovative character of the proposed topic aims at the analysis of several atypical conventions, the so-called "unnamed" contracts, and the contracts "without law", notion taken from the French law.

In the field of contracts, starting from the general theory of law and the general theory of obligations and continuing with the contractual liability in various branches of law, the legislation did not experience new normative regulations, but the evolution of juridical practice has imposed various types of atypical, unnamed contracts.

This topic has an interdisciplinary character as it approaches the notion of "contract" at the level of several branches of law, by means of mixing notions of law theory and history with notions of commercial, administrative, civil and labor law.

Key words: law, intention, contractual matter

J.E.L. classification: K 12

1. Introduction

We know about contracts and about civil contracts in particular that each of them has its specific traits, although the general theory of obligations has a series of general rules which establish the domain of contracts. We also know that the laws which regulate each contract are suppliant rules, which allow to Contracting Parties to establish together, by common agreements, the terms within the respective contracts, according to their own will. When the legislator interposes, it happens only for qualifying the type and the nature of the contract and for supplying the agreement of parties and for filling in the "gaps" within the contractual terms. This

intervention is very useful: it dispenses the parties to thoroughly decide their agreement.

The principle of contractual freedom offers the possibility and the liberty of the contractual parties to conclude whatever convention they want; they are also able to establish, by common agreements, the conclusion, the performance, the cancellation and the modification of the contract. Nevertheless the contractual freedom knows several limits established by the legislator in order to protect the parties and the third person. In this sense, the legislator has established several imperative norms which parties have to compulsorily respect.

2. Contract, law and the will of the parties

The autonomy of intention gave the possibility of the appearance of the unnamed contracts, as a special category of contracts, which are not regulated by the legislator and which are not included within the category of the usual contracts used within daily practice. The doctrine has defined the unnamed contracts as conventions concluded between the parties, which are not defined by means of special rules. At the end of this type of contract, parties can combine some specific elements of different named contracts or they can establish new elements, independent of any named contract. In these conditions, an unnamed contract will be interpreted according to the common will of the parties; when the will cannot be established, the general rules of contracts will regulate them.

A different category of contracts, that has been very little discussed within the doctrine, are the contracts outside the law, known from the French law as "*sans loi*" contracts. About these contracts, it has been thought in the sense that the parties, through their own will, have the possibility to get the contract out of the incidence of the law, and of any system of state law, and to subordinate the "legal"

relation made by them to the equity or to the universal commercial legislation.

According to another concept, that admits the subordination of the will in order to contract only to the law, the parties have the possibility to choose the suitable legal norm in order to outline the contract type and its stipulations. So, it can be stated that during the contractual activity, the autonomy of the will of contractual parts is a derived and not a primordial one, being devoted by the legal order of a determinate state.

The contract outside the law represents the result of an absolute contractual liberty. This type of contract isn't practically governed by any national legislation of positive law. In the situation of the contract without law, the will of the parties doesn't have any limits; the equivocal appears due to the lack of any original legal value; the derivate legal value is protected by the free manifestation of the will of the contractual parties.

In these conditions, the contract outside the law appears as a product of contractual autocracy that gives the possibility to the parties to create their own law, their own legal norms. At least, this type of contract may be submitted to a set of rules in which there can be included the international commercial uses known in the commercial matter as "*lex mercatoria*" which, in reality, does not exist.

3. Conclusions

As a consequence of these "considerations", some doctrinarians appreciated that, from a legal point of view, it is impossible to conceive a contract detached of any positive law; this will represent a un-law hypothesis.

Once with the appearances of the Convention of Rome, in 1980, on the law applicable to contractual obligations, that standardizes the rules of law conflicts applicable to contracts, new points of view appeared within the doctrine. Thus, it was considered that is possible to meet within the legal practice a contract detached of any positive law.

The convention also concerns the harmonization of the rules of law conflicts in the matter of obligations, family law and the conditions of matrimonial property,

successions and testaments. The main objective of these measures is to assure that a given legal situation is judged according to the material law of the same country, no matter the legal court and the EU member state where the decision is pronounced, and thus it participates at the creation of an authentic European space of justice.

Through the Regulation no. 864/2007, also called "Rome II", the Convention of Rome was changed and a normative instrument was created, an instrument on the conflict of laws for non-contractual obligations. Through this new normative act, it was given the possibility to apply several legal norms/regulations of certain de facto situations without the existence of the identity between the nationality of the norm and that of the de facto situation.

Until the emergence of the Regulation no. 864/2007, we could sustain that we met the unnamed contracts in daily legal relations, and they are governed by norms of positive law; but regarding the contracts without any law, these cannot be seen and applied in practice, as they represent only an abstract creation on which we can make a series of analysis and speculations in contractual matter. Once with the appearance of this new normative instrument, we may give other interpretations to the act of justice, in the sense of the legal regulation, in an accurate way of the potentially litigious situations.

The analysis of this category of contracts can confirm once again, if it were necessary, the importance of the legal regulations in contractual matter, in order to prevent the anarchy within the legal relations between the contractual parties and towards third persons. This means of regulation comes to complete the European legislation in order to fill in those legislative "gaps" that we talk about at the beginning of this paper.

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Property Rights and Business: Institutional Constraints for Romania and EU Countries

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Abstract

In relation to the macroeconomic paradigm of the Washington Consensus, the economics of transition disregarded, for a long period of time, both the essential significance of the institutional perspective and the preliminary need for institutional reforms. At least this is the case of several countries from Central and Eastern Europe, where the low performances of the micro and macroeconomic management are the consequences of institutional deficiencies, namely the expression of an institutional fragility. By acknowledging this fact, we are offered the possibility of interpreting the failure of economic reforms on the grounds of a vicious circle created by the institutional deficits. In this respect, the present study includes an empirical analysis dedicated to the institution of property rights and business environment, which is essentially created on the grounds of this institutional perspective.

Key words: Property Rights, Entrepreneurship, Institutions, Business Environment.

JEL Classification: D02, D23, K11, L26

1. Introduction

In the contemporary economy, the institution of property rights and entrepreneurship tend even more and more to become a subject of debate and "constructivist" interest for the modern approaches in the economic policy sphere. For instance, the desideratum for entrepreneurship encouragement that recently became almost definitory for the European economic policy agenda, especially in the actual context of economic crisis and need for economic recovery in the European Union, is well known and explicitly assumed

on every occasion. In this sense, the following can be mentioned: The Action Programme for Reducing Administrative Burdens in the European Union [1], a programme aimed at reducing the administrative burdens of businesses with approx. 25%; Smart Regulation in the European Union [2], on simplifying European legislation and reducing administrative burdens, a project meant to increase the quality of regulatory activity that would result in reducing the financial burden supported by EU firms in terms of legislative compliance; Report from the Commission to the Council and the European Parliament on minimizing the regulatory burden for SMEs and adapting EU regulation to the needs of micro-enterprises [3]; as well as various other projects, programmes and national strategies, such as The Governmental Strategy for Improving and Developing the Business Environment [4], which was based on the analysis of the Romanian business environment carried out by *Doing Business*.

Despite this "offer" (of public policies) which is generous, at least in intentions, in relation to the needs of the business environment, their sectorial implementation oftenly remained only a project, or their economic effects did not match the expected results.

2. Methodological background in the institutional analysis of the business environment

This empirical approach is conceived with the aim of analyzing the institutional quality of the business environment from the EU member states. Therefore, in order to better observe, both statically and dynamically, the disparities in the institutional quality of the business environment, I had analyzed the situation of ten countries, divided into two groups that are clearly distinguishable in

terms of institutional system and degree of economic development: the first group is comprised of five Central and Eastern European countries, while the second one contains five developed countries from the Western Europe. The Central and Eastern European group (CEE) includes Bulgaria, Estonia, Hungary, Poland and Romania, ex-socialist countries whose economies passed (or are still passing, at the level of institutional changes) through a transition process, all being relatively new EU members, while the Western European group (WE) is formed of France, Germany, Italy, Spain and United Kingdom – old EU members which are among the most developed European countries.

Moreover, in order to obtain a comprehensive image of the institutional quality of the business environment, the period of analysis includes seven years, from 2005 to 2011. On one hand, this interval was chosen taking into consideration the availability of the data and indicators included in this analysis and, on the other hand, it resulted from the need of highlighting the eventual adjustments between the pre and post-EU accession stage, at least in the case of Romania.

The institutional quality of the business environment was illustrated by calculating the Institutional Quality of the Business Environment (IQBE) indicator – an aggregate indicator that includes eight partial areas of analysis: 1) Protection of property rights; 2) Ease of doing business; 3) Contract enforcement; 4) Payment of taxes; 5) Regulatory burden; 6) Obtaining licences; 7) Corruption; 8) Institutional constraints regarding trade and investment.

But, even though the entire analysis is a much broader one, the present study aims specifically at presenting only the results that were obtained in the case of the first partial area, namely Protection of property rights. Therefore, this paper is dedicated to the institution of property rights, especially to determining the degree in which the institutional arrangement existing in each country guarantees the protection of private property.

Within the quantitative analysis, this area is going to be evaluated, for every year, by a distinctive coefficient whose value ranges between 0 and 10. All the values are based on

businessmen responses to the question “*In your country, property rights, including over financial assets are poorly defined and not protected by law (=1) or are clearly defined and well protected by law (=7)*” formulated within the *Executive Opinion Survey* conducted by *World Economic Forum*. A score of 10 points indicates a clear defining and a perfect protection of property rights, while the level 0 corresponds to the absence of any rules regarding property rights. For the period 2006-2009, the data was obtained from *Economic Freedom of the World Annual Report* [11], while the scores for 2010 and 2011 were calculated by processing the data from *The Global Competitiveness Report* [12]. As the initial values from *The Global Competitiveness Report* are measured on a different scale, they were transformed on a 0-10 scale using the following formula: $10 \times \frac{X - \min}{\max - \min}$, where X stands for the value that is going to be transformed, \min and \max being the extreme values of the initial scale (1 and 7 in this case of *The Global Competitiveness Report*).

Moreover, the average of each group is going to be calculated for every area and in every year, allowing us to draw comparisons between the two groups (CEE and WE). Calculating these averages will also offer the possibility of graphically illustrating both the evolutions recorded by each of the two groups over the entire period of time and the discrepancy that exists between Romania and these two groups.

3. Property rights as a fundamental institutional variable

The existence and the recognition of private property represent the fundamental premise of the market economy, in general. As claimed by Krkoska and Robeck [5], “the protection of property rights [...] is one of the key requirements for a proper functioning of a market economy and as such is one of the main indicators used to assess the quality of a country’s institutions”. Therefore, the institutional quality of the business environment cannot be conceived apart from the problem of property rights protection.

Even though property rights are constitutionally protected or guaranteed, their manifestation faces many “restrictions” or

difficulties in everyday life. Only when property rights are judiciously defined and efficiently protected, people will be able to really appreciate the economic values – especially the opportunity costs, according to Commander and Nikoloski [6] – being thus encouraged to invest and to take entrepreneurial risks. As stated by Sobel [7], if these solid institutions do not exist, it is more likely that the same individuals will try to manipulate the political or legislative process, in order to obtain a greater share of the already existing wealth, in an unproductive manner (for instance, by lobbying).

An institutional arrangement which insures the protection of private property will facilitate contract enforcement and commercial activities, improving firms' ability to make decisions that enhance productivity and economic performance [8].

However, in the real world the private property is not (and, in fact, it cannot be) perfectly protected and the property rights are often infringed. In this respect, the best example are the institutional constraints that arise from the political power sphere. As showed by Pyle and College [9], "state actors often undermine firms' property rights [...] directly – demanding illicit payments, or indirectly, by making capricious and nontransparent modifications to the formal economic institutions". Such a context implies the emergence of transaction costs, those meant, for instance, to establish and maintain an exclusive control over a certain property, and who manifest whether the property is traded or not. Thus, transaction costs' evolution will be in direct correspondence with the institutional deficiencies that exist in the protection of property rights.

When the institutions are not as strong as it will be needed in order to universally guarantee the enforcement of property rights, the entrepreneurial success will rather exploit political and not economical criteria [10]. Therefore, the negative consequences will affect not only the entrepreneurial activity and the overall economic performance, but also the informal and cultural institutions, having, in the latter case, a negative impact on a much longer term.

Regarding this aspect of property rights protection, the recent (post-revolutionary)

history of Romania offers a multitude of instructive examples, which confirm the perpetuation of severe institutional deficiencies. For instance, the legislative initiatives meant to regulate the problem of the properties that were abusively confiscated during the communist regime were included quite lately among the concerns of the Romanian legislative power. Although it is obvious that the restoration of property rights cannot be possible but through the restoration of the properties confiscated since 1945, this law only solves the problem of the former owners who became state's tenants in their own houses. In the rest of cases, the state was offering compensations calculated on the basis of an arbitrarily set algorithm that could not exceed a certain amount. Due to this law, the tenants become the artificial owners of an abusively confiscated house, a fact which leads to even greater problems in accomplishing the essential objective, that of restoring property rights. Voluntarily violating an essential principle of civil law according to which the property rights are imprescriptible, the authorities created a legislation that is totally inconsistent with the legitimacy and the ethics of private property.

The decisions adopted in the mid-'90s were to generate, a decade later, serious problems in terms of property restitution. In this sense, the disputes solved only after many years and with drastic penalties by the European Court of Human Rights (ECtHR) are an eloquent example. Until the end of 2011 or, in other words, 10 years after the law on nationalized property restitution was published, only 11,5% of the requests to recover the properties abusively confiscated by communists were solved, more than a half of the requests being rejected or unsolved.

The fact that it is impossible for non-residents to own lands in Romania represents another illustrative example. According to the Law no. 54/1998, art. 3, "foreign and stateless citizens cannot obtain ownership for land" and neither the foreign legal person can obtain land in Romania through juridical acts between living persons or for cause of death, which means that foreigners need to set up companies in Romania in order to be allowed to purchase land. The Law no. 312/2005 amends this restriction, so that a non-resident which is at the same time an EU citizen can acquire ownership over land for

residences/establishments 5 years after Romania's accession to EU (Art. 4) and can acquire ownership over agricultural land and forests 7 years after Romania's accession to EU (Art. 5).

Therefore, in this institutional plan of property protection, EU accession imposed certain legislative adjustments, even if, *de facto*, they are not confirmed by economic or cultural evolutions in terms of property.

4. Protection of property rights: a comparative analysis for Romania and other EU countries

The values that reflect the institutional quality of the property rights area are presented, according to the time interval that was taken into consideration, in the following table:

Table 1. Protection of property rights, 2005-2011

Protection of property rights		2005	2006	2007	2008	2009	2010	2011
CEE Countries	Bulgaria	4,58	4,69	4,86	4,07	3,72	3,83	4,17
	Estonia	7,68	7,74	7,95	7,66	7,22	7,16	7,00
	Hungary	7,44	7,40	7,07	6,04	5,59	5,50	4,67
	Poland	4,58	5,01	4,93	5,42	5,98	5,83	5,67
	Romania	5,12	5,22	5,28	5,16	5,29	4,83	4,83
CEE Average		5,88	6,01	6,02	5,67	5,56	5,43	5,27
WE Countries	France	8,47	8,43	8,46	8,01	8,06	8,16	7,83
	Germany	9,61	9,45	9,18	8,78	8,54	7,83	8,00
	Italy	6,79	6,71	6,33	5,69	5,50	5,33	5,50
	Spain	7,69	7,57	7,29	6,91	6,54	6,50	6,33
	United Kingdom	9,09	8,43	7,49	7,65	7,92	8,33	8,67
WE Average		8,33	8,12	7,75	7,41	7,31	7,23	7,27

Sources: *Economic Freedom of the World Annual Report* [11]; *The Global Competitiveness Report* [12] and author's calculations.

Over the entire period of analysis, the score obtained by Romania is lower than the CEE average, Romania's deviation from the CEE average being, in 2011, of 0,44 points. Only Estonia is above the average over the entire period of analysis, recording, in each of all seven years, the highest score in the CEE group. The discrepancy between Romania and Estonia is, on average, approx. 2,4 points.

Compared to Bulgaria, Romania recorded higher values during the entire period, the

average difference being approx. 0,7 points. In fact, Bulgaria ranks the last in the CEE group in each of the seven years, obtaining the same score as Poland only in 2007. Moreover, since 2008, Poland also surpasses Romania, our country obtaining the second smallest score from the CEE group between 2008 and 2010.

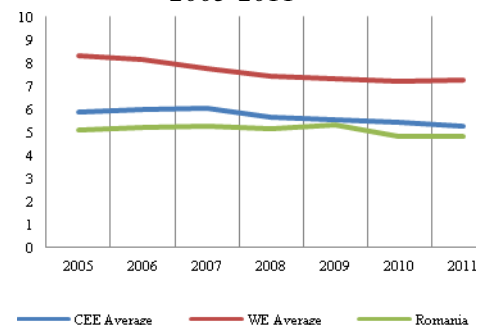
The WE average significantly exceeds the values registered by Romania in each of the seven years, the difference being higher than 2 points in every year. Between 2005-2008 and in 2011, all the values obtained by the WE countries are higher than the CEE average, Italy being the only country whose score does not exceed the CEE average in 2009 and 2010.

Between 2005 and 2009, Germany ranks the first among the WE countries and is the country that provides the best protection of property rights of all countries taken into consideration within this study. In 2010 and 2011, its place is taken by the United Kingdom, which obtains in 2011 a score of 8,67 points. At the opposite end stands Italy, whose score is the lowest among the WE countries during the entire 7-years period.

Overall, we can infer the fact that the values observed in case of Estonia are rather closer to the WE average, its scores being considerably higher than those obtained by the rest of the CEE countries. At the same time, the discrepancy between Italy and other countries comprising the WE group is a major one, Italy's values being rather closer to the CEE average.

In this regard, the following diagram illustrates the evolution of each group of countries as well as Romania's position, in order to highlight the performance gaps.

Figure 1. Protection of property rights, 2005-2011



Source: author's construction.

It can be noticed that, with the exception of the interval between 2007 and 2008 when it shows a slight decrease, the CEE average has a relatively linear evolution. At the same time, the WE average manifests a downward trend between 2005 and 2008, and a constant evolution afterward. However, there is an obvious gap between the CEE and WE groups, the average difference being of approx. 2 points.

Romania has a constant evolution between 2005 and 2008, reaching its highest value in 2009. We can also observe a slight decrease between 2009 and 2010, Romania reaching the lowest value recorded over the entire time interval – a value which remained constant until the end of the analysed period. We shall note, however, the significant difference between the averages of CEE and WE groups, as well as the discrepancy between Romania and WE average which is even a greater one.

5. Conclusions

In this analysis of the property rights institution, beyond the normative aspects imposed by the principles of the rule of law, it is easy to understand that the European statal model has gradually institutionalized the “socialization” of private property in favour of the public sector. During the last three decades, the institutional arrangement of the European welfare (redistributive) state materialized in budgetary and fiscal expansion, which continuously led to public debts and deficits. Consequently, the modest evolutions achieved in the institutional quality of the business environment need to be explained by looking at some more general patterns of the European institutional arrangement.

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Importance of the European Union in the International Trade in Goods

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Abstract

One of the areas on which the global financial and economic crisis has strongly left its mark is the international trade in goods. In this context, the participation of the European Union in the international trade in the recent years has deeply declined and the prospects for the trade recovery of this group are not favorable. The maintenance of some risk factors in the world economy is the basis of the pessimistic forecasts.

This paper reflects the evolution of the export and import flows of the European Union since the years leading up to the present economic crisis as well as the factors that contributed to the decrease of the EU trade competitiveness.

Key words: European Union exports, European Union imports, sovereign debt crisis, austerity measures.

J.E.L. classification: F15, F31

1. Introduction

A consequence of the current economic crisis is the changing of the economic power relations between the states of the world. The affirmation of some emerging countries that have proven to be very skillful in fighting the crisis and the decline of others are consequences of the globalized world in which we live. The oscillations of the increases and decreases in the global demand, the intensifying of the protectionist measures adopted by some states, the estimates of the rising prices of the oil and food increase the degree of risk and uncertainty in the world economy [1].

Faced with the economic and social problems that seem to deepen from one period to another, the economy and therefore the trade of the European Union slow down, losing ground to the Asian competitors in particular. The austerity measures adopted by the majority of the Member States, which generated extensive social tensions, also reduce the purchasing power of the population and bring damage to the investment climate in the region, weakening the chances of recovery in the European trade.

Just because of maintaining these risks, the forecasts contained in the spring report of the European Commission ("European Economic Forecast"), provided to the public in April 2012, were adjusted downward to the forecasts in 2011. Thus, in the EU-27, it is projected a GDP increase of 0.0% in 2012 (compared with an increase of 0.6% mentioned in the autumn report in 2011). In the Euro zone, the GDP volume value will decrease by 0.6% in 2012, while at the level of the emerging states such as Poland, for example, the increase will be of 2.7% in 2012 (the highest increase in EU-27). Therefore, the same two-speed recovery, present in the world economy, is felt in Europe as well [2].

2. The place of the EU in the international trade in goods. The EU share reduction in the world exports

The global economic crisis perpetuated in the EU economy since 2008, the aggravated problem of the sovereign debt in the Euro zone countries, in the current period, as well as the rising unemployment led to the low participation of the EU countries in the international trade in goods. Thus, during

2004-2011, the share of this group in the world exports fell from 19.0% to about 15%. At the same time, its share in the world imports declined from 19.2% to 16%.

The most important factors leading to decreased export competitiveness of the European Union are:

- The protectionist measures applied widely by the world states and especially by the main EU trade partners: USA, China, Brazil and the Russian Federation. The tariff barriers as well as the non-tariff barriers applied to the international trade have influenced the external competitiveness of the EU exports. The monitoring reports of the International Trade Policy prepared by the World Trade Organization (WTO) show that the extra exports are hampered by the protectionist measures imposed by some countries in response to the current financial and economic crisis. These measures are inconsistent with the promises of refraining from the protectionism which the 'G20' leaders have made at the various high-level meetings. In this respect, the 11th "Global Trade Alert" report in June 2012 shows that the main trading partners of the EU have adopted about 900 types of restrictive trade barriers over the past year. These range from traditional barriers (import ban, custom duty increases, export restrictions) to sophisticated measures such as the administrative practices, less visible. The sectors most frequently affected by the protectionist measures are: food, steel products and chemicals [3];

- The competition on the foreign markets has become increasingly fierce. The companies in the EU countries are losing ground as the emerging economies of Asia are developing new competitors. However, it should be noted that the Community exporters have managed to maintain significant market share in the key sectors (incorporating average and advanced technologies), despite the high prices of the products offered, which demonstrates that the marketing, innovation and technological development policies continue allowing them to offer an attractive worldwide quality - price mix;

- The impact of the financial and economic crisis on the Community trade is significant. Reducing the industrial production and the consumption led to the

low participation of the European Union in the world trade. Also, the restriction of the trade finance has reflected negatively on the trade flows of the EU countries. Currently, the persistence of the risk factors on the developed EU economies (high unemployment, sovereign debt crisis) continues to affect the EU trade;

- The sovereign debt crisis in the Euro zone weakens the investor confidence in the business environment in the region. The social upheavals caused by the austerity measures adopted, the absence of some credible plans for the economic recovery and even the possibility of a euro zone breakup can lead to the deterioration of the investment climate.

Of the major competitors of the EU on the global market - the U.S.A., China and Japan - only China has increased significantly, in the recent years, its export market share (from 9.5% of the world exports in 2004 to 12% in 2011 however in a slight decrease from 2010, when its share in the world exports was of 13.3%) as well as the import market share (from 8.4% of the world imports in 2004 to 12% in 2011). Instead, the U.S.A., the EU and Japan have decreased their share of exports and imports in the international trade.

3. Evolution of the EU exports of goods

According to the statistics provided by Eurostat (Statistical Office of the European Union), in the period 2004-2011, the total EU exports (extra and intra) increased from 3025 billion to 4358 billion. However, the evolution of the export flows should be analyzed differently.

In the period 2004-2008 the total exports of the European Union increased from 3025 billion euros to around 4023 billion euros (increase of 1.32 times). In 2009, the total exports of the European Union amounted to 3293 billion euros, falling by 18% compared to the previous year. The pronounced decrease in the external demand recorded during 2009 led to the decrease in the volume value of the Community countries export. All the 27 EU member states recorded decreases in the export volumes in 2009 compared to 2008. For example, Germany has profoundly experienced deterioration in the global economic climate since the second quarter of 2008. The country faced a severe decline in its economic activity, considered to be the

worst economic crisis in the history of the country after the World War II. The export activity - the "engine of the German economy" - was affected in 2009 by the significant reducing of the international trade

and by the recession installing on the main export markets of Germany. Thus, the extra-export of this country fell by 17% in 2009 compared to 2008, while the intra-exports fell by 18%.

*Table 1. Evolution of exports, imports and of the trade balance in the EU-27 from 2004 to 2011
(Billion euros)*

	2004	2005	2006	2007	2008	2009	2010	2011
Extra-Exports	952,95	1052,72	1160,01	1240,54	1309,81	1094,41	1356,68	1553,92
Extra-Imports	1027,52	1179,56	1352,78	1433,40	1564,94	1199,19	1530,84	1713,54
Extra-EU Balance	-74,57	-126,84	-192,77	-192,86	-255,13	-104,78	-152,98	-159,62
Intra-Exports	2071,76	2214,98	2496,31	2660,15	2714,94	2194,34	2540,71	2804,13
Intra-Imports	1993,36	2140,65	2416,77	2591,68	2639,34	2126,34	2468,90	2728,09
Intra-EU Balance	78,40	74,33	79,54	68,47	75,60	68,00	71,80	76,04

Source: Eurostat 2012

In 2010, the combined exports of the EU Member States were of 3.8973 trillion euros. So, after the pronounced decrease of the exports in the European Union, in 2009, in 2010 they recorded a solid increase by about 18%, offsetting the decline in 2009. The recovery of exports in 2010 was the main engine which sustained the economic recovery in the EU [4].

In 2011, the combined exports of the EU Member States were of 4358.0 billion. The increase of only 11.8% compared to 2010 reflects the fact that the economy and hence the trade of these states continue to feel the impact of the 2008-2009 recession, of the external debt crisis and of the austerity measures adopted.

In the report published by the European Commission in May 2011 - "European Economic Forecast", there were addressed the following recommendations to the Member States:

- To do more in order to accomplish the objectives of the EU concerning the labor employment, research and development, energy efficiency, higher education and poverty reduction;
- To seek solutions for reducing the public debt, in order for the national budgets to meet the objectives set at the EU level;
- To maintain more people in employment, by increasing the retirement age and by limiting the early retirement schemes;
- To tackle the structural unemployment and facilitate the integration on the labor market of the vulnerable groups such as women and older workers;

- To reduce the early school dropout and the youth unemployment by adapting the education systems to the labor market.

According to the same experts, a major risk limiting the revival of the economic activity across the EU is to increase the deficits and the debt volume in most member countries, which will require new measures to reduce them.

In 2011 the main five exporters of the EU-27 were running 61.6% of this group. These were: Germany (24.2%), Netherlands (10.8%), France (9.8%), Italy (8.6%) and UK (8.2%).

At the level of this group of exporters, it is remarkable the evolution of the Netherlands, which since 2004 has surpassed Italy and France also, in 2008, becoming the second largest exporter in the EU-27. In 2011, this country has maintained the second position in the ranking, but its share fell compared to the previous year (11.1% in 2010). The same situation is recorded for Germany (24.6% in 2010) and France (10.1%). Italy had the same share in 2010, of 8.6% of the EU combined exports. Instead, the United Kingdom advanced in fifth position in 2011, ahead of Belgium. Thus, in 2010 the UK had a share of 7.8%, and Belgium of 8.0%, falling compared to 2011, when it registered 7.8%.

Countries, which are placed on the next four positions in 2011, belong to the Western Europe as well. These are: Belgium, Spain, Sweden and Austria. Despite the notable performances recorded by the former communist countries, members of the European Union, their combined exports

(intra and extra) represented, in 2011, only 12% of the EU-27 exports. Poland, ranked ten in the hierarchy of the Community exporters, is the group leader of the mentioned countries, its share in the total exports of the EU-27 being of 3.0% in 2011, compared to 2.4% in 2010. It is followed by the Czech Republic with 2.6% in 2011 compared to 2.1% in the previous year. In 2011, the exports of Hungary accounted for only 1.8% (1.4% in 2010) of the EU exports, those of Romania 1.4% (0.7% in 2010), while those of Slovakia 1.3% (1.2 % in 2010).

4. Evolution of the EU imports

During 2004-2011, both the intra and extra imports have increased significantly. Thus, while in 2004 their total value stood at 3.0208 trillion euros in 2011, it reached 4.4415 trillion euros. In 2009, the total imports of the EU-27 decreased by 21% compared to the previous year. If before the crisis, the EU has been a market with a high power of absorption in 2009, the low domestic demand amid the austerity measures adopted by the national governments and the rising unemployment led to the low import capacity of the Union Europe. The global trade recovery in 2010 has influenced the EU imports of goods, causing an increase of about 18%. In 2011, the combined imports of the EU-27 increased by 11.0% compared to the previous year, reaching a value of 4.4415 trillion euros. Thus, the worsening of the debt crisis in the Euro zone and the austerity measures adopted this year led to the reduced purchasing power in the EU-27.

The top five importers of the EU were running about 61% of the EU imports in 2011, reflecting a high degree of concentration of imports [5]. These were: Germany (20.2%), France (11.5%), UK (10.9%), Netherlands (9.6%), Italy (9.0%). Belgium ranks the sixth place in the hierarchy of the Community importers (representing 7.4% of the total imports) and Spain the seventh (6%). They are followed, at a great distance, by Poland (accounting for 3.3% of the total EU-27 imports in 2011) and by the Czech Republic (2.4%), being the only former communist countries with shares in the Community trade flows of above 2%. The

share of Romania, in the same year, was of 1.3%. Both the import and export flows are dominated by the countries in the Euro zone. In 2011, the share of this group of countries in the EU trade was of about 76%. The share of the post-communist states, although increasing, is quite low (24% of the EU-27 trade in 2010).

5. Conclusions

The current economic crisis has caused the strongest economic slowdown in the history of the European Union, severely affecting the economies in the Euro zone and those outside this area. It was a real challenge for this group as it revealed many structural weaknesses of the European Union. The recovery of the production and export capacity of the European countries represents, in the current economic context, one of the main measures to be taken at the European level. Bridging the gap in the competitiveness between the member countries of this group and taking action to boost the European business in order to reduce the unemployment rate should be the priorities of the governments of the Member States.

References:

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- [3] Oehler Șincai, I.M., "Recent trends in EU trade", *Journal of World Economy*, București, 2009, p. 30
- [4] Mihăilescu, M., "International trade and new centers of economic power during the global crisis", Editura Stef, Iași, 2011, p. 50-58
- [5] http://epp.eurostat.ec.europa.eu/portal/page/portal/international_trade/data/main_tables

Action for Annulment and Illegality Exception Exercised before the Court of Justice of the European Union (Articles 263, 264 TFEU)

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Abstract

Starting from the fact that, in principle, the Court of Justice of the European Union privileged applicants, namely, institutions may bring an action, we highlighted the possibility, even the exception that natural or legal persons, as appropriate, have right to initiate such action. Action for annulment exception of illegality and complementary at this level, that control the opening of the legality of acts of the European Union Court of Justice, which highlights the concern even editors EU Treaties, correct restrictions even the individuals themselves, through plea of illegality.

Keywords: action, exception, cancellation, institutional applicants, claimants individual incompetence, abuse of power.

Clasificare J.E.L.:

1. Introduction

Court 'mission is to ensure that in the interpretation and application of the Treaties "(Art. 19 par. 1 TEU) having a prominent role in the system of judicial protection established by the TEC / TFEU [1]. The concerns of the Court of Justice, Member States shall provide remedies sufficient to ensure effective legal protection in the fields covered by Union law (art. 19 par. 1 TFEU). Court is a court of original jurisdiction to complete any court constituted under any other intergovernmental organizations, while defining itself as an international jurisdiction interstate, as a constitutional jurisdiction as an administrative court as a supreme court of a federation states, even as a court of arbitration [2].

2. Action for annulment

Action for annulment is a direct action against a legislative act adopted by an institution of the Union. In this way challenging the validity of the measure and its annulment.

2. 1. Controlled acts for annulment

Acts whose legality can be controlled via the action for annulment are:

Article 263 para. 1 TFEU states "EU Court of Justice shall review the legality of legislative acts, of acts of the Council, the Commission and the ECB, other than recommendations and opinions, acts of Parliament and the European Council [3] intended to produce legal effects on third parties. Also, the ECJ to review the legality of acts of bodies, offices or agencies intended to produce legal effects against third parties.

Therefore, we believe that art. 263 para. 1 TFEU, considers all legislative and non-legislative acts having legal effects:

□ legislative acts are the acts listed in Art. 288 TFEU, ie regulations, directives, decisions, taken both by the ordinary legislative procedure (adopted by the EP and the Council together) and by special legislative procedure (adopted by the Council on the participation or participation by the Council). Are considered regulations, directives, decisions, since the legislative procedure (ordinary special) these acts may be adopted.

□ legislative acts (so named because they are not adopted by legislative procedure) provided by art. 263 TFEU are:

- Acts of the Council, the Commission and the ECB, other than recommendations and opinions, which produce legal effects against third parties;

- Acts of the European Parliament and the European Council intended to produce legal effects;

- Acts of bodies, offices or agencies intended to produce legal effects on third parties.

□ The TFEU, in terms of novelty, expressly provides two items that can be controlled acts under Art. 263 TFEU (action for annulment)

- Art. 271, ECJ shall have jurisdiction to review the legality of disputes by the following acts:

a) adopted by the Board of Governors of the European Investment Bank;

b) the Board of the European Investment Bank.

- According to art. 275 TFEU, the ECJ to review the legality of decisions providing for restrictive measures against natural or legal persons adopted by the Council under Chapter 2 of Title V of the TEU.

Lisbon Treaty adds to legislative acts subject to judicial review by the ECJ for annulment, and acts: the European Council, bodies, offices or agencies, which are intended to produce effects against third parties.

In principle, the economy resulting TFEU two criteria to be met by legal acts to be likely to be controlled by an action for annulment legality: come to EU institution or body (whether legislative or non-legislative acts that) [4] and to produce legal effects on third parties [5].

In the same spirit, doctrine and jurisprudence of the ECJ prior to the Lisbon Treaty with respect to TEC / TFEU and TEuratom took account both mandatory acts called - those listed in Art. 249 TEC, now 288 TFEU: regulations, decisions and directives - and unnamed binding acts [6]. Thus, during an action against a Council deliberations, the Court made a genuine principle for action for annulment "must be open to all provisions adopted by the institutions, which aims to produce legal effects [7], whatever their nature and form "therefore not only amenable to regulations, directives, decisions, but also acts that have these characteristics [8].

If the document has no legal effect, the action is inadmissible.

Also noted that the analysis of art. 263 TFEU, referring to acts whose legality can be controlled, that does not fall into this category acts Court.

2. 2. Applicants who may require control acts through its action for annulment

Plaintiffs are owners of legitimacy proceedings. There are two types of applicants: institutional (privileged) and individual (non-privileged).

□ institutional applicants are considered privileged since they do not have to justify any interest to act. For this interest is presumed.

According to art. 263 para. 3 TFEU privileged applicants are:

- Member States, European Parliament [9], Council and Commission may bring an action on grounds of lack of competence, infringement of an essential procedural requirement, infringement of the Treaties or of any rule of law relating to their application or misuse of power;

- Court of Auditors, the European Central Bank and the Committee of Regions for the purpose of protecting their prerogatives. Within TEuratom ECB is not entitled to bring an action for annulment;

- Each Member State, the Commission and the EIB Board. They may bring action against EIB Governing Council decisions (Article 271 lit. B TFEU)

- Member States or the Commission, only failure procedures specified in Art. 19 par. 2 and 5-7 of the Statute of the Bank (ECB).

□ individual applicants, considered underprivileged, are represented by any person or entity. This may appeal against:

- Acts whose recipient is or which concerns him directly and individually. For example, although the act takes the form of a regulation (without having characteristics of a regulation) [10] or a decision addressed to another person, is of direct and individual concern to the applicant;

- Regulatory act which is of direct and does not entail implementing measures.

Conditions of eligibility set out in Art. 263 TFEU are strict and were interpreted for two reasons: first, individuals are not guardians of legality (in principle they can not attack a regulation or directive) and secondly they have other means to question the validity of a Community act (except the illegality reference in examining the validity [11]).

Therefore have the capacity to act: an act to which the individual person or persons

nedestinatare, who must prove that the act of direct and individual concern them.

If the action is well founded, the Court of Justice shall declare the act concerned to be void. Annulment is retroactive pronounced by the judge, the act is considered that never existed and its legal effects made should be abolished.

However if the Court shall deem it necessary, the effects of the act to be considered as definitive (art. 264 TFEU). Institution, body, office or agency whose act has been declared void is required to take measures to comply with the judgment of the Court (art. 266 TFEU). Institution concerned has information of each cancellation, a variable discretion, but is done under the supervision of the Court [12]. The cancellation decision has *res judicata* and is enforceable against all.

Actions for annulment must be brought within two months, as appropriate, to the measure, or of its notification application or, failing that, from the date on which it came to knowledge (art. 263 para. 5 TFEU).

TFEU presents a list of resources [13] that can be claimed for the application for annulment: lack of competence [14], infringement of an essential procedural requirement [15], infringement of this Treaty or of any rule of law relating to its application [16] and abuse of power [17]

It is also worth mentioning that the analysis of art. 263 TFEU, referring to institutions that can bring actions for annulment, that does not fall into this category European Council.

It also acts setting up bodies, offices and agencies of the Union may lay down specific conditions and arrangements concerning actions brought by natural or legal persons against acts of these bodies, offices or agencies intended to produce legal effects in relation to them (art. 263 par. 6 TFEU).

□ A special case is governed by annulment Protocol. 2 on subsidiarity and proportionality, art. 8.

Thus, the ECJ has jurisdiction to rule on actions for breach of the principle of subsidiarity by a legislative act in accordance with the rules laid down in Art. 263 TFEU, the Member State and notified by them in accordance with their legal order on behalf of their national Parliament or a chamber thereof.

In accordance with the rules laid down in that Article, such action may be brought and the Committee of the Regions against legislative acts for the adoption of which TFEU provides that it be consulted.

3. Illegality exception (art. 277 TFEU, 156 TEuratom)

Individuals (natural persons and legal entities) can not challenge legal acts of the Union-normative decisions or regulations - through the action for annulment. But in making individual decisions in question respected, they can invoke the aforementioned unlawful acts indirectly through general plea of illegality of the act on which the decision was issued individual.

Thus, individuals may request not annul the basic general rule the Court only a failure to apply it on the plaintiff. Therefore, the Court can not annul the legality of which is contested act, but it inapplicable on the applicant. Illegality exception is provided for in Articles 277 TFEU and 156 TEuratom in very general terms: subject expiry deadline for action for annulment, in a dispute in which an act of general application adopted by an institution, body, office or agency Union, any party may invoke the grounds specified in Art. 263 para. 2 TFEU (lack of competence, infringement of an essential procedural requirement, infringement of this Treaty or of any rule of law relating to its application and abuse of power) to invoke before the EU Court of Justice the inapplicability of that act [18]. Text article makes no distinction Parties may rely on the exception. It can be raised by any party in proceedings in which a regulation is criminalized [19]. So may be invoked by Member States, although available for annulment of legal acts of the Union [20]. It can also be challenged regulation relates only natural for the case in which it is claimed inapplicability [21]. The Court held that the plea of illegality main function is to correct the restrictions that the action for annulment treaties imposed on individuals (to take a stand against general decisions and regulations). The Court also decided that should be taken into account "the need for a review of legality in favor of excluded persons to bring actions for annulment against acts of individual, when they are

affected by a decision application concerning them directly and individually [22] "and added that" 277 TFEU provisions are a genuine expression of a general principle, whose field of application should be widely understood. "In connection with the article in question, the Court also stated that its provisions be applied regulations themselves - acts of the institutions, which, although not as a Regulation nevertheless have effects similar and for this reason can not be attacked by other subjects of law than of institutions and Member States [23].

4. Conclusions

Exception of illegality is complementary action for annulment, given that, through this action opens the possibility and individuals, subjects under the sovereignty of Member States, to attack a general act ultimately emanating from the sovereignty [24]. The plea of illegality is merely an incidental procedure, which is imposed on another action – annulment [25], which could be raised only before the Court of Justice, given that the exception does not operate independently of pending cases [26].

5. References

- [1] See Philippe Léger, *Commentaire article par article et des traités EU CE*, Dalloz, Paris 2000.
- [2] See Ioana Nely Militaru, *EU Law*, Legal Universe Publishing, Bucharest, 2011, p. 270-275.
- [3] Parliament acts are subject to judicial review as a result of change in art. 230 par. 1 by TMS. In the previous regulation was not foreseen such a possibility but it was upheld in the Court of Justice.
- [4] This criterion results from previous case law Lisbon Treaty: ECJ, 31. 03. 1971, Comm. / AFF Conseil 22/70, AETR Rec. 263. Of acts considered suitable unnamed CJEU, in relation to the criterion "act coming from EU institution or body, an example: - Court documents when they meet the general conditions of admissibility (ECJ, 11. 05. 1989, Maurissen et Union synd. C. Cour de Comptes, aff. tes 193 and 194/87, Rec. 1045) - European Council decisions are binding (for details, see, Marin Voicu, *Jurisdiction and judicial proceedings European Union Legal Universe*, Bucharest, 2010, p 120), - European Investment Bank acts under Art. Section 271 of the TFEU, former section 237 of the EC Treaty (ECJ, 3. 03. 1988, Comm. C. EIB aff. 85/86, Rec. 1281), - Trademarks Office documents - international agreements concluded by the Council, on behalf of as "an agreement by the Council is in respect of the Community / Union, a document issued by one of the institutions of the Community / Union, with entry into force, its provisions form part of Community law (ECJ, 30. 04. 1974, Haegeman v Etat belge, aff. 181/73, Rec. 449).
- [5] ECJ case law corresponding to this criterion are set following documents: - a code of conduct issued by the Commission, the text imposing binding obligations on Member States (ECJ, 13. 11. 1991, France v. Comm., Aff. 303/90, ECR . I-5340), - a letter addressed to the Commission which rejected an offer reclamante society and constituted a separate act of a contract procedures (ECJ, 22. 04. 1997, Geotronics SA v Comm, aff. C-395/95 P., Rec. I - 2271) - a decision of the President of the Court of Auditors verbal (ECJ, 09.02.1984, Kohler v. Cour de Comptes, aff. Jtes 316/82 and 40/89, Rec. 641) - a communication Commission which sets out rules for the implementation of a directive, but create new obligations for Member States (ECJ, 16.06.1993, France v. Comm., aff. 325/91, Rec. I-3283) - a decision on an international agreement (ECJ, 9. 08. 1994, France v. Comm., aff. 327/91, Rec. I-3641).
- [6] See Guy Isaac, Mark Blanquet, *Droit communautaire general*, 8 ed. Dalloz, Paris, 2001, p 281; ECJ, 31/03/1971, Comm. / AFF Conseil 22/70, AETR Rec. 263.
- [7] Are amenable CJEU "measures to produce binding legal effects, likely to affect the interests of the applicant in a manner characteristic changing the applicant's interests", see, Marin Voicu, *op. cit.* p. 121.
- [8] Ibid.
- [9] The Maastricht Treaty EXTENDED institutional status of the applicant, but not privileged (and therefore it had to justify interest aacționa) HitPark status has been awarded and the Treaty of Nice.
- [10] Features provided by art. 288 TFEU are general application, binding in its entirety and directly applicable in each Member State.
- [11] ECJ, 14/12/1962, National Confederation des fruits et légumes producteurs of, aff. 16 et 17/62, Rec. 135.
- [12] ECJ, 12. 07. 1962, Hoogovens, aff. 14/61, Rec. 458.
- [13] See Brândușa Stefanescu, *Court of Justice, Scientific and Encyclopedic Publishing House*, Bucharest, 1979, p 61; O. Manolache,

Treaty of Community law, ed. the V, Ed C. H. Beck, Bucharest, 2006, p. 613-627.

- [14] This tool plays a fundamental role to punish acts occurred in areas covered by treaties or reserved for other than Community institutions. The Court, in a judgment said that we are in the presence of a "matter of public interest which are examined in the office" (ECJ, 10 May 1960, Germany, aff. 19/58, ECR 469). Cases of incompetence are rarely encountered in practice (ECJ, 10.05.1960, Erzeberban, aff. 3, 18, 25 et 26/58, Rec. 367). Their field of application is the same as that of the substantial forms of abuse, and applicants often base their action on the second ground (ECJ, 13. 12. 1967), Neumann, aff. 17/67, Rec. 571).
- [15] It is a "matter of public interest" (ECJ, 21.12.1954, France, aff. 1/54, Rec.9) that, contrary to experience a lack of competence development more than in French law. Fundamental rules of procedure which are not observed commonly refers to: - motivation (initially set three Community treaties: TCECO, TEC, TEuratom) and currently in: art. 296 para. 2 TFEU and Art. 162 Euratom, see Guy Isaac, Mark Blanquet, *op. cit.*, p 283; - how to vote (the procedures defined in the rules of Council - ECJ, 23.02.1988, Royaume-Uni c / Conseil, aff. 68/86 Rec. 855).
- [16] Breach of express treaty itself is concerned, infringement concerns: annexes, protocols, conventions, like other acts adopted by the Union institutions for executing treaty, for their breach also constitutes and infringement of the Treaties that define their legal force (Article 288 TFEU). The notion of "treatment" refers to primary law and secondary law and the wording "any rule of law" considers the general principles of law (recognized by Member States) or other special provisions contained in treaties.
- [17] We are an abuse of power when the administrative authority has used its powers to a purpose other than that for which these powers have been given by the Treaty (Brândușa Stefanescu, *op. cit.*, p 61). This tool is especially noted in cases of public servants Community (ECJ, 05.05.1966, Gutmann, aff. 18 et 35/65, Rec.149, 29.09.1976, Giuffrida, aff. 105/75, Rec.1395). The purpose of the act was none other than that which has been issued in a plastic forms "foreign service", see Guy Isaac, Mark Blanquet, *op. cit.*, p. 284.
- [18] See Cruceru Anca Popescu, Gabriela Eugenia Leuciuc, Banulescu Viorel, "Economic operators' security through harmonization between national and European law - the First Directive", *Anal. Economics Series. Timisoara, CNCSIS B +, vol VIII/2012 pp. 222-229*
- [19] See O. Manolache, *op. cit.* p. 663.
- [20] According to art. 241 TEC any party may invoke the cases provided for in Art. 230 TEC in order to request the inapplicability of the regulation.
- [21] ECJ, 13. 07. 1966, the Government of the Italian Republic that the Council and Commission, aff. 32/65, hot. in ECR, 1966, 389.
- [22] ECJ, 06.03.1979, Simmenthal, aff. 92/78, Rec. 777.
- [23] Ibid.
- [24] See Brândușa Stefanescu, *op. cit.* p. 64.
- [25] See Guy Isaac *L entree en Vigueria et dans le temps du l application droit communautaire*, Mélanges Marty, Toulouse, 1978, p. 276.
- [26] See O. Manolache, *op. cit.* p. 663.

European Strategies and Changes in Romanian Higher Education

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Abstract

Higher education in Romania is going through a period of intensive changes based on development strategies established with the integration into the European Union. Because of the economic situation that Romania now has and the current economic crisis, the Government funds and universities own funds are virtually nonexistent. The big challenge for the higher education institutions is to align themselves to the requests of European Union through reaching the objectives that were established nationally in the development strategies based on the Bologna Process, the Lisbon Treaty and EUROPA 2020. The major problem is to finance the actions and the activities needed for reaching the objectives at the national level due to the economic crisis that affects the majority of countries.

Keywords: Romanian higher education, Lisbon Strategy, Europe 2020, National education law, public expenditure

JEL Classification Code: I210

1. Introduction

Higher education, whether we talk from public or private institutions, has always been an important priority in the public agenda because it perpetuates the creation of communities.

From a historical point of view higher education was shaped by religious, social and political pressures, the Church providing protection and privileges to teachers and students (disciples) during the rise of universities. The first universities known to

be appeared are university of Paris and University of Bologna in the 12th century, but only in the mid 1800s the purpose and function of the university was defined as "a corporation that served in disseminating knowledge" [11].

Nowdays higher education institutions are considered to be mobilizing the economic growth of a country. Tertiary education it is known to be a culture defender, an instrument that realize the collective aspirations and an engine for national economic growth. European Union talks about improving countries competitiveness by investing in innovation, research and development and educated people.

2. The Lisbon strategy

The Lisbon Strategy aim was to make the EU "the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion"[2], by 2010. It intended to deal with the low productivity and stagnation of economic growth in the EU, through the formulation of various policy initiatives to be taken by all EU member states.

The main fields were economic, social, and environmental renewal and sustainability. The Lisbon Strategy was heavily based on the economic concepts of: innovation as the motor for economic change (based on the writings of Joseph Schumpeter), the "learning economy" and social and environmental renewal.

The Lisbon strategy purpose was to create a stronger economy that would create employment in the EU, inclusive social and

environmental policies, which would drive economic growth even further.

3. Europe 2020

Europe 2020 follows the Lisbon Strategy (the period 2000-2010) and is a 10-year strategy proposed by the European Commission on 3 March 2010 that aims at "smart, sustainable, inclusive growth" with greater coordination of national and European policy.

The strategy has five main targets, which are:

- To raise the employment rate of the population aged 20–64 from the current 69% to at least 75%.
- To achieve the target of investing 3% of GDP in R&D in particular by improving the conditions for R&D investment by the private sector, and develop a new indicator to track innovation.
- To reduce greenhouse gas emissions by at least 20% compared to 1990 levels or by 30% if the conditions are right, increase the share of renewable energy in final energy consumption to 20%, and achieve a 20% increase in energy efficiency.
- To reduce the share of early school leavers to 10% from the current 15% and increase the share of the population aged 30–34 having completed tertiary from 31% to at least 40%.
- To reduce the number of Europeans living below national poverty lines by 25%, lifting 20 million people out of poverty.

These main targets are divided in seven initiatives:

- Innovation Union: to improve framework conditions and access to finance for research and innovation so as to strengthen the innovation chain and boost levels of investment throughout the Union.
- Youth on the move: to enhance the performance of education systems and to reinforce the international attractiveness of Europe's higher education.
- A digital agenda for Europe: to speed up the roll-out of high-speed internet and

reap the benefits of a digital single market for households and firms.

- Resource efficient Europe: to help decouple economic growth from the use of resources, by decarbonising the economy, increasing the use of renewable sources, modernising the transport sector and promoting energy efficiency.
- An industrial policy for the globalisation era: to improve the business environment, especially for SMEs, and to support the development of a strong and sustainable industrial base able to compete globally.
- An agenda for new skills and jobs: to modernise labour markets by facilitating labour mobility and the development of skills throughout the lifecycle with a view to increasing labour participation and better matching labour supply and demand.
- European platform against poverty: to ensure social and territorial cohesion such that the benefits of growth and jobs are widely shared and people experiencing poverty and social exclusion are enabled to live in dignity and take an active part in society.

4. National Education Law and Romanian Education System

The Romanian higher education strategy for 2007-2013 consists in directions regarding the development of higher education based on the improvement of infrastructure by attracting external funds, on growth of the importance of research and applying the research results in universities but also in the economic, social and cultural environment, internal and external evaluation of the education process, monitoring and increase the acceptance rate of students on the labour market, universities autonomy, creation of research networks, stimulation of the integration of Romanian higher education system in the European one and international cooperation through mobilizing the teachers and accessing European non-reimbursable funds that are allocated especially for these strategic directions. (Strategy for Romanian Higher Education System 2007-2013, www.edu.ro).

The law on education in Romania covers the targets regarding education established by

European Institution and by Romanian Government.

Romania's education reform presents the next changes:

1. Synchronising education cycles with the requirements of a modern education system and the European Qualification Framework:

- reorganization of the structure of primary and secondary education: early education as ante-pre-school education (for children aged 0 - 3 years) and pre-school education (for children aged 3 to 6 years).
- the introduction of the preparatory grade in primary education.
- increasing the duration of lower-secondary education to 5 years.
- the perspective of generalization of primary and secondary education to 12 grades.

2. Modernization and decongestion of school curriculum. It desire to create a coherent curriculum framework that involves improving school programmes (curricula) by:

- reducing the amount of knowledge to be memorized by introducing the curricula based on the eight key-competences every person needs to be endowed with for personal fulfilment and development, active citizenship, social inclusion and to enter the labour market.
- reducing the number of class hours: maximum 20 class hours per week for primary education, up to 25 class hours for lower-secondary education and less than 30 class hours for upper-secondary education.
- decentralized a part of the school curriculum.
- Reorganization of students' assessment system
- realisation of an educational portfolio, which will include all diplomas, certificates and other documents obtained following the assessment of skills acquired in formal, non-formal and informal learning frameworks.

3. Ensuring a high degree of decentralization, accountability and financing of the system through decentralization - by transferring responsibilities to the School Board of Administration and local authorities. The Law introduces the principle of “financing follows the student” by means

of which the allocation of public funds will become transparent and in line with strategic targets in education, providing the allocation of at least 6% of GDP for education chapter every year.

4. Ensuring equal opportunities to education for disadvantaged groups through equal access to education true School after school” or “Second chance” programmes.

5. Upgrading vocational education and training (VET)

- ensuring the skills acquisition, re-founding of vocational education and training schools.
- developing and supporting upper-secondary (vocational pathway) and post-secondary education.
- extending the use of credit transfer system (i.e. between upper-secondary vocational education and the post secondary education).
- providing the possibility to complete at least one vocational training programme by those low-secondary education graduates aged < 18 who have previously left school.

6. Reform of human resource policies in education:

- initial training of teachers that will include BA studies in a related qualification, a 2 years MA in teaching qualification and 1 year vocational traineeship.
- improving management quality of education institutions - only teachers who provide proof of completion of an accredited training programme in educational management will be able to occupy leadership, mentoring and control positions in education.

7. Stimulating lifelong learning through recognition and certification of skills acquired through formal, non-formal and informal education contexts.

8. Modernization of management and leadership of universities. Support, at managerial level, the course of Romanian higher education institutions towards performance and competitiveness, the law proposes a system that adds an entrepreneurial dimension to the current academic democracy.

9. Universities ranking . Higher education institutions in Romania are ranked into three

categories based on the evaluation of their curricula and institutional capacity, as follows: universities focused basically on education, universities focused on education, scientific research and artistic creation, and universities focused on advanced research and education.

10. Quality assurance in higher education. Quality education requires prioritizing higher education programmes through a process of curricula quality assessment.

11. Competitive financing and incentives for academic excellence in higher education. The universities ranking mechanism will be supported by an incentive based financing system of academic excellence.

5. Romanian Public Expenditure on Education and R&D

To meet the targets and the directions established in the development strategies for higher education, in this moment, there are three financing possibilities: allocation of funds by the Romanian Government, usage of the internal funds of the higher education institutions and, the third one would be, the structural and cohesion funds allocated by the European Union. Although the European Union allocates funds for the development of education in Romania, according to some reports on absorption of the structural and cohesion funds, provided by the management institutions, a low rate of absorption is indicated, including among the higher education institutions, leading to the necessity of establishing strategies for the absorption of funds.

Tabel 1. Public and private expenditure on education.

	Type of expenditure					
	Public expenditure %GDP		Private expenditure %GDP		Average annual expenditure per pupil or student	
	2002	2007	2002	2007	2002	2007
Belgium	6,10	6,02	0,36	0,34	6574	7264
Bulgaria	4,03	4,13	0,69	0,62	1575	2290

Czech Republic	4,32	4,20	0,24	0,51	2947	4452
Danmark	8,44	7,83	0,28	0,53	7379	8595
Germany	4,70	4,50	0,87	0,69	6058	6752
Estonia	5,48	4,85	:	0,32	:	3675
Ireland	4,29	4,90	0,28	0,24	4940	7172
Greece	3,57	:	0,17	0,26	3549	4485
Spain	4,25	4,35	0,54	0,61	4850	6773
France	5,98	5,59	0,56	0,53	6161	6928
Italy	4,62	4,29	0,35	0,40	5736	6205
Cyprus	6,55	6,93	1,40	1,27	5495	7708
Latvia	5,71	5,00	0,82	0,56	2267	3666
Lithuania	5,84	4,67	:	0,45	2012	3174
Luxembu rg	3,79	3,15	:	:	:	:
Hungary	5,38	5,20	0,55	0,54	:	3995
Malta	4,38	6,31	0,61	0,38	3448	6437
Netherlan ds	5,15	5,32	0,89	0,90	6780	7891
Austria	5,72	5,40	0,38	0,48	7692	8695
Poland	5,41	4,91	0,64	0,50	2507	6682
Portugal	5,54	5,30	0,09	0,45	4191	5125
România	3,51	4,25	0,16	0,50	:	1438
Slovenia	5,78	5,19	0,83	0,73	4930	6058
Slovakia	4,3	3,62	0,20	0,53	2032	3122

Finland	6,21	5,91	0,13	0,14	5 707	6 682
Sweden	7,43	6,69	0,17	0,16	6 743	7 907
United Kingdom	5,11	5,39	0,89	1,75	5 708	7 572
UE	5,00	4,83	0,58	0,56	5 798	6 709
USA	5,58	5,29	1,90	2,58	9 335	11 785

Source: *Europa in figures – Eurostat yearbook* 2011,
<http://epp.eurostat.ec.europa.eu/>

Table 2. Romanian public expenditure on education and R&D.

Year/Indicators	Public expenditure on education %GDP	R&D expenditure as GDP percentage
2000	3,2	0,37
2001	3,8	0,39
2002	4,2	0,38
2003	3,6	0,39
2004	3,7	0,39
2005	3,6	0,41
2006	4,3	0,45
2007	4,3	0,52
2008	4,4	0,58
2009	4,3	0,47

Source:
<http://www.insse.ro/cms/rw/pages/anuara-statistic2010.ro.do>

6. Conclusion

Romania has made major steps towards the European Higher Education Area by reorganizing the entire higher education system. To achieve the targets set by the Europe 2020 we need to improve the quality

and increase the investments in education, vocational education and training. Also, it is necessary to increase the mobility of students and teachers to improve the quality of teaching.

In present, Romania is ranked as one of the last places in Europe in term of participation in education of young people aged 15-24 years, suggesting that youth participation in education is not being stimulated. Another problem is the overloaded curriculum, its high rigidity and does not provide graduates with practical skills and competencies.

The importance of the existence of a strategy for higher education emerges also from the Eurydice Report, Higher Education Governance in Europe – Policies, structures, funding and academic staff 2008, that promotes a strategy for higher education that must be correlated nationally with the strategy for research and development aiming to obtain autonomy for higher education institutions. To meet this objective the higher education system should attract diverse sources of funding, including partnerships with firms, partners that will finance the research and development activity in the domains they are interested in. Having financial autonomy is a fundamental aspect of the current tendencies in the higher education governance. The challenge consists in allowing institutions to develop strategic policies for achieving their own objectives but at the same time respecting the national priorities for higher education.

As can be seen from data presented in Table 1 and Table 2 the Romanian average annual expenditure per pupil or students representing 21,43 % from EU average annual expenditure per pupil or students and although the public expenditure on education has an increasing trend or remains constant Romania must obtain financing sources to raise investment in education, meaning that on short-term it need to improve the absorption of European non-reimbursable funds.

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Employment patterns and educational intensity of employment across EU countries: recent developments

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Abstract

The paper tries to identify employment patterns in the EU countries, taking into consideration the educational intensity of employment. Using EUROSTAT data, the paper presents a descriptive analysis of the distribution of skills (measured by educational attainment) and employment share by skills levels (from high to low) and by 10 groups of occupations for the EU countries. Differences in distribution of employment across occupations are analysed across EU countries and an evidence of changes in educational intensity of employment over 2000-2011 is provided. The possible patterns of employment are identified by comparing the skill distribution of jobs in each country with the basic shape of distribution in the EU as a whole. There are 4 different patterns of employment by educational level found among the European countries.

Key words: employment, skills, labour force composition

J.E.L. classification: J 21, J 24, J 82

1. Introduction

The educational intensity of employment', as introduced by Donald Williams (2010) means the distribution of employment by skill level. He conducted analysis for EU as a whole, based on data from EU-SILC and made comparisons of the EU-SILC countries with the US, a country comparable in magnitude of employment.

The concept of educational intensity of employment is related to the educational workforce composition, a favourite topic of the labour economists. There are several economists [3], [1] exploring these topics, most of them in context of jobs polarisation in the last years. Michael Peneder (2007)

used the idea and classified forty-nine manufacturing and service industries according to their educational workforce composition.

The aim of the paper is to identify the employment patterns in the EU countries, taking into consideration the educational intensity of employment over 2000-2011. The paper is organised as follows: a brief review of the current issues of employment in Europe is presented in next section. This is followed by a description of methodology and data in section 3. Estimates of distribution of employment by educational attainment in various countries of European Union are presented in section 4 and the final section is dedicated to conclusions.

2. Employment in the European Union: recent developments

Employment in most EU countries proved considerably resilient immediately after the 2008 recession, notably in light of the strong adjustment of hours worked, in some cases facilitated by the operation of government sponsored Short Term Working schemes. Labour shedding became more relevant at the end of 2009 and employment did not resume until the last quarter of 2010 [2].

The labour market deterioration following the crisis proved particularly acute in the Baltic countries, Spain, Ireland, Greece. Considerable job losses were recorded also in Bulgaria, Denmark, Portugal, Slovakia, the UK. The employment recovery is expected to follow different patterns in different countries, reflecting the current multi-speed output recovery[2].

3. Methodology of the study

The study is based on EUROSTAT data (LFS annual series) for 2000-2011. Data on employment (thousand individuals, aged 15-

64) by educational attainment (ISCED 1997 levels) and occupations (ISCO 2011) were used. As a first step, the shares of the employed population by educational attainment, for each of the 10 EUROSTAT classes of occupations (OC1-OC 10), for each EU country and at the EU level, were calculated. In the second step, taking into analysis the results in 2011, at the EU level, the data was ordered according to the level of skills (from low to high), resulting the Table 1 and Table 2.

Table 1: Shares of employed population by educational attainment and occupation (%) EU, 2011

Shares of employed population with:	OC 2	OC 1	OC 3	OC 10	OC 4	OC 5	OC 6	OC 7	OC 8	OC 9
ISCED levels 0-2	1,9	12	8,7	15	15	26	46	30	34	51
ISCED levels 3-4	16	37	53	57	63	61	48	64	62	44
ISCED levels 5-6	82	52	38	27	22	13	6,3	5,5	4,5	5,2

Source: author's own calculations, based on EUROSTAT data

Table 2: Occupational classification by skill level, EU, 2011

High skilled	OC 1 Managers OC 2 Professionals
Medium skilled	OC 3 Technicians and associate professionals OC 4 Clerical support workers OC 5 Services and sales workers OC 6 Skilled agricultural, forestry and fishery workers OC 7 Craft and related trade workers OC 8 Plant and machine operators and assemblers OC 10 Armed forces
Low skilled	OC 9 Elementary occupations

Source: author's own calculations, based on EUROSTAT data

4. Main findings

Employment, skills and occupations

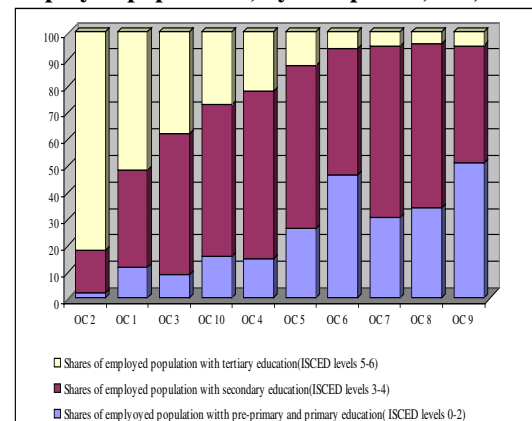
As we can see in figure 1 there are two types of occupations which concentrates the high skills (OC 2-Professionals, and OC 1 - Managers), the share of tertiary educated being 82,1 % (OC 2) and 52,9%(OC 2).

People with secondary education are prevailing in the the following classes of occupations: OC3, OC10, OC4,5,6,7,8. The share of secondary educated in the total employed people is between 47,6% and 64,4%.

People with primary education are employed predominantly in elementary occupations (OC 9) (50,8%). The ten

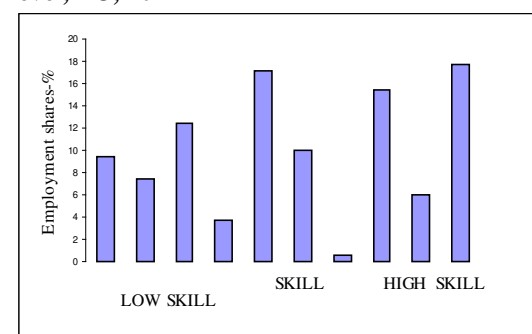
occupations (ISCO 2011) listed in the Table 2 were ordered according to the level of educational attainment of the workers in those occupations, resulting the following sequence, from low skilled to high skilled: OC 9, OC 8, OC 7, OC 6, OC 5, OC 4, OC 10, OC 3, OC 1, OC 2.

Figure 1: The distribution of skills in the employed population, by occupation, EU, 2011



Source: author's own calculations, based on EUROSTAT data

Figure-2: Employment shares(%) by skills level, EU, 2011



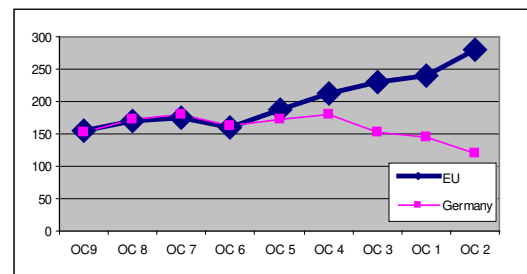
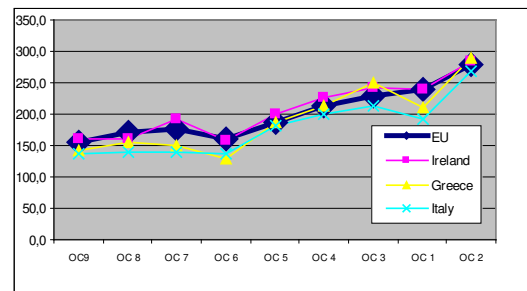
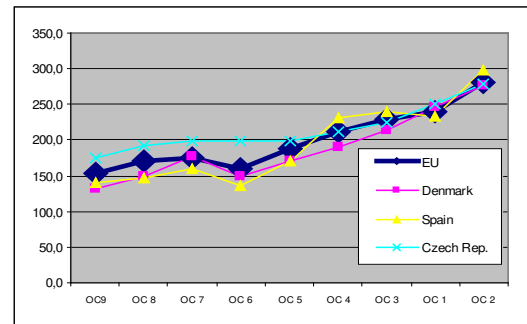
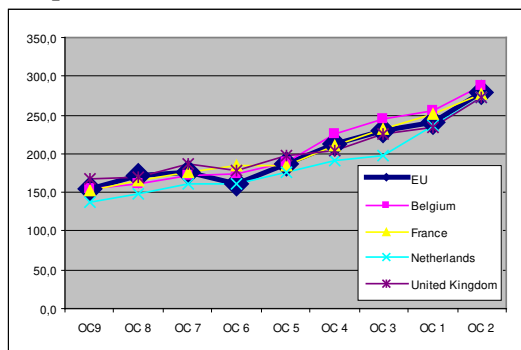
Source: author's own calculations, based on EUROSTAT data

The figure 2 reflects this ordering. Each bar represents the employment in the occupations at that skill level, as a percentage share of the total employment. The skill levels increase moving from left to right along the horizontal axis. We can observe that the employment shares are under 12% for the low skilled people. For a medium level of skills, the employment shares increase to 17%, very close to the level for the higher level of skills. For the higher skills, there are variations in the employment shares, from 6,03% to 17,77%.

Using the middle skills level as a point of reference, about 64 % of employment lies at this level in the EU countries.

The skill distribution of employment in EU as a whole can mask variations across EU countries. These are depicted in the Figure 3 where are shown by country, the mean scores of the educational level for each occupation. Calculating the mean scores for each occupation (by weighting with 1 the share of primary educated employed population, with 2 the share of secondary educated people and with 3 the share of the tertiary educated people) and ordering these scores, we obtain a sequence for each country. This sequence is compared with the above mentioned sequence at the EU level. After comparison, the EU countries are divided in four groups, reflecting a specific pattern of employment by educational attainment. First group includes countries evolving similar with the EU pattern: Belgium, France, Netherlands and United Kingdom. These countries, the secondary educated people represents around 60% of the employment. The second group consists of countries with a very small variation from the EU pattern: Czech Republic, Denmark and Spain, where in the third group are included Ireland, Greece and Italy with several variations from the EU pattern. In these countries, the share of tertiary educated people in occupations as manager, professionals is very high (80-90%). Finally, as a fourth group, Germany evolves totally different as the other EU countries, the share of tertiary educated people in occupations traditionally high skilled being lower than in other countries.

Figure 3: Employment patterns in different european countries, 2011



Source: author's own calculations, based on EUROSTAT data

Employment rates by educational attainment level

According to EUROSTAT data and generally speaking, in the European countries, the employment rate of the pre-primary and primary educated population (0-2 ISCED levels) and aged 15-64 decreased between 2000 and 2011, except Estonia, Latvia, Netherlands and Austria. Estonia and Latvia have important variations around a mean rates of 29,7% and, respectively, of 33,2%, the level in 2011 being higher than in 2000. Netherlands and Austria have a high level of employment of primary educated people (an average of 60,2%) and the variations around this level are very reduced.

The employment rate of the population with pre-primary and primary education was the lowest in Slovakia (13,3%-14,5%) and the highest in Portugal (66,8%-59,6%). The highest change in the employment rate of the primary educated people is registered in Ireland, where from 48,1% in 2000, have fallen to 35,5% in 2011, followed by Lithuania, Sweden, Romania and United Kingdom. Countries as Cyprus, Italy, France

and Slovakia are very stable in the level of the employment rate of primary educated people, with a standard deviation from the average employment rate between 0,9 and 1,2.

Starting with 2007, during the economic and financial crisis, the employment rate in Ireland fell with 13,9 percentage points, in Spain with 10,2 and in Lithuania with 10,6.

In Germany, Malta, Romania and Slovakia, the employment rate of primary educated people raised during the crisis. For example, in Germany the employment rate raised from 44,8%, in 2007 to 46,5% in 2011. In Romania the employment rate increased with 1pp annually until 2010 (from 40,3% to 43%) and fell in 2011, to 40,5%(the level of 2007)(see Appendix). In these countries, the crisis was beneficial for primary educated people.

The employment rate of secondary educated people in the european countries has values between 59%(Greece) and 79,4%(Sweden), higher than in the case of primary educated population. This is a confirmation of the fact that more educated people can easier find a job and there is an increasing demand for educated people.

In average, the european countries with the highest level of employment rate of higher educated people are: Denmark, Netherlands, Slovenia, Sweden and United Kingdom (86,3%-86,6%).

In all countries, between 2007-2011, the employment rate of the higher educated people decreased, except Germany, Luxembourg and France. Only these countries were successful in valorising their highly skilled people on the labour market. The rest of the EU countries failed in protecting their higher educated people during the crisis. For example, the employment rates fell in Greece and Estonia with 7,7-7,8 pp, in Slovakia with 6,6 pp and in United Kingdom with 4,6 pp.

Between 2000 and 2011, Ireland has an interesting evolution: until 2008 has a quasi stable employment rate around 84% and in next 3 years it fell at 70,8% (2011). Another interesting situation is Greece, where the positive dynamic is interrupted by a fall only in 2010 when other european countries (Germany or France) were out of the crisis.

5. Conclusions

The paper defines a pattern of educational intensity of employment at the EU level, in wich the share of employment of low skilled can attain the level of 12% and of the medium and high skilled are very close (17,11%-17,77%)

The skill distribution of employment by occupation, in EU as a whole, shows that there are occupation educational intensive such as: professionals, managers and in the majority of occupations are employed people with secondary education.

There are different patterns in employment distribution by educational attainment and occupation across the european countries. Countries with a pattern in employment similar to the EU, as whole, are concentrating secondary educated people in occupations such as: technicians, services and sales workers, craft and related trade workers. Other countries, such as: Ireland, Spain, Greece, Denmark are interested to raise the share of tertiary educated people in professional occupations. Germany is focused to raise the share in employment of the secondary educated people.

The evolution of the employment rates by educational attainment in the last 12 years shows a general decrease for all educational levels. The financial and economic crisis brought an additional pressure on the labour markets. In all countries, between 2007-2011, the employment rate of the higher educated people decreased. Only a few european countries (Germany, Luxembourg, France) were successful in valorising their highly skilled people on the labour market.

The question for the european countries for the next years is on wich position will pose the tertiary educated people? They have to solve the dilemma: more highly skilled people for top economic activities(research, TIC, innovation) or more medium skilled people dedicated to jobs (technicians in the green economy, new industries).

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Considerations on the Probative Force of the Transport Document. The Implementation of the EU Legislation into the National Law

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Abstract

The international transport, an essential element of global economy, should be done under conditions that provide confidence to the participants in this activity, which implies the existence of an adequate legal framework. The essential legal instrument in achieving the international flow of goods is the contract of carriage, evidenced by the ascertaining certificate or by equivalent means.

Keywords: transport, contract, document, bill of lading

J.E.L Classification.: K 10

1. Introduction

The relations established between professionals are based on the idea that the person who has assumed obligations under a contract to another person will endeavor to fulfill those obligations with the utmost fairness and without prejudice to the interests of the other party. In the current regulation of the Civil Code, good faith is extended when concluding the contract, and during its execution (art.1170 Civil Code) [1].

The issue of fairness and good faith in transports regards, on the one hand, the claims and statements made by the sender to be inserted in the transport document, and, on the other hand, the carrier's correlative obligation to verify the accuracy of these statements and claims.

2. The nature of the transport document

A feature of the regulation of the contract of carriage is represented by the importance attributed to various transport documents, waybills and bills of lading.

The legislator, in the New Civil Code, taking into consideration the practice and the special legislation applicable to different modes of transport, establishes the rule that the transport document is non-negotiable.

This rule is applicable, except shipping, to all other modes of transport; road way bills, railway way bills, air way bills are non-negotiable documents. In contrast, in shipping, most often, the bills of lading are negotiable documents, "to order", transferable by the simplified procedure of the endorsement. The exception is explained by the function of security, representative of the commodity, fulfilled by the bill of lading in relation to other documents used in land and air transportation. Therefore, if any transport document is an instrument of proof, meaning that it proves the conclusion of the agreement between the parties and the freight delivered to the carrier for transportation, the bill is, in addition, a security for the transported freight.

The transmission of the bills of lading "to order" follow the rules applicable to other order papers (art.1965 Civil Code).

Regarding the content of the transport document, the new provisions of the Civil Code designate only the essential elements that are to complete the special provisions applicable to each type of transport (art.1961 paragraph 2 Civil Code).

3. The transport document is an instrument of proof

The common principle of international and national regulations is that any contract of carriage must be confirmed by a document substantiating the will of parties.

This rule is laid down in the Civil Code. The contract of carriage shall be confirmed by the transport document delivered by the shipper when rendering the goods for

transport (art.1956 of the Civil Code in conjunction with art.1961 of the Civil Code). This legal statement demonstrates that, in the transport of goods, the transport document is the instrument acknowledging the contract, its elaboration being necessary *ad probationem*.

The existence of the contract and of its provisions are not necessarily subordinate to drawing up a transport document. In this regard, the special legal provisions concerning the transport modes state that the lack, the inaccuracy or the loss of the way bill shall not affect the existence or the validity of the contract (see Art. 6.2 of CIM - Appendix B to the Convention on the International Carriage by Rail COTIF, adopted at Berne, 1980, ratified by Romania by Decree no. 100/1983, published in B. Of. no. 23/1983, as amended; Article 9, point 1 of the Convention on the Contract for the International Carriage of Goods by Road CMR, adopted at Geneva, 1956, ratified by Decree nr. 451/1997, published in the Official Gazette 145/1972 etc.).

However, the importance of a transport document is still evident.

From an administrative point of view, the existence of the transport document along with the other documents required by the legal provisions in force, allows the control of the carrier's activity. In this respect, the European regulations state that the international carriage of goods by road can be made only by those road transport operators who also have on board of their vehicle, along with the specific documents (the certified copy of the Community license, permits etc.), the transport document, respectively the CMR consignment under the CMR Convention (see the EC Regulation nr.1072/2009 on the common rules for the access to the market in the international carriage of goods by road; art. 43 of the methodological rules for the application of the provisions on the organization and carrying out of road transports, established by G.O. nr.27 / 2011).

From a civil point of view, the transport document mainly meets the role of evidence.

Regardless of the transport mode, the transport document is the evidence of the existence of a contract of carriage and of the conditions that it regulates.

The most important problem, which generates the most important legal effects, is related to the determination of the moment when the contract has been concluded. This has a great practical importance, as it marks the starting point of all the effects that the contract is to produce. This is why both the Civil Code and the provisions of special laws state that the date of the delivery of goods has to be mentioned.

The date of taking over the goods, mentioned in the transport document, plays a special role, both in the relations between the parties, and between them and third parties.

In the relationship between the parties, the date mentioned in the transport document represents the moment when the carrier's liability for the proper performance of his/her contractual obligations starts.

The date mentioned in the transport document also plays an important role for third parties, the co-contractors of the parties. Thus, in international business practices, the contract of carriage is often seen as a legal instrument required to execute a contract of sale [2].

In this situation, the issue of the transport document is of great importance both in the relations between the parties to the contract of sale, as well as between them and the carrier. Signing and issuing the transport document mark the handing over of goods, the movement of goods from the custody of the vendor or of its representatives in the custody of the carrier, the entry into force of the insurance policy of the goods that will be in transit and, in a large number of cases, the moment when the shipping fee is payable to the carrier.

From a legal perspective, the two operations are distinct, so that the carrier is not directly interested in complying with the conditions inserted in the contract of sale. But his/her interests must always regard the correctness of the information in the transport document. Generally, the liability for failure or inaccuracy of the information inserted in the transport document belongs to the sender.

Regarding its dating, and, consequently, the time of its conclusion, the liability belongs to the carrier. In this respect, it is necessary that transport documents bear the date of the actual completion of loading the goods into the transport vehicle. This rule is expressly provided for the specific legal

provisions applicable to land transport, which set the binding nature of the information referring to the date of the way bill (art. 7 point 1 CIM; art. 6 point 1, letter d, CMR Convention).

Also, in shipping, the bill of lading must bear the effective date of loading the goods and it has to be released only after the completion of loading. The United Nations Convention relating to the Carriage of Goods by Sea, adopted in Hamburg, in 1978, provides for the carrier's obligation to issue a bill of lading to the loader, on request, mentioning that the goods were loaded and specifying their loading date (known as the Hamburg Rules, the Convention was ratified by Decree no. 343/1981, published in the Official Gazette nr.95/1981).

However, this rule is not observed in all cases. The fault belongs in most cases to the loaders who fail to finish loading the goods on the ship until or at the deadline that allows them to use the bill of lading in commercial and banking transactions; therefore they insist on the issue of backdated or anticipated bills of lading. If the loader is the seller of goods, the delayed delivery may harm the buyer; therefore, in order to escape liability, he/she will be interested in getting a backdated bill of lading. This practice is listed as illegal and fraudulent; the master empowered to sign the bill of lading is liable for the false dating, and the buyer is entitled to take proceedings against him/her [3].

The transport document is not only a proof of the agreement between the participants to the transport activity, but it also proves the taking over of the goods for transportation, their nature, quantity and apparent condition (art.1962 paragraph 3 of the Civil Code). For any inaccuracy or omission on the goods took over, entered in the transport document, the responsibility lies with the sender.

In road and air transports, the sender is responsible for all the costs and damages incurred by the carrier due to entering in the way bill incorrect, inaccurate, incomplete information or information registered elsewhere than in the place reserved for it. He/she will also respond if there has been omitted the registration of information referring to the dangerous nature of goods, or if there have not been mentioned the uniform regulations governing that transport.

Moreover, even if the carrier includes certain information in the transport document, he/she is presumed to have acted on behalf of the sender.

In maritime transport, the shipper is obliged to provide the carrier accurate data on the freight and he/she shall be liable for any loss arising from any inaccuracy of those indications; however, the carrier's right to such indemnity shall limit, in no wise, his/her liability under the shipping contract to any person other than the shipper.

4. The probative value of computerized transport documents

Traditionally, the proof of the conclusion of the contract of carriage was made in written, with the generic name of transport document.

Later, with the development of global electronic commerce, there was raised the problem of implementing the information technology in transports. In connection to this issue, the question that arises is to know the extent to which a transport document issued in electronic form should have the same probative value.

The entry into force of the New Civil Code generally resolves this problem by implicitly recognizing the possibility to conclude contracts by electronic means (art.1245, the Civil Code). In accordance with the provisions of the Civil Code, the legal status of these contracts, and of the ascertaining documents, is governed by the provisions of the special law.

The problem of ensuring an adequate and evenly legal framework, allowing to surpass the obstacles in using electronic media by professionals, was solved at European level by adopting the Directive on a Community framework for electronic signatures 1999/93/EC.

The frequent use of electronic media in various fields, the need to increase confidence in new technologies and to generally accept them, imposed the need to revise the laws in the Member States so that they do not constitute obstacles to the free movement of goods and services in the EU.

Internally, the use of electronic media, in general, and the implementation of data interchange, in particular, became possible simultaneously with the transposition into the

national law of the provisions of Directive 1999/93/EC by Law nr.455/2001 on Electronic Signatures (published in the Official Gazette nr. 429/2001). The provisions of this law now provides for the legal framework for the documents in electronic form, their conditions and probative value.

As a general rule, the law defines the document in electronic format as consisting of a series of data created electronically with a specific meaning, data to be interpreted by using appropriate software (Article 4, section 2 of Law nr.455/2001).

The need to introduce uniform provisions for the use of the information technology was also felt in the area of transports. The implementation of data exchange and the legislative solutions that ensure the principle of the free movement of goods and services involve, in time, the replacement of traditional paper documents with electronic messages. The area of transports, however, needed an adequate legislative framework that provides protection to the participants in transport activities.

The problem of finding uniform solutions in order to eliminate the legal obstacles in the development of electronic commerce has been a major concern for the United Nations Commission on International Trade Law (UNCITRAL).

In road transport, the solution proposed in order to facilitate the use of electronic data recording methods was to adopt a Protocol to the Convention on the Contract for the International Carriage of Goods by Road (CMR) concerning the electronic way bill. Under this protocol, the contracting party is able to prepare the way bill by interchanging data, provided that both parties apply a common procedure (Article 5 of the Protocol).

In rail transport, the Uniform Rules Concerning the Contract of International Carriage of Goods by Rail (CIM) provide for the possibility to draw up a way bill by electronically recording the data that can be transferred in readable signs (Article 7, Section 9).

Also, uniform air transport regulations allow the use of electronic data for recording the information on the contract of carriage (Article 4 § 2 of the Convention for the Unification of Certain Rules Relating to the

International Carriage by Air, Montreal 1999, ratified by G.O. nr.107 / 2000, published in the Official Gazette nr. 437/2000).

In accordance with the general provisions governing the matter, any electronic document has the same probative value of a written document to the extent that the recording of traditional data is associated with an electronic signature (see art. 1245 of the Civil Code in conjunction with art. 5 of Law nr. 455/2001). In this respect, there are the special provisions that assign the same justificative value to the transport document confirmed by electronic signature, regarding the contract of carriage or the delivery of goods.

In land and air transport, keeping the particularities of the documents replaced by electronic data did not raise particular problems as long as, on the one hand, those records only mean computer information, and, on the other hand, the documents are non-negotiable. The only difficulty is encountered in negotiable transport documents, used in shipping [4]. The bill of lading is a negotiable security, making it different from other transport documents used in land and air transportation, and even from the sea way bill [5].

The possibility of signing the electronic bill of lading is provided by the Hamburg Rules, if the process is not unlawful in the country where the bill of lading was issued (Article 14 point 2). Provisions relating to the electronic bill of lading are provided in documents adopted by international organizations (UNCITRAL Model Law for Electronic Commerce 1996, CMI Rules for Electronic Document Interchange, 1990). Also, the INCOTERMS Rules provide that the transport document may be replaced by an equivalent message of electronic data exchange if the parties have agreed to communicate electronically (rule A8).

The probative function of an electronic bill of lading that meets the mentioned legal requirements can not be challenged. The conclusion of a carriage contract by sea and the handing over of the freight to the carrier is similar to the way bills. In addition, compared with the transport documents used in road and air transport, the bill of lading also plays the role of security, representative of the goods; therefore, finding an equivalent in a computer system was more difficult. For

this reason, in order to ensure its negotiability, as an additional condition, there was necessary to electronically constitute a warranty of security. The legal provisions provide this solution by issuing qualified certificates by certification service providers, supported by advanced electronic signatures (see G.D. nr.1259/2001 on the technical and methodological rules for Law nr.455/2001, published in the Official Gazette nr. 847/2001, as amended). An electronic bill of lading signed with an advanced electronic signature issued on the basis of a qualified certificate may be an equivalent to the traditional bill of lading.

5. Conclusions

The contract of carriage is, in fact, an original legal instrument, as long as its existence is highlighted by the systematic use of transport documents.

Regardless of the medium used, the issue of a transport document proves (until proven otherwise) the conclusion and the conditions of the contract of carriage. In addition, it is a proof of the goods handed over to the carrier.

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Incidence of the European Social Fund objectives on the employment growth rate

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Abstract

In this paper, we want to present the great importance of the European Social Fund on the EU labour market, which is the main financial instrument of European Union structural actions. The European Social Fund has certain fixed objectives established rigorous enough to tackle the challenges of the Member States of the European Union. These objectives will be revealed in detail in this paper, where we try to evince their incidence on the employment growth rate also.

Key words: *European Social Fund, labour market, employment rate, social partner*

Clasificare J.E.L.: J16

1. Introduction

The European Social Fund was created by art. 123 of the Treaty of Rome "to improve employment opportunities for workers in the common market and to contribute thereby to raising the standard of living, an European Social Fund is created under the provisions that follow, whose mission is to promote within the Community the facilities of employment and geographical and professional mobility of the workers", which through the Structural Funds reform has become a key component of promoting the economic and social cohesion. ESF is one of the EU structural funds designed to help

especially to combat unemployment, the imbalance in the labour market and to help the disadvantaged regions also, or to reduce the differences in prosperity and living standards in the Member States of the European Union. The European Social Fund is devoted to promoting employment in the European Union. It helps Member States and companies to better equip the companies and the workforce in Europe to meet the new global challenges. It is therefore a way to create more and better jobs.

The funding is spread across the regions and Member States, particularly the least economically developed, as we mentioned before. Meanwhile, the European Social Fund is a key element of the EU strategy for development and employment, with the aim of improving the lives of the EU citizens by giving them skills and better prospects for getting a job.

In the 2007-2013 period, about 75 billion euros will be allocated to regions and Member States of the European Union to achieve its goals.

The Council has indicated a number of measures that might help Member States and social partners to manage the impact of the global crisis by applying principles of flexicurity.

Thus, the Council stated that it supports measures such as:

- Quick launch by the European Social Fund of further action to support employment, in particular for the most vulnerable populations, paying

particular attention to the smallest businesses by reducing non-wage labour costs;

- Mobilization for employment in the key sectors of the European economy, in particular through the European Globalisation Adjustment Fund, including through improving and accelerating its production;
- A continuous overall and significant reduction of the administrative burdens on businesses [3].

Thus, we can say that the European Union has strengthened its efforts to promote employment and social inclusion, as part of its strategy to tackle the financial and economic crisis.

The mobilization of the European Union's funding took place through the following:

A recovery package worth 200 billion euros was announced by the European Commission in November 2008. Approximately 170 billion euros came from the budgets of the Member States and the European Union and the European Investment Bank have supplied together 30 billion euros;

- The Commission proposed to simplify the criteria for support from the European Social Fund, reprogramming costs and increasing advance payments from early 2009, so that Member States could have earlier access to up to 1.8 billion euros in to strengthen active labour market policies, reorienting support towards the most vulnerable, increased activities for skills development and, where appropriate, to choose for full funding of the Community of projects during this period;
- The Commission has suggested some changes in the European Globalisation Adjustment Fund (EGF), which was designed to support redundant workers to return to work. If accepted, the proposals will enable the EGF to interfere quickly to provide funds for training and work placement projects. The annual budget available under EGF it amounts to 500 million euros.
- The European Commission has proposed a new microfinance facility providing microcredit to small businesses and individuals who have

lost their jobs and want to start a small business.

Promoting employment was intensified also by:

- Employment Portal EURES;
- The "New Skills for New Jobs" initiative;
- European strategy on employment;
- The Commission published a new series of monthly monitoring reports on this rapidly changing context;
- The European Commission has adopted a "shared commitment for employment".

2. European Social Fund in Romania

The European Social Fund focuses on two main areas using two operational programs "Human Resources Development", which aims to develop the human capital in Romania and "Administrative Capacity Development", which aims to improve infrastructure services and public policies.

Operational Program	Community funding (mil. EUR)	National Contribution (mil. EUR)	Total funding (mil. EUR)
Human resources development	3.476,1	613,2	4.089,4
Administrative Capacity Development	208	38	246
TOTAL	3.684,1	651,2	4.335,4

Source: European Commission

Romania receives through ESF an amount of about 3.7 million euro, meaning a total investment of about 4.3 million euro due to a national contributions of 15% of total funding, Approximately 94, 3% of these funds are for human resource development. Benchmarking with other member countries reveals that Romania ranks 10 on total allocations, being surpassed by Spain, Greece and the Czech Republic, and Poland, the clear leader in this area, with a total allocation of 3 times that of Romania. However, Romania receives more funding

for certain priorities than the EU average. Thus, to improve services and public administrations Romania receives 2 times the EU average and to support reforms to improve the quality and number of jobs receives 3 times more. For supporting the businesses and employees in order to better adapt to the changing labour market conditions, Romania receives 26%, while the European average is 18%.

A particular attention will be paid to the situation in the rural areas, given that a large percentage of the working population is living in these areas. The phenomenon of hidden unemployment and underemployment is a continuing concern and requires specific actions to identify and maximize all the opportunities to integrate on long-term the unemployed persons into the labour market.

3. European Social Fund in association

European Social Fund strategy and budget are negotiated and decided by the Member States of the European Parliament and the Commission. On this basis, Member States and the European Commission schedule the operational programs for a period of seven years. Operational programs are then implemented by a number of organizations in both the private and public sectors. These organizations include national, regional and local educational and training institutions, nongovernmental organizations (NGOs) and the voluntary sector and social partners also, as trade unions and business committees, industrial and professional associations and private companies.

The cooperation with the social partners is equally important, the Commission has maintained close contact with the representatives of the employers and trade unions in order to discuss the impact of economic and financial crisis, including a high-level tripartite meeting held on 19 March 2009. However, a Report on industrial relations published by the Commission in February 2009, indicates that constructive dialogue between employers and trade unions can help the European Union to take action against the crisis.

Regarding the cooperation with the international partners, the EU has played an important role in the G20 Summit in London on 2 April 2009, which has agreed on the

international action to stimulate the economy and improve financial sector regulation. However, the Commissioner Vladimir Špidla discussed the social dimension of the crisis with his counterparts from the G8 Labour Ministers of the G8 meeting held on March 30, 2009. And the European summit in employment of 7 May 2009 strengthened efforts to promote employment and social inclusion, as a consequence of the economic crisis.

4. European Social Fund in future

The strategy for development and employment is the main EU strategy for ensuring the prosperity and well-being of the Europe and of the Europeans, now and in the future. In this context, the European employment labour strategy determines the 27 Member States to work together to increase the capacity of the Europe to create better and more jobs and to equip people with the skills to fill them, so that rigidity on labour market will be eliminated, which can affect the rating given by the credit rating agencies, being actually a two-way relationship between them, on the one hand a relatively high occupancy rate may be a factor for obtaining a good rating of the Member State and vice versa providing a low rating may increase unemployment by the fact that potential investors are reluctant to face negative economic outlook and employment will fall or at least be maintained over the short term.

In conclusion, attention should be on the most vulnerable people and on the new risks of exclusion [6].

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Crisis as Opportunity for European Integration

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Abstract

European integration process crosses now a deep crisis caused by the complexity of the issues arising within the twenty-seven Member States which do not have yet entirely appropriate solutions, on one hand and on the other hand, by a type of inefficiency of the institutional-European management, recognized in statements by European leaders, and also by the inadequacy of the common European policy, starting, especially, from the lack of harmonization of two interests: the national interest with the community one. So, in this paper I intend to briefly summarize some of the main problems with which „ a state needs to navigate on its road to integration” and also to identify potential solutions for the crisis that the entire functional, as the European Union is called, is crossing now.

Keywords: European integration, the win-win principle, whole functional, sustainable European construction, institutional and human spiritualization.

JEL Classification, F15, A13, D73.

1. The Starting point

The integration process within the European Union involves interrelated, complex, dynamic stages taking place in a certain social, political, economic, cultural, religious, spiritual context and not only; this context involves significant chances in the candidate countries although initially the dominant philosophy of the European integration aimed especially the Single Market designing direct effects on social progress[1].

The European State which wishes to become a member of the Union, may require that, upon application to the European Council, which shall act unanimously, after

consultation the European Commission and after a favorable opinion of the European Parliament. Opinion is obtained with the absolute majority of its members. The admission requirements are subject to an Association Agreement between the EU, respectively the Member States and the applicant State. This agreement is subject to ratification by all the contracting States, in accordance with their constitutional requirements. According to the decisions taken by the European Councils in Copenhagen (1993) and Madrid (1995), a candidate state which wishes to become a Member State of the European Union must meet the following conditions:

- to demonstrate the stability of the institutions that guarantee democracy, the rule of law, human rights and which also respects and protects minorities (political criterion);

- to show the existence of a functioning market economy and the capacity to cope with competitive pressure and market forces within the Union (economic criterion);

- to convince the European bodies by their ability to assume the obligations of membership, including adherence to the aims of political, economic and monetary union (the ability to adopt the *communautaire acquis*);

- to be able to adapt to administrative and judicial structures, so the the EU legislation can be transposed into national legislation and to be properly implemented (administrative capacity criterion).

So, in the broader meaning of European integration process, the economic integration represents a part, mainly characterized by all measures destined to contribute to the suppression of discrimination between economic agents located in different countries[2]. Economic integration were manifested over time, in various forms, simple (areas of free trade or customs

unions) or more complex (such as monetary unions, economic union or political union).

2. From Condition to Reality

Therefore, based on those said before, I believe that the candidate countries must know before entering the Union all regulations involving their integration in good conditions (Original treaties, Treaty on European Union and all complement documents) for a detailed analysis of their situation, with respect to the conditions of accession and harmonization of national politics with the community ones so as to take into account the specifics of the candidate countries, such as: state of the economy, its ability to engage in a fierce competition with other similar economies within the Union, resources, socio-professional training, genetic heritage, education etc..

However, of particular importance for the success of the integration process is the accession process as a whole. Since at this stage the candidate state should consider, firstly, the benefits that can be obtained from integration, but also the fact that specific and economic, geographic, cultural, spiritual, political features can be recovered in better conditions. Of course that these specificities and features of the candidate state can be transformed in strenghts, from which advantageous conditions can be negotiated.

An important role in preparing the accession process has the depth analysis of: resources, production means and capabilities, qualified workforce, production of material goods taking into account the domestic and foreign markets (on negotiations). The analysis should be the basis of making new development plans for short, medium and long term, so that adapting to the requirements of the European Union will not affect anything in providing the material basis of the nation, but also the future development of that State.

The candidate countries must prepare a strategy consistent with the European Union, as far as possible and through a democratic procedure such a referendum so that public can vote for the opportunity of accession. Strategies, namely, the development plans of the countries acceding must be prepared to reduce any differences from the more developed countries of the Union. For

example, in year 2009 the indicator of serious material poverty, calculated by the European Commission vary between 32% and 1% in Luxembourg [3].

At the same time, among the main objectives, besides economic ones, must be those related to the real harmonization of income, respectively wages and pensions with the community and reducing employment.

A starting premise for analyzing the integration process is based on the fact that both effects and causes that generate them are judged differently depending on the position of the one who participates at the negotiation. The European negotiator seeks Community's interest, and the other one seeks his own interest. Harmonizing the two interests occurs throughout the pre-accession phase, which means that the negotiation should start from the win-win principle, so both parties win. Therefore, acceding states must form teams of negotiators. State negotiators must be professional, honest and patriotic, incorruptible people that know in detail the development strategies on short, medium and long term, so as to be able to support it in the future, in the period after accession.

Establishing the country's development strategy must be drawn by the best specialists in domain who know in detail the characteristics of people and by politicians, patriots. The strategy must be drawn after wide-ranging discussions on areas, counties and municipalities to take into account the views and suggestions of local communities. Negotiators must know very well the negotiating mandate in order to know what compromises need to be done when community negotiators do not agree with some parts of the developing program or when other divergent contrary to the interest of candidate states appear.

At the same time, in the post-accession in the program must be included the production of material goods and services with which the candidate state occupies one of the first places in Europe and in the world, from the point of view of quality and selling price. The post-accession program must ensure the fullest possible economic-financial-banking independence and also a political-military one and the least dependence on European Union.

Also, there should be clear provisions about the labor which must be formed by the nationals of the candidate country. At the same time, the unemployed rate must be as low as possible and it has to avoid paying the lack of work. The level of life should grow continuously and its decreasing must not be accepted no matter what the European Union claims. Once with the alignment of prices of products moving within the European Union, an alignment of salaries and pensions with the ones within the Union must be done.

Country's development has to be done in all areas using resources, means of production and local labor, as much as possible. The sector or sectors of activity set to grow in the post-accession period has/have to be in the attention of the head of the state regardless of the property. In areas where are internal and external investments and where active population has nowhere to work is better for the state to intervene in investments, directly or preferably by encouraging local investors to invest and absorb local workforce.

On the other hand, the EU developing economy as a whole must be concurrent with the economies of all member states, at least at the same time. Economic integration must become a factor of increasing competitiveness, of community capacity to use and know knowledge in the fight against limitations and uncertainties. Of its positive sides should benefit equally all countries that are members. In this sense, if countries considered undeveloped are not helped to fill the gaps between them and the stronger countries, the results will only enjoy the more developed states. The discrepancies should be reduced continuously, even at the expense of certain positions of power of developed countries. Otherwise, it will cause negative reactions, social, economic, political convulsions which gradually will move from inside to outside of those countries, undermining the economy from within the European Union, but more especially, institutional building. The crisis that included the European Union is a relevant example in this respect [4], [5], [6], [7].

This crisis has highlighted the constant need to have a policy that invests in competitiveness in Europe, in its citizens's welfare and in the quality of our environment

(...) the success of this policy if provided by a coordinated action, stated in year 2010 two senior European officials, Johannes Hahn (European Commissar for Regional Policy) and Laszlo Andor (European Commissar for Employment, Social Affairs and Inclusion) [8].

Jose Manuel Barosso admitted in year 2010 that: *in the past two years, millions of people have lost their jobs. We will have to endure many years the burden of debt caused by the crisis (...) our future will depend on the response of Europe (...) our success depends by the real implication of leaders and institutions from Europe*[9].

In other words, the president of European Commission admitted that there are disparities within the Member States, which, in fact, will affect, sooner or later, the whole called European Union.

More than that, two years later, in February 2012, European Commission published Europe's bio-economy strategy which emphasize *that Europe has to radically change its approach to production, consumption, processing, recycling and disposal of biological resources...* due to the fact *that Europe is facing an unprecedented and unsustainable exploitation of its natural resources with significant and potentially irreversible climate change... which threatens the stability of living that it depends on* [10]. And then, should we not ask ourselves about the functioning of institutional mechanism called European Union ? And going forward, if European Union will not function as a whole, will appear, perhaps, on its starry blue-sky, more and more problems?

3. Crisis as an opportunity for European Institutional Change

Probably yes! In light of the above, it appears pretty clear the idea that, due to the current complexity of the European life, which carries with itself direct interdependencies but also uncertainties of meaning, the European Union is currently in a state not seen before. The special issue of the twenty-seven Member States does not correspond anymore with the one from more than fifty years ago. Differences at various levels, from social to cultural-spiritual ones between the Member States, but also the fact

that the welfare did not occur since the entry into EU structures, especially for the former communist countries and also the lack of hopeful prospects, are all concerns for European future considered as a whole [11].

And then, relatively few solutions to many European issues must relocate within the European institutional framework by making the foundation of a development for the diversity posed by the new European world. If there is a lack of diversity, the integration process cancels the meanings of life of individuals, becoming an empty shell, an utopian project that could not be put into practice. The sustainable European construction must be based on spiritual assimilation of values of integration in which people believe, think, act, live and hope [12].

If the results are not gradually materialized and are not immediately visible in each country, the integration process will depart from what the founding fathers intended to build.

At the same time, the current crisis, like George Miller said, is a crisis that man, as an intelligent and destructive human being at the same time, created: *world's most serious problems are those created by ourselves (...) they are human problems, whose solutions require changing our behavior and our social institutions* [13].

David Korten, continuing Miller's idea, said that this crisis is *essentially moral due to greed and human individualism* [14].

And then, if, in fact, the causes of current crisis must be sought elsewhere, not only in the economic world, which would be the solution for it and which will be the future of integration process? Probably a solution, with respect to the first part of the question, as other authors argue, is that through human being will spiritualize in a process of inner transformation, that can be achieved only through *effort, individual farms, concentrated effort and personal responsibility* [15].

In the words of Professor Constantin Popescu [16], the solution to the current crisis must take into account the recognition of the spiritual nature of the problem, based on behaviors like „Us Against Them”, tearing the harmony between man and others and between them and the natural environment.

Regarding the integration process I believe that it should continue, but respecting and in advantage of all involved parties. I

think that it is needed a process of European institutional spiritualization, that will lead firstly to the elimination of excessive bureaucratic process. A change in European thinking needs to be based on the whole-integrated principle, whereby each component is part of a larger whole and every action taken can positively or negatively affect all parts of the whole, in parts or in its entirety.

Otherwise, an integration process for the sake of integration is, in my opinion with other existing views, an opposite process, which can lead to bigger and bigger problems and can result in the end to an internal fracture of the whole function that I called European Union.

4. Conclusions

In conclusion, it is probably better that the crisis has come now and not later, when it may be too late to do anything to solve the deep problems of European integration.

The opportunity generated by the current crisis must not be missed, but it rather must be seized in the way of rethinking the whole process of European integration, correcting its deficiencies and, paraphrasing former Belgian Prime Minister, Guy Verhofstadt [17], it is time to lay the foundations of a new Europe. Otherwise, it is likely that after a period of time we will talk in the past about the European Union.

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Clean and Secured Black Sea – a Road for European Integration

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Abstract

The Black Sea area forms a vital bridge between the East and West, mostly in terms of transport and energy supplies. It is in fact a region of enormous geo-political sensitivity and latest round of enlargement of the European Union brings the EU right up to the shores of the Black Sea.

The Black Sea Region (BSR) is understood by the European institutions to reach well beyond the sea's actual shores. It includes three EU Member States, Romania, Bulgaria, Greece, and one candidate state, Turkey. It also includes Russia, Europe's major strategic partner to the East and a number of countries identified as Europe's neighbourhood: Republic of Moldova, Ukraine, Armenia, Azerbaijan and Georgia.

This paper is focused on showing regional concerns on marine environment protection and pollution prevention along with safety and security considerations in order to get a clear road of European integration with a clean and secured Black Sea.

Key words: regional concern, environment protection, pollution prevention, integration, safety and security

J.E.L. classification: R11, Q56

1. Introduction

The Black Sea is one of the most remarkable regional seas in the world. It is almost cut off from the rest of the world's seas, is over 2200 m deep and receives the drainage from a 1.9 million km² basin covering about one third of the area of continental Europe.

Its only connection to the world's oceans is through the Istanbul Strait, a 35 km natural channel, as little as 40 m deep in places. This channel has a two layer flow, carrying about 300 km³ of seawater to the Black Sea from

the Mediterranean along the bottom layer and returning a mixture of seawater and freshwater with twice this volume in the upper layer.

Every year, about 350 km³ of river water enters the Black Sea from land in over twenty countries: Albania, Austria, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Czech Republic, Georgia, Germany, Hungary, Italy, Macedonia, Moldova, Montenegro, Poland, Romania, the Russian Federation, Serbia, Slovakia, Slovenia, Switzerland, Turkey and Ukraine. Europe's second, third, fourth and sixth largest rivers the Danube, Dniro, Don (indirectly via the Sea of Azov) and Dniester all flow to the Black Sea.

The Black Sea's catchment area is very large, with a total surface of around 2 million km², five times the surface of the Black Sea itself and a third of (non-Russian) Europe's land mass. Some of Europe's longest and largest rivers flow into the Black Sea and into the Sea of Azov, including the Danube, the Dnieper, the Southern Bug, the Dniester and the Don.

The area is inhabited by a total population of around 160 million people (BSEI, 2005). Though rather less densely populated than Western Europe, it includes some of Europe's population and industrial centres in Western and Southern Ukraine, in Russia (Rostov on Don, Krasnodar, Smolensk), in Istanbul and in central Europe (Austria and Slovakia).

The Black Sea itself covers an area of 423 000 km², not including the 37 860 km² of the Azov Sea, and its immediate coastal areas are home to about 16 million people¹ (BSEI, 2005) [7] .

The region is an economic hub, and a focus for international trade between the countries on its shores. History bears witness to the Black Sea's role in trade and therefore traffic: the ancient Greeks, the Eastern Roman (Byzantine) Empire, the Ottoman and more recently the Russian Empire have ruled

all or most of the territory surrounding the sea.

The region's natural ecosystems include forests in the West, South and East, steppes to the North, and Alpine ecosystems at higher altitudes in the Carpathians, in Anatolia and in the Caucasus.

Areas of greater natural and biological diversity within the Black Sea Region include in particular the Caucasus, Crimea, Anatolia, the Carpathian mountains, the estuary of the Danube and other wetlands. Both the Caucasus and parts of Anatolia are furthermore considered by the European Environmental Agency as "biodiversity hotspots", because they combine a particularly rich biodiversity and an alarming rate of habitat loss [6].

2. Environment protection and the economic value of the Black Sea region's natural assets

The environmental status of the Black Sea has been the subject of major environmental concerns since the early 1990s. This has led to the signing of the Black Sea Convention in 1992.

While its vast catchment area spans much of Europe, the Black Sea is linked to the world's oceans only by the narrow passage of the Bosphorus. It is a deep sea, reaching down to more than 2000 m in places, but 87% of its volume, below 100 to 200 m in depth, is anoxic and can therefore support only a very limited range of specialized life forms.

The Danube on its own is by far the main source of nitrogen, phosphorus and suspended solids. Its nutrient load originates from agriculture and sewage running into the river and its tributaries over a vast, developed, and relatively densely populated catchment area. The nutrient discharge, which increased drastically after the 1960s, has begun to decline however.

The Black Sea's fish stock has declined drastically in recent decades. Catches dropped from a high of about 800 000 tonnes yearly for all species in 1984 to a low of 250000 t/y in 1991, causing considerable economic losses to the fishing industry in the region.

Catches have since recovered somewhat, but remain well below their earlier levels and

well below the estimated maximum sustainable yield for the Black Sea. The drop in fish stock is a result of overfishing, pollution, eutrophication and of habitat loss.

Overfishing has also altered the presence of various fishes in the Black Sea. Only five of the original 26 species of fishes which were under exploitation in the 1960s were still commercially exploited in the 1980s, as commercial fleets moved on to other species once fisheries had been exhausted.

Accidental pollution is also noted as a significant problem affecting the Black Sea, particularly oil spills, which cause considerable damage in the vicinity of ports and industrialized areas.

Waste dumping remains a problem, and discharges from both residential and industrial sites result in contamination by heavy metals, oil and derivatives, persistent organic compounds or radionuclides.

The International Maritime Organization (IMO) and the Black Sea Commission (BSC) signed an Agreement of Cooperation to increase mutual support on several environmental aspects of shipping including oil pollution preparedness, ballast water management and dumping.

The agreement was reciprocally approved by the IMO at the 26th Session of the IMO Assembly, held on 23 November - 4 December 2009, and by the Black Sea Commission during their meeting on 19-20 January 2010.

When ships unload their cargo brought from the Black Sea ports to other ports all over the world, they have to fill their ballast water tanks with sea water in order to keep their balance on their way back to the Black Sea.

It is estimated that about 3 to 10 billion tonnes of ballast water is transferred globally each year, potentially transferring from one location to another thousands of marine species that may prove ecologically harmful when released into a non-native environment. The effects of the invasive species have been devastating in many areas of the world, most notably in the Black Sea.

Being almost completely isolated from the world's oceans, the Black Sea's unique ecosystem is extremely vulnerable to the threats generated by human activities. Possibly one of the greatest of these threats is

transfer of invasive species into the Black Sea.

The Ballast Water Management Convention is comprised of measures to prevent the potentially devastating effects of harmful marine organisms carried by ships' ballast water.

It requires all ships to implement a Ballast Water and Sediments Management Plan, to carry a Ballast Water Record Book and to carry out ballast water management procedures to a given standard.

Currently there is a large project - "Environmental Monitoring of the Black Sea with Focus on Nutrient Pollution" in process of implementing [3].

The main objective of this project is to promote measures to facilitate delivery of the Black Sea Commission integrated regional monitoring and assessment products, with focus on nutrient pollution and eutrophication, including through transfer of related existing best practices from other regions, in particular the Baltic Sea.

The project consists of the following main activities [2]:

- creation of updated version of the Black Sea Information System (BSIS) in the public domain with links to European Information Systems; development of the online version of the Regional Database on Pollution; assessment of eutrophication parameters and analysis of status of data collection/reporting/use;
- elaboration of regionally agreed criteria for assessment of eutrophication; elaboration of the Black Sea reference and target concentration levels of eutrophication parameters; elaboration of a regional methodology on identification of water quality classes for eutrophication;
- Enhancing the Black Sea monitoring efforts; enhanced use of satellite observations for monitoring of eutrophication; assessment of feasibility of usage of automated systems (buoys, Ferry Boxes, automated samplers) for monitoring of eutrophication parameters in the Black Sea region, based on the experience of the Baltic region;
- development of implementation plan on setting up a modeling tool, linking background pollutants values in the Black

Sea with requirements for reducing input of pollutants.;

- transfer of best practices from HELCOM to BSC on eutrophication monitoring and assessments; organizing of a series of seminars and workshops for knowledge transfer; secretariat to secretariat exchange and mentoring

The implementation of the project will facilitate harmonization of countries' monitoring programs thus improving the regional monitoring (BSIMAP), elaboration of regional criteria for assessment of eutrophication and other pollutants.

It will be running in parallel with the Marine Strategy Framework Directive (MSFD) process providing wide possibilities for coordination and harmonization.

3. Specific aspects of maritime safety and security for the region of Black Sea

The maritime administrations of the littoral countries of the Black Sea share many common challenges associated with the adoption and implementation of international conventions related to safety and security of maritime transport and general trade.

As a strategic partner the European Commission is providing long term funding to help improve maritime safety, security and pollution prevention within the region and there are several projects under development and implementing process.

'TRACECA (Transport Corridor Europe-Caucasus-Asia)' project is one of most relevant in respect of European integration.

The project represents an opportunity for the beneficiary countries to capitalize on the international experience available from the international experts provided by the EU and, together with their national experiences develop and realize relevant maritime transport strategies and programmes, and implement "joined up" policy packages at regional and national levels in the areas of maritime safety, security management and ship pollution [1] .

The desired output of this technical assistance project is the enhancement of that knowledge and experience required by the national and regional bodies responsible for maritime safety, security and protection of the marine environment.

A further aspiration of the project is to assist the beneficiary countries in the completion of their accession to the relevant IMO conventions and to improve their implementation in a national and regional context.

The beneficiary countries have participated in a number of earlier programmes or projects related to maritime safety and security management (ISM and ISPS Codes) and pollution prevention in both the Black Sea and Caspian Sea either individually or as partners in regional programmes.

These include the following [6]:

- the “Improvement of Maritime Links between TRACECA and TENs Corridors” (Bulgaria, Georgia, Romania, Turkey, Ukraine);
- Maritime Training: Ukraine, Georgia, Azerbaijan, Kazakhstan;
- Environmental Collaboration for the Black Sea;
- Motorways of the Seas for Black Sea and Caspian Sea;
- “TACIS/2008/154-904 (EC) Motorways of the Sea (MoS) for Black Sea and Caspian Sea;
- ENPI/2008/155-683 (EC) Transport dialogue and network.

An initiative in port security management is unifying theme that affords an opportunity to deal more effectively with maritime security problems. The enhancement of existing domestic and international regimes provides an opportunity to be more effective in the fight against maritime crime [5].

As a result of ISPS Code, all ports in the Black Sea area have to comply with minimum security requirements and there is in place a large technical assistance from EU in this respect.

4. Conclusion

This article concludes that the maritime safety and security arrangements in the Black Sea region must be based – on one hand, on making use of the existing regional mechanisms and – on the other hand, on making full use of new opportunities and projects developed together with European

Commission for having ensured for the future a clean and secured Black Sea.

It also emphasizes that Black Sea marine environment protection and general maritime safety and security must rely on three principles: contribution and the will of the coastal states, effective sharing of information and common efforts on implementing and adherence to a common legislative package.

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What Influences more the Entrepreneurship in European Countries: Opportunity or Necessity?

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Abstract

This study aims to analyse the influence of the opportunity and of the necessity on the entrepreneurial activity in last years in European countries. In order to achieve its aim, there are used official databases related to the entrepreneurship activity measured by Global Entrepreneurship Monitor (GEM) and the main representative indicator of the economic development – growth rate of GDP per capita. In order to establish the most important factor which has the major impact to the development of the entrepreneurial activity in analysed countries, we applied Cluster Analysis, and statistical indicators and methods. According to the previous studies, there are differences between countries regarding the opportunity, respectively the necessity impact on entrepreneurial activity, thus we are focus to find if the previous conclusions are available also in the current international context, influenced by the crisis.

Key words: entrepreneurship, economic development, Cluster Analysis, opportunity, necessity

Clasificare J.E.L.: L26, O11, C38

1. Introduction

The entrepreneurship phenomenon is well represented in the literature (Cantillon, 1755[1]; Say, 1803 [2]; Marshall, 1890[3]; Knight, 1921[4]; Schumpeter, 1934 [5], 1949 [6]; von Mises, 1949 [7], Drucker, 1985 [8], Lumpkin and Dess (1996 [9]), but, in the same time, in the documents of the international institutions and organizations. This phenomenon is considered one of the most important solutions which could assure the development of the entire society. The current international economic context has

affected the national economies, in different ways, and also affected the motivations for develop the entrepreneurial activity. Under these circumstances, it is important to establish if a country is placed in the same group from the economic development level or it acts differently and also if there are different approaches to encourage the initiative to start and create new businesses.

2. Entrepreneurship and economic development

The entrepreneurship concept evolved from a period to another, based on the features of economic development. In the latest years, the concept was adapted to the new particularities of the complex economic environment, thus, Shane and Venkataraman (2000)[10] stressed that entrepreneurship includes also the study of sources of opportunities.

In the same time, international organizations have provided importance to the implication of entrepreneurship on social-economic development, and we find a significant definition of the Commission of the European Communities (2003) [11]: entrepreneurship is the mindset and process to create and develop economic activity by blending risk-taking, creativity and / or innovation with sound management, within a new or an existing organization.

One of the most recent definitions belongs to Ahmad, Nadim, and Anders N. Hoffmann (2008) [12] and Ahmad, Nadim, and Richard G. Seymour (2008) [13]. Based on their vision, entrepreneurship is the phenomenon associated with the entrepreneurial activity, i.e. the enterprising human action in pursuit of the generation of value, through the creation or expansion of economic activity, by identifying and exploiting new products, processes or markets.

We conclude this literature review with

another important definition: entrepreneurship is a multifaceted and heterogeneous activity (Audretsch and Thurik, 2001 [14]; Audretsch, 2002 [15]). Taking into consideration the wide and complex content of the entrepreneurship concept, we identified numerous correlations with other economic aspects. Thus, in this study we analyse the correlations between the entrepreneurial activity and the evolution of the considered economies, using the growth of GDP per capita. In the same time it is important to establish if the entrepreneurship activity was different influenced by opportunity or necessity in countries with similar or different economic development level. Moreover, there are influences on the economies, caused by the consequences of the current crisis.

3. Methodology

Our hypothesis is that the entrepreneurial activity was influenced different by the necessity and the opportunity, depending on the national economy development level.

In order to establish the factor that influenced most the entrepreneurial activity in the European countries considered in 2010, within the crisis period, and the main groups of countries, from the point of view of the necessity or the opportunity, we applied a method of multivariate statistical analysis, respectively the Cluster Analysis. (Jaba, E., 2007) [16]. According to this method can be formed groups in such a way that objects in the same group are similar to each other, whereas objects in different groups are as dissimilar as possible (Kaufman and Rousseeuw, 1990) [17]. Taking into consideration the fact that the investigated population's size is relatively small, only 22 countries, there are used hierarchical methods of clustering. In order to evaluate the number of clusters, one may always plot the criterion used to join clusters versus the number of clusters (Timm, 2002, 534) [18]. In this paper we registered data only for 22 European countries, which presented in the Global Entrepreneurship Monitor (GEM).

Data were collected for 2010, regards three important entrepreneurship indicators analysed by GEM (Bosma N., Harding R 2007 [19]; Bosma N., Levie J. 2009 [20]; Kelley D., Bosma N., Amorós J. E., [21],

Reynolds, P.D et. al, 2002 [22]):

- the early-stage entrepreneurial activity (tea): Combining the prevalence rate of nascent entrepreneurs (people in the process of starting a new business), and new business owners;
- the necessity driven for starting an entrepreneurial activity (nec);
- the improvement driven opportunity (opp);

Taking into account the effect of the entrepreneurial activity on the countries economy we have considered, as a representative economic indicator the growth rate of GDP per capita (gdp_cap) in 2010.

Combining the entrepreneurial indicators with the economic indicators, we also analysed the correlations between the two indicators categories, and we applied the Person coefficient.

The European countries considered are those which are included in GEM data base. Since 2008, GEM divided the analyzed countries in three categories: the factor-driven economies; the efficiency-driven economies and the innovation-driven economies.

Taking into consideration the structure used by GEM, and also focusing only on the European area, the countries presented in this study belong to the categories, as follows:

- the innovation-driven economies: Belgium (BL), Denmark (DK), Germany (GM), Iceland (IC), Ireland (IRL), Greece (GR), Spain (SP), France (FR), Italy (IT), Netherlands (NE), Portugal (PR), Slovenia (SL), Finland (FL), Sweden (SWD), United Kingdom (UK), Norway (NW), Switzerland (SWD).
- the efficiency-driven economies: Latvia (LV), Hungary (HU), Romania (RO), Croatia (CR), Turkey (TK).

The data recorded have been processed by using the EXCEL and SPSS software.

4. Results

Based on the data considered, at the beginning of the study, we calculated the Pearson's coefficient in order to establish which types of correlation are between the variables. In table 1 there are the results obtained, shown that significant correlations are between the entrepreneurial indicators.

There is an important positive correlation between the early-stage entrepreneurial activity (tea) and the necessity driven for starting an entrepreneurial activity (nec), with a level of significance of 0.05, and a medium level of Person coefficient value 0,505. Another positive correlation, but stronger then the previous is between the early-stage entrepreneurial activity (tea) and the improvement driven opportunity (opp), with a level of significance of 0.01 and the value is 0.711. The early-stage entrepreneurial activity (tea) and the growth rate of GDP per capita (gdp_cap) are negatively correlated, the result of Pearson coefficient being -0.242, but it has not statistical significance.

Table 1 Correlations between variables

		tea	gdp_cap	nec	opp
tea	Pearson Correlation	1	-0,242	,505	,711
	Sig. (2-tailed)		0,278	0,016	0
	N	22	22	22	22
gdp_cap	Pearson Correlation	-0,242	1	0,307	0,03
	Sig. (2-tailed)	0,278		0,164	0,9
	N	22	22	22	22
nec	Pearson Correlation	,505	-0,307	1	0,301
	Sig. (2-tailed)	0,016	0,164		0,173
	N	22	22	22	22
opp	Pearson Correlation	,711	-0,029	0,301	1
	Sig. (2-tailed)	0	0,9	0,173	
	N	22	22	22	22

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

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

In order to create the groups of countries, we applied the hierarchical method of clustering and we obtained the data presented in table 2, which shows how the analysed elements are clustered together at each stage of the cluster analysis. The coefficients column indicates the distance between the two clusters joined at each stage. The values here depend on the proximity measure (Squared Euclidian Distance) and linkage method (Ward's method) used in the analysis.

Aiming to obtain the cluster solution, an

important jump can be noticed in the distance coefficient, as it can be read in the table 2. The stage before the sudden change indicates the optimal stopping point for merging clusters.

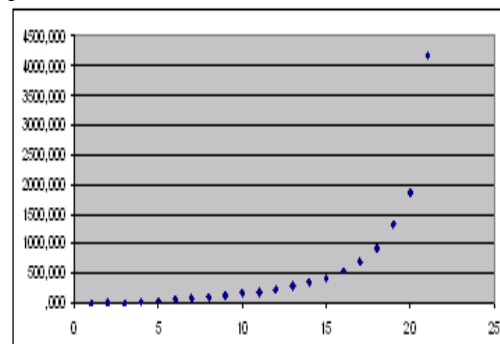
Table 2 Agglomeration Schedule

Stage	Combined		Coeff.	Cluster		Next Stage
	Clus ter 1	Clus ter 2		Clus ter 1	Clus ter 2	
1	1	2	2,005	0	0	4
2	13	21	5,230	0	0	15
3	14	15	10,375	0	0	10
4	1	8	23,277	1	0	14
5	7	12	36,702	0	0	11
6	5	6	55,242	0	0	13
7	16	19	79,407	0	0	16
8	11	18	104,732	0	0	16
9	3	9	130,637	0	0	11
10	14	20	160,945	3	0	14
11	3	7	194,435	9	5	17
12	10	17	235,260	0	0	18
13	4	5	291,333	0	6	18
14	1	14	350,820	4	10	20
15	13	22	430,662	2	0	17
16	11	16	537,672	8	7	20
17	3	13	685,345	11	15	19
18	4	10	916,403	13	12	19
19	3	4	1314,549	17	18	21
20	1	11	1853,127	14	16	21
21	1	3	4170,884	20	19	0

Thus, from this data we can conclude there are formed 2 clusters, taking into consideration the fact that the sudden jump is registered at the last stage.

The result shown by the data from table 2, can be confirmed and it has a better visualization of this criterion based on the plot of agglomeration schedule coefficients is presented in figure 1.

Fig1 The agglomeration schedule coefficients plot



As it can be seen in figure 1, the curve indicates also that will be formed to clusters for the data used. The cluster method shows as well the number of cases from each formed group, as it can be seen in table 3.

Table 3 Number of Cases in each cluster

Cluster	1	12,000
	2	10,000
Valid		22,000
Missing		,000

The data from table 3 show that in this study, Cluster 1 includes 12 countries and Cluster 2 contains 10 countries.

Taking into account that we have considered 4 variables, the way they contribute to the distribution of the countries into 2 clusters it is presented in table 4.

Table 4 Final Cluster Centers

Indicators	Cluster	
	1	2
tea	6,1	5,6
gdp_cap	,7	1,2
nec	26	12
opp	46	61

According to the data from table 4 we observe that the variable that both clusters formed are defined by the variable the improvement driven opportunity (opp), which registered the highest value. In the same time, the variable which distinguished the countries in the growth rate of GDP per capita (gdp_cap), which registered the lowest values.

Table 5 presents the cluster components, formed by the countries considered. Cluster 1 includes all the countries from the efficiency-driven economies. There are also exceptions, and in Cluster 1 we can find France, United Kingdom, Greece, Ireland, Spain, countries from the innovation-driven economies which it wasn't expected to be included in this cluster. A reason for this situation could be

based on the results obtain in 2010 by most of these countries for the growth rate of GDP per capita (gdp_cap), and also considering the economic difficulties registered during the previous years of the crisis. Cluster 2 includes only countries from innovation-driven economies, most of them from the North part of Europe, countries which were less affected by the consequences of the crisis. Thus, we can find Denmark (DK), Iceland (IC), Netherlands (NE), Norway (NW), Switzerland (SWT), Sweden (SWD), Finland (FL). Based on this structure of the clusters our initially hypothesis is partially confirmed.

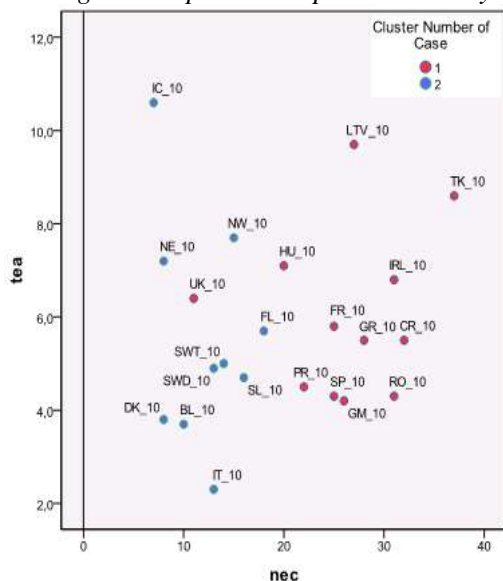
Table 5 Cluster components

Countries Cluster 1	Countries Cluster 2
CR_10	BL_10
FR_10	DK_10
GM_10	FL_10
GR_10	IC_10
HU_10	IT_10
IRL_10	NE_10
LTV_10	NW_10
PR_10	SL_10
RO_10	SWD_10
SP_10	SWT_10
TK_10	
UK_10	

In order to show which variable influences more the early-stage on entrepreneurial activity (tea), we considered the variables two by two. In this way, it can be shown an expressive representation the distribution of the countries from the two clusters formed. Thus, in figure 2 it can be observed the countries distribution based on the early-stage on entrepreneurial activity (tea) and the necessity driven for starting an entrepreneurial activity (nec). According to these two variables we can notice that most of the countries from a cluster are grouped together, in the same part of the graphic. But there is an atypical situation for United Kingdom (UK) which is placed almost in the middle of the countries from cluster 2, indicating similarities with countries from the other cluster, being placed close to

Netherlands (NE) and Norway (NW). It can be noticed that in the Cluster 1 case, there are very close two countries with a different level of economic development, such as Germany, Spain and Romania. They are similar at the level of early-stage of the entrepreneurial activity (tea), but they level differ at the necessity driven for starting an entrepreneurial activity (nec). The countries from Cluster 2 are placed on the left part of the graphic, all of them being part of the innovation-driven economies; meanwhile most of the countries from Cluster are placed on the right part. This situation is explainable based on previous studies which have been shown that in the efficiency-driven economies are more influenced by the necessity to start a new business. This could explain the position of United Kingdom which belongs to the Cluster 1, but on the graphic is placed with countries from the innovation-driven economies.

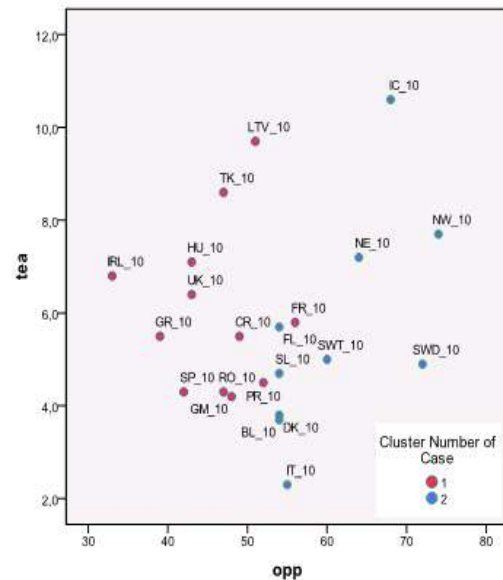
Fig 2 Entrepreneurship and necessity



In the figure 3, we present the countries from the two clusters formed, taking into consideration the early-stage of the entrepreneurial activity (tea) and the improvement driven opportunity (opp). In this case, we can observe the countries from the Cluster 1 are grouped together, on the same part of the graphic, on the left side. In this part, there are countries from both analysed categories: efficiency-driven economies and innovation-driven economies. Countries from Cluster 2, all of them from

the innovation-driven economies category are placed on the right side of the graphic. This situation was expected to be registered, taking into consideration that opportunity influences in a greater extend the entrepreneurial activity.

Fig 3 Entrepreneurship and opportunity



If we compare the positions of the two clusters from figure 2 and figure 3 we can observe that we obtain an opposite situation. While we analysed necessity-driven factor, most of the countries from Cluster 2 were placed in the left part of figure 2, the same countries are placed in the right part in figure 3, where we analyse the improvement driven opportunity.

Thus our hypothesis was partially confirmed by the results obtain: that the entrepreneurial activity was influenced differently by the necessity and the opportunity, depending on the national economy development level.

5. Conclusions

Even this study refers to a period characterised by turbulences, economic difficulties, the results obtained reveal that the entrepreneurial activity was influenced differently by the necessity and opportunity. The two clusters formed were both based on the variable related to improvement driven opportunity. Thus, the opportunity played a more important role in most of the analysed countries.

As previous studies emphasize, the

entrepreneurship is more likely to be opportunity driven in innovation-driven economies countries than in the efficiency-driven economies, where entrepreneurship may, in many cases be the only option for making a living. [21]

This type of studies could be used to compare countries which belong to the same category or to other categories, in order to identify the similarities and differenced between them, and then to extend the research to identify measures, strategy which could help in a greater extend to develop entrepreneurship accordingly to the economic development level.

Acknowledgements

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Posting of Workers in Crisis: Europe Looking for Solutions

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Abstract

This paper presents an image of posting of workers in the framework of the provision of services in the European Union, augmented by the economic crisis. In this context, economic realities, legal system and national political interests are identified as points of reflection.

Consideration of the disparity of salary levels, resolving normative incoherence through simplification and balance the position of political compromise, are identified as solutions for better fit adjustment of institutional mechanism of PWD, in accordance with specificities of each EU Member State.

Keywords: posting of workers, minimum wage.

Classification J.E.L.: J81, K31, M12.

1. Introduction

The current economic crisis is testing the European project and raise issues that affect even the most optimistic citizens of the European Union (EU). Fine balance between *National* and *Community* is again in the spotlight. In search of the optimal state of balance, decision-makers manifest political and institutional, in a space of alternatives, narrowed brutally by the painful effects of the crisis.

EU institutional foundation established a precise route of the road to *union*, in which the free movement of persons is ensured, to establish an internal market and promote economic, social and territorial cohesion and solidarity among Member States [1].

Along the journey to integration of the common market, the EU is based on the idea of the four freedoms (movement of goods, services, capital and persons), trade barriers

between Member States being reduced gradually. These four liberties represent the pillars that ensure a solid framework for the European project.

Nevertheless, at present, their support capability is no longer in complete synchronization. The economic crisis has contributed to increasing naturally *sloping surface* supported by the four freedoms.

Although, within the EU borders, the free movement of goods and capital is close to a complete functionality, free movement of persons and services still facing important implementation difficulties. Some of the most recent *national ingredients* pertaining to the latest phases of community integration have generated an increase of the heterogeneity level especially when the aspects of competitiveness and wages level come into question.

When are separately analysed, the two unfulfilled liberties spark numerous disputes, obstacles and dilemmas. The supreme challenge resides precisely in conciliating the national particularities and interests, in order to ensure complete stability of the fundamental liberties.

In the following I will present a picture of posting of workers in the framework of the provision of transnational services, augmented by the challenges of the moment. This situation raise a number of questions unaddressed or unsaid, designed in a constructive manner, identifying points of reflection and conclusive solutions.

2. Posting of workers in crisis

A different kind of crisis emerged within the EU in the early 2000s, has generated friendly environment to the development of the institutional concept, which would be endorsed by Directive 96/71/EC *concerning the posting of workers in the framework of the provision of services* (PWD).

The dispute has been lead between the Member States with a reduced labour cost and the states with a high labour cost. The first would lose a significant competitive advantage generated by cheap labour force. However, the Member States where the labour cost was higher, would regard the others as a "social dumping" factor which would destabilize the competitiveness and endanger the jobs of the local people. When the European Community was enlarged with Portugal and Spain in 1986, public debates about the influx of Iberian workers created a climate for legislation with regards to temporary foreign workers, in which the main argument was not equal treatment but fears that '*they will take our jobs*'. Later on, the fall of the wall in Berlin and the opening to the East created again an atmosphere where initially ignorant politicians realised that "*something had to be done*" [2].

The idea that leads to the creation of the provision regarding the posting of workers in Europe was not new. Its roots are on the *land of freedom* in the Federal Law from the United States (USA), known as the *Davis-Bacon Act* 1931.

Another possible source of inspiration is *Convention No. 94* of the International Labour Organization (ILO), Labour Clauses in Public Contracts 1949 [3].

Both these regulation acts introduce the rule of law connected to the geographical area where the service is provided concerning the workers involved in the project. The specifications remain valid only for the services provided in the name of public authorities, publically-financed infrastructure projects as well as public acquisition contracts. Both *Davis-Bacon Act* and *Convention No. 94* are considered supranational institutional approaches, but they differ in terms of power and practicability.

Based on the European Commission proposal of 1991, after a long debate and negotiations in 1996 the Council and the European Parliament adopted the PWD, to be implemented by Member States until the end of 1999. PWD applies to undertakings which, in the framework of the transnational provision of services, post workers to the territory of a Member State, provided there is an employment relationship between the

undertaking making the posting and the worker during the period of posting.

Member States shall ensure that, whatever the law applicable to the employment relationship, the undertakings posting workers to their territory, in the framework of the transnational provision of services, guarantee those workers their own terms and conditions of employment covering the main labour standards (laid down by law, regulation or administrative provision, and/or by collective agreements or arbitration awards which have been declared universally applicable) [4].

The most important reason for establishing a framework in which to perform transnational posting of workers was fighting *social dumping* to maintain a fair competition in the provision of services within the EU.

PWD entered into force gives Member States a common tool to fight the threat of foreign services providers, in special those who come from countries with low labour cost. In this context, the use of posting of workers varied from normal and decent mechanism established under a long-term partnership, to completely illegal practices associated with the term "*mailbox*", used only to recruit cheap labour. [5].

While EU accession in 2004, 10 former communist countries was received with enthusiasm by those who saw the potential of these new markets and underdeveloped western union movement was concerned that Eastern European workers would flood the labour market leading to lower wage rates in Western Europe. Therefore, the EU-15 has imposed transitional restrictions on the right of individuals to hold a job. However, no restrictions were extended to employers from the new Member States, posting their own low pay workers, for performing the contract. Limitations not covered nor the possibility that employers in the EU-15 to relocate production facilities in the new Member States to take advantage of cheaper labour there [6].

In the case of transnational provision of services, occurred regulatory framework created by PWD, to block eastern employer's enthusiasm, which could use the competitive advantage given by the low wages they pay to their employees. Normative amalgam formed by EU rules, laws of the State of origin and core of the social standards of the

host country, applied to transnational service providers, has not reached the desired effect. In this situation Member States with high levels of remuneration think again that "*something had to be done*".

Cremers, Dølvik and Bosch [3] announced in a *union manifesto manner* that within documents of the European institutions, a reference to the *Charter of Fundamental Rights of Workers* disappeared and the centre of gravity has changed in favour of radical of the free market that seem to consider PWD as a *strange violation* of the logic of four liberties.

Umbrella of fundamental rights of workers is raised again, but this time not on behalf to purify competitive economic environment, but to protect the jobs of workers in countries with high wage level.

In the atmosphere full of *toxic emanations* of crisis, after 13 years of implementation of PWD, EU brings back into focus the concept of *social dumping*. This is the paradigm which always accompanied any discussion of the European common market, reduced labour costs of newly integrated Member States constituting a threat to national domestic markets of the founders.

European Commission responds to the call and in March 2012 launched into legislative procedure two draft laws regarding posting of workers in the framework of transnational providing of services. The first is a *Directive of the European Parliament and of the Council on the enforcement of Directive 96/71/EC concerning the posting of workers in the framework of the provision of services* and the second is materialized by a *Council Regulation on the exercise of the right to take collective action within the context of the freedom of establishment and the freedom to provide services*.

Semantically, the order of the European liberties, positioned above national interest, changes in the attitude of institutions and European officials that have to strengthen administrative control [7]. When it comes to the issue of transnational posting of workers, primacy is given to the so-called *protection of the workers' rights*. But actually, behind this shield is hiding the national interest for the creation of new jobs for native workers and stimulation of the national business environment.

Debate in European Parliament, involving social partners is a good opportunity for positive confrontation of ideas and interests.

In this paper, I propose three points of reflection, which can contribute to better fit the new institutional framework that prepares posting employees in the provision of transnational services. This will be the subject of the next section.

3. Challenges rising

Economic realities, the normative framework and political interest (national) are three components of European construction which act synergistically. For each of these elements I have identified a dilemmatic area that requires more attention.

Minimum wage is first and is the key to all problems (universal remedy).

Whether we talk about unfair competition and social dumping or safeguard employment, or whether we invoke the fundamental rights of workers, the discussion always comes at one point: the minimum wage. If the package of social standards associated to the place where the work is provided through PWD, is called "*hard core*", then surely the minimum wage is the *core nucleus*. Courageously unveiling institutional mechanism of the protective wrappings who are trying to hide the *nakedness of national interests*, we find that the wage level is the only substantial element.

A calculation applied shows that a Romanian employer pays in august 2012 a salary of 468.75 euro (average gross earnings) [8]. To relocate a worker in the Netherlands, it must *upgrade* his salary to 1456.20 euro representing an increase of 310.66% and in the Luxembourg, to 1,801.49 euro, representing an increase of 384.32% (monthly minimum wages) [9].

In comparison with the data presented above, the question arises whether it may be profitable to providing services by as a company from a Member State with low labour cost, which posts its own staff in a Member State with a high minimum wage, complying with the conditions established by PWD. Theoretically yes, under the freedom provision of services guaranteed by the EU treaties and PWD, practically no, under insurmountable differences between labour

costs. If we add the lack of competitiveness of the eastern firms to the situation described, even in the terms of low labour cost, the possibility of transnational services under PWD seems even more uncertain.

Normative amalgam, and the missing brick, can be called the second problem.

Even when adopting PWD but also in the years that followed, EU has created a comprehensive package containing social labour standards. Basically as seen in Table 1, only the minimum wage is not backed up by a European law, otherwise all components of "hard core" established by PWD are unitary covered through EU directives. On this basis, the national laws of the 27 Member States have aligned those social standards.

Table 1. Normative correlation

PWD / EU law
PWD - Maximum work periods and minimum rest periods
- Directive 2003/88/EC, <i>concerning certain aspects of the organisation of working time</i> (2004) repealing Directive 93/104/EC (1996)
PWD - Minimum paid annual holidays
- Directive 2003/88/EC, <i>concerning certain aspects of the organisation of working time</i> (2004) repealing Directive 93/104/EC (1996)
PWD - Minimum rates of pay, including overtime rates
-
PWD - Conditions of hiring-out of workers, in particular the supply of workers by temporary employment undertakings
- Directive 2008/104/EC, <i>on temporary agency work</i> (2011)
PWD - Health, safety and hygiene at work
- Directive 89/391/EEC, <i>on the introduction of measures to encourage improvements in the safety and health of workers at work</i> (1992)
PWD - Protective measures with regard to the terms and conditions of employment of pregnant women or women who have recently given birth, of children and of young people
- Directive 92/85/EEC, <i>on the introduction of measures to encourage improvements in the safety and health at work of pregnant workers and workers who have recently</i>

given birth or are breastfeeding (1994)
- Directive 94/33/EC, *on the protection of young people at work* (1996)

PWD - Equality of treatment between men and women and other provisions on non-discrimination

- Directive 2006/54/EC, *on the implementation of the principle of equal opportunities and equal treatment of men and women in matters of employment and occupation* (2008) repealing Directive 76/207/EEC (1996)

- Directive 2000/78/EC, *establishing a general framework for equal treatment in employment and occupation* (2003)

- Directive 2000/43/EC, *implementing the principle of equal treatment between persons irrespective of racial or ethnic origin* (2003)

PWD = Directive 96/71/EC, *concerning the posting of workers in the framework of the provision of services*.

Source: European Union law (<http://eur-lex.europa.eu>).

An uninformed observer would hardly understand, why for a temporary provision is necessary to imposed local legislation (host state) instead of his own (country of origin), considering that both are based on a uniform level, created on the same principles and common interests. The question is rhetorical, and the answer is obvious, when "*minimum rates of pay, including overtime rates*" of PWD, is the only one that has no counterpart in common EU standards.

Europe, now end then, might entitle the third problem.

Historical facts point out that the Member States which participated to the normative creation process are those from the 1991-1996 periods. However, at present, the most affected services providers are those pertaining to the states that have become members after implementation of PWD.

We need to wonder ourselves if the interests from 1996, which generated the adoption of the PWD, are the same with the ones from the present of 2012.

Debate and vote on EU legislative institutions are closely linked to labour relations environment from each Member State. Key in relation to obligations under the PWD is the minimum wage. For this reason, I developed groups of Member States,

depending on the level of this parameter, based on the premise that decision-makers will be reported on the national economic interest to the vote.

To this end, Tables 2 and 3 illustrates the composition of legislative bodies of 1996 and 2012 showing number and percentage of voting power of the Member States.

Depending on the appropriate minimum wage of 2012, Member States were divided into three categories: *high* level for more than 900 euro, *medium* level between 800 and 500 euro and *low* level of less than 400 euro. Reference data are provided by Eurostat for semester 2-2012 [9] and is not restricted to minimum level established by legislation but also in collective trade or regional agreements.

Table 2. Distribution of decision-making power in EU legislative institution, in 2006

Member state	Mw	1996			
		CEU		EP	
		V	%	M	%
Austria	High	4	4,6	21	3,4
Belgium		5	5,7	25	4,0
Denmark		3	3,4	16	2,6
Finland		3	3,4	16	2,6
France		10	11,5	87	13,9
Germany		10	11,5	99	15,8
Ireland		3	3,4	15	2,4
Luxembourg		2	2,3	6	1,0
Netherlands		5	5,7	31	5,0
United Kingdom		10	11,5	87	13,9
Sweden		4	4,6	22	3,5
Category total			67,8		67,9
Cyprus	Medium	-	-	-	-
Greece		5	5,7	25	4,0
Italy		10	11,5	87	13,9
Malta		-	-	-	-
Portugal		5	5,75	25	4,0
Slovenia		-	-	-	-
Spain		8	9,2	64	10,2
Category total			33,2		33,1

Mw = minimum wage; CEU = Council of the European Union; EP = European Parliament; V = votes; M = members.

Source: Council of the European Union (www.consilium.europa.eu), European Parliament (www.europarl.europa.eu).

Table 3. Distribution of decision-making power in EU legislative institution, in 2012

Member state	Mw	2012			
		CEU		EP	
		V	%	M	%
Austria	High	10	2,9	19	2,5
Belgium		12	3,5	22	2,9
Denmark		7	2,0	13	1,7
Finland		7	2,0	13	1,7
France		29	8,4	74	9,8
Germany		29	8,4	99	13,1
Ireland		7	2,0	12	1,6
Luxembourg		4	1,2	6	0,8
Netherlands		13	3,8	26	3,4
United Kingdom		29	8,4	73	9,7
Sweden		10	2,9	20	2,7
Category total			45,5		50,0
Cyprus	Medium	4	1,2	6	0,8
Greece		12	3,5	22	2,9
Italy		29	8,4	73	9,7
Malta		3	0,9	6	0,8
Portugal		12	3,5	22	2,9
Slovenia		4	1,2	8	1,1
Spain	Low	27	7,8	54	7,2
Category total			26,4		25,3
Bulgaria		10	2,9	18	2,4
Estonia		4	1,2	6	0,8
Latvia		4	1,2	9	1,2
Lithuania		7	2,0	12	1,6
Poland		27	7,8	51	6,8
Czech Republic		12	3,5	22	2,9
Romania		14	4,1	33	4,4
Slovakia		7	2,0	13	1,7
Hungary		12	3,5	22	2,9
Category total			28,1		24,7

Mw = minimum wage; CEU = Council of the European Union; EP = European Parliament; V = votes; M = members.

Source: Council of the European Union (www.consilium.europa.eu), European Parliament (www.europarl.europa.eu).

A natural unintentionally reality set those levels, so that distribution of states becoming just a formal operation.

Analyzing the results, the first and most

important observation is that in composition of the 1996 lacks precisely those Member States which are now responsible for providing cheap labour.

Matching mathematical weights in thirds for year 1996 and in quarters for year 2012, is the second remarkable element. The result can mean calculating and precise design or surprising manifestation of the EU's social reality.

But the most important aspect is the voting power of states with a high salary, which decreased from 68% in year 1996 to 50% in year 2012. Also, unlike 1996, when they were newly integrated, the group of countries with medium remuneration level are playing the role of mediator that can tip the balance to one side or the other.

Time will confirm or refute if this change will affect political decision forces at the level of EU legislative institutions.

4. Bright horizons

The economic crisis has awakened a crisis of empathy, tolerance and solidarity within the EU.

The necessity to protect the national interests of the member states is natural, obvious and justified, for the insufficiently-developed normative areas that still need community assimilation. At the same time, resumption of topics insufficient outlined in the past, even in inauspicious context, is an opportunity for reshaping.

This paper tries to raise the issues of construction of *European institutional framework* and calls for reflection. *Segregation* of eastern employers who post workers to transnational services with so different wage levels, by imposing economic barriers will block their integration into the common market services.

Considering the discrepancy in pay, resolving normative incoherence through simplification and balancing political compromise position, represent a solution of adaptation and better matching of institutional mechanism of PWD, to economic situation of each Member State.

EU must decide whether to continue following the road that started, sit on the weakness bench for a break, or abandon the route, or even destination. In a truly united Europe is a matter of time until "*invisible*

hand" will minimize the differences in pay between Member States.

Path of convergence on EU social standards, while natural reducing economic disparities between Member States, seems to be the best way.

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Section I
International Affairs and European Integration

Subsection 3
Regional Development Strategies

The Information Society and its Eco-dis/advantages

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Abstract

The concepts of sustainability and information society are different topics, approached through their own different vocabularies, development policies and priorities; their lack of interaction leads to a reinforcement of their isolation and stereotypes. The information society has the advantage of exploiting increasing efficiencies from the knowledge distribution and use, the economies' dematerialization is not eo ipso eco-efficient or sustainable, but it has the tendency of generating unintended effects under the form of rebound effects. We are questioning a series of approaches regarding this issue, wanting to achieve a comprehensible goal rather than an analytical one. At the same time, we want to highlight the advantages of the Immaterialisation paradigm, "as a switch in consumption behavior from more material to less material", as compared to the paradigm of Dematerialization; the first paradigm, that of Immaterialisation, probably has the deepest interdisciplinary roots.

Key words: sustainable development, rebound effects, eco-efficiency, i/dematerialization

JEL Classification: Q01, O44, R11

1. Introduction

Is the information society sustainable? Is the Information and Communication Technology (ICT) environmentally friendly? Does it address the development's urging

questions? The economies' trend seems to be oriented towards increasing the intangible capital stocks [22]. Anyway, the investments in ICT (Information and Communication Technology) underwent a major explosion in the 90s and the 2000s. Today we know that, for example, the catching-up increase from the 90s/2000s of the CEE economies was related to the restructuring generated by the investments made in information technology [21][2] and we are also aware of the fact that the sectors which intensively use ICT form the background for the USA's divergent growth as compared to Europe's [12]. At a global level, the prices' vertiginous downfall and the progresses of globalization have facilitated the technology transfer towards the emergent economies, and the ICT's contribution almost doubled, from almost a quarter to a third of the total capital contribution between 1995 and 2000 [9]. Anyway, economists have considered knowledge and new technologies to be the main answer to the development and sustainability issues [5][6][25][15][13]. Their main arguments are related to the ability of immaterial economies of providing increasing efficiencies; by comparison, conventional economies are more material, being based on accumulating factors (the technology is incorporated) and, obviously, dissipative. The theory of growing efficiency provided probably for the first time the possibility that economies could continue their increase without being obliged to enlarge their capital stocks. The arrival of the Information and Communication Technology (ICT) reanimated the interest in growth which is based on generating and using

knowledge and/or on the massive cumulation of intangible capital [18][10][5][6][1][2][3]. For the economists, the great hope was that of anticipating the issues of development in the most sustainable manner. Without detailing this subject, the remaining question is that related to the *dematerializing* economies' capacity of anticipating the issues of development in a sustainable manner. Their dematerialization is due to the enlargement of knowledge and/or intangible capital stocks.

We are further questioning the advantages of economy's *dematerialization/immaterialization* for sustainable development. A series of studies mostly sustain the concept of *rebound effects*: economy's *dematerialization*, costs decrease, a growth in efficiency etc. can have adverse effects on energy consumption, resources etc. [20][23] or, even clearer, "they can short-circuit many gains achieved by means of efficiency (or "the production of conventional products through innovative and cleaner production methods") and innovation" [23].

2. Information Society and Sustainable Development: Topics, Scenarios etc.

The advantages/disadvantages of *i/dematerialization* on sustainable development are not perceived in the same manner by everyone. For example, Willard and Halder (2003) resume six major analytical approach schemes. They have in common the fact that they admit the economy's alarming effects on the environment and the problems generated by the development process, but they separate when it comes to the role that they are willing to give to the information society's technology and to *dematerialization*. Willard and Halder notice that there is a reason for considering sustainable development and information society are different topics, promoted by different scenarios and own vocabularies, development policies and priorities. Their lack of interaction reinforces the isolation and stereotypes in both cases. Anyway, there are not too many uncertainties that postponing the development of indicators and *integral* patterns (or interdisciplinary) secretly contribute to deepen the isolation and/or the obscurity of

problems which are to be generated only by initiatives and policies dictated by "pure" methodologies [23][20].

The advantages and disadvantages of *dematerialization* have been increasingly questioned over the last decades. Their re/discussion nowadays is of a great importance when it comes to durable development. We distinguish two major directions: a skeptical one, marked especially by the so-called *rebound effects* [20][16][17] and an optimistic one, but successfully incorporating the critical attitude towards the ecological adverse effects of the information society [19].

3. Economy's *i/dematerialization* or "rebound effects" reloaded

The *dematerialization* of economy is currently appreciated for its ability of substituting goods and technology that are specific to an information society with intensive-material goods and services that are specific to an industrial society (or its ability of reducing their material content), of developing better projections (*eco-design*, *eco-efficiency* etc.) etc. The correlative concepts are (consumption) *virtualization* and *immaterialisation* and the difficulties of extending the advantages of this technology are commonly generated by the interference with various production patterns, disparities and especially *lifestyles* (and/or the consumer's values). The main objections are called *rebound effects*.

The sectors that produce ICT do not lack consequences. *Eco-efficiency* is neither more nor less affected by the extraction of the precious metals that the components are made of, by using and eliminating chemical substances during the production period, by the computers' energy consumption and electronic waste disposal – it is said that the latter, for example, has increased three times as compared to the average growth of municipal garbage [23]. These are called *main effects* and are directly derived from the production of informational goods and technology. The *secondary effects* act in larger areas of the economy and society and they are directly relevant for the so-called *rebound effects*. For example, the decrease of the material content and/or energy consumption reduces the price of the product.

The growth of the requests is almost unavoidable and negates the benefits eco-efficiently obtained from these transformations/savings. In transportation and consumership, some products' informational dematerialization and traveling decrease could have adverse effects over these two domains. Studies incorporate here the role of political regimes and the consumer's values; for example, the mobility at the EU's scale has increased while the number of phone calls yearly increased in the 90s by 10%; significantly, merchandise transportation increased more than the entire region's Gross Domestic Product [23].

Tulbure (2002) especially sustains that the use of ICT does not guarantee *per se* the environment's sustainability. The argument is that *the rebound effect* is directly dependent on each IT user's behavior. In other words, the *e-worker* has the eco-efficient advantage of rarely travelling to its workplace, but this advantage can be easily defused by the large distances that are to be travelled (*e-working* facilitates especially activities made from distance). Nevertheless, the results seem to sustain this position; for example, if *e-working* decreases the net energy consumption in the first and more relevant of the scenarios then the number of kilometers is constant; the results are similar for the CO₂ emissions: if the energy total consume is constant, then the CO₂ emissions do not decrease, but stay constant; the calculations include Germany.

Other examples are provided by similar cases; for example, if satisfying the increase of consumption leads to reducing the ecological imprint from 2.3 to 1.9 hectares *per capita*, it requires in turn an increase of ICT use that overcomes the limit of eco-efficient realization [23]. Another example refers to the fact that studies like Schauer's underline the fact that investments in the information society's infrastructure can generate what he calls *Internet refusers*, a category that would be able to impose the *double infrastructure* development. More exactly, this means that the entire inefficiency derived from the high costs with the infrastructure could be converted in the refusal of moving towards a digital world and its advantages, especially if the investments are not high enough in order to facilitate the replacement of the conventional

infrastructure. This would oblige Europe to develop different infrastructures. Other examples show that Schauer (2002) find that the hypothesis of economy's *dematerialization* and/or *substitution* has not been sufficiently addressed and he believes that it functions just like Pandora's Box, not being a *win-win* solution that would also provide economic growth, workplaces and ecological benefits at the same time. In his opinion, there are *primary/secondary rebound effects* that directly address the issue of the information society's eco-efficiency in what regards both resources' consumes (components), eliminating electronic waste etc. and the modifications that lifestyle induces in the case of the consumers, regarding more the growth rather than decrease of resources and energy consume. The main arguments regard the fact that the dematerialization hypothesis (*substitution hypothesis*) is plausible only when it promises to make possible the virtualization of various material products and services; for example, it refers to substituting physical conferences with virtual ones, the paper of a document with its electronic equivalent etc. It is possible to annul the eco-efficient effects because of the fact that ICT has a positive feedback at the level of the industrial production (*addition hypothesis*), stimulating what he calls "our endless hunger for new products". Without detailing, the positive feedback at an industrial level and the consumer's eco-schizophrenia, a concept that he introduces later for underlining the *lifestyle's* role in the equation of the dematerialization's eco-efficiency, which allows Schauer to observe how the consumers can remain greatly unaffected by the ecological conclusions that they accept, seems to open a real Pandora's Box. We don't need many arguments to prove that only a combined strategy could be able to provide solutions to these problems, one in which, for example, the strategy of technological extension, the strategy of developing environmentally friendly behaviors and even the strategy of infrastructure could generate resistance because of the high costs, are all combined [17].

4. Economy's i/dematerialization or "rebound effects" exceeded

The studies above and other studies also clearly show that the debate of the information society's eco-efficiency does not lack problems. As Schauer noticed, there is no proof that ICT could directly provide a *win-win* solution. Despite this, the general conclusion is that "The revolutionary potential of new ICTs lies in their capacities to instantaneously connect vast networks of individuals and organizations across great geographic distances at very little cost. As such, ICTs have been key enablers of globalization, facilitating world-wide flows of information, capital, ideas, people and products. They have transformed business, markets and organizations, revolutionized learning and knowledge-sharing, empowered citizens and communities, and created significant economic growth in many countries. ICTs have amplified brain power in much the same way as the 19th century industrial revolution amplified muscle power" [7].

Obviously, this conclusion meets the conclusions of an entire series of studies and reports such as Essentials (2001), Batchelor et al (2003), World Bank.2012, Qiang et al (2012) and Yamamichi (2011), that underline the advantages that ICT generates over the increase of life standards, alphabetization and life expectancies especially in the developing economies. What they probably have the most in common and what is intuitively correct is that ICT determines information to circulate more, faster and on broader areas, more people can connect with each other, it provides efficiency and transparency, it transforms the way in which people live, learn and do business, it breaks the vicious circle of *poverty* by means of modifying the individual's social and economic effects and contributes to the decentralization of decisions [4][25][15]. But a manner of punctually surpassing the so-called rebound effects of the information society is provided by Simmons (2002) and/or the new paradigm of Immaterialisation (Immaterialisation Action Plan).

Instead, Simmons (2002) argues for introducing a difference between the Immaterialization paradigm and the Dematerialization perspective, even if Immaterialization was understood as a kind of dematerialization [8]. The difference is

that Dematerialization includes the virtualization of the production, while Immaterialization involves the immaterialization of the consumption behavior.

Dematerialization makes from the gains in eco-efficiency and rebound effects (Rebound Effects D) a substitution effect (price substitution effect), i.e. the amount of products and services with intangible content increases in the economy, emphasizing the increase of consumption of energy and raw materials involved in the production of specific IST products and services, while Immaterialization emphasizes rather on consumer decisions or lifestyle and appears as a "switch in consumption behaviour from more material to less material"; Rebound Effects I are in this case an income effect, not substitution effect: Immaterialization indicate that overlapping the Dematerialisation of economies with a lifestyle not enough immaterial reduce gains in eco-efficiency by increasing the consumption of goods and services with high material content. Thus, the lifestyle or the patterns of consumption are in the heart of Immaterialization understood as a "switch in behavior from more material consumption to less material." For Simmons, "consumption patterns arise from the values and preferences of individuals. IST-pull addresses the issue of preferences. There is a well-evidenced case that 'long-term value change results from generational replacement'. It seems reasonable to deduce, therefore, that long-term lifestyle change will exhibit the same characteristic dependence on generational succession"; the developments in law and environmental marketing could be stimulating on the direction of consumer values and preferences [14].

There is also a problem Simmons sees here, namely that the benefits of Immaterialization are not irreversible (post-immaterialization effects), that can be reversed by the selection mechanism, which is included in the nature of Rebound I - "the effect of that dematerialization occurring subsequently to the immaterialization switch".

However, Simmons believes that Immaterialization challenges the neoclassical paradigm of *homo economicus* especially for the error to treat the consumer behavior "on

the basis of cost and direct functional preferences alone", not as a matter of lifestyle. For him, "The choice to opt for immaterialisation is about lifestyle: such issues as upbringing of children; quality of life (as opposed to standard of living); and place in society weigh more heavily than cost issues. Immaterialisation may produce a cost saving: or it may not. It is *the pattern* of consumption that is changed, not necessarily or systematically its *cost*, nor (except very indirectly) its *function*"; nor at the level of investment the rational behavior is not entirely privileged, he intersecting fields including sociology, statistics and psychology [11]. Obviously, Simmons (2002) can be found here with the sociological theories of *the habitus* (Pierre Bourdieu) and of symbolic / emotional consumerism (Jean Baudrillard, Gilles Lipovetsky).

5. Conclusion

The problem of the relationship between sustainable development and an information society's targets has been greatly taken into consideration. What we have noticed, following the ideas traced by Willard and Halder (2003), is that all these schemes and topics are especially affected by isolation. It is not a mistake to say that *rebound effects*, for example, are after all the result of multiple reciprocal unsynchronized evolutions. There is no secret that, under these circumstances, continuing in the same manner would lead to a defusing of the information society's eco-efficient advantages by the adverse events of ICT's use. Our task was that of considering and questioning a series of relevant approaches of this problematic. It is clear now that the simple informational *dematerialization* could be rather an error than a success in the direction of sustainable development. In this case, we should seriously take into consideration a strategy that would complete the substitution and/or virtualization efforts with *lifestyles* anticipating policies in order to increase the eco-efficient advantages of I/Dematerialization which are obviously derived from the process of substituting intangible goods with material goods and services. A durable development strategy can only be holistic. Simmons (2002) at least has

the merit of proving that questioning the issue of dematerialization without simultaneously addressing the individuals' values and preferences has eco-inefficient effects rather than sustainable effects on development: people can discover the values of immaterialisation, but it is not sure that they are going to reduce consume (*eco-schizophreny, democratic brake*) [17]. In other words, the information society's technology has the potential of anticipating the problems of sustainability, but it is far of being sufficient *per se*, regardless its reputation, increasing efficiency etc.

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What Lessons did Arab Countries Learn From the Recent Financial Crisis?

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Abstract

The financial crisis that began in the United States in 2008 quickly spread across Europe and eventually affected all global economic activity and financial systems. The Arab World was also hit by the global financial crisis, but the impact varied among its countries by the nature and structure of its economies and the degree of openness to global markets.

This paper captures the impact of the global financial crisis on Arab economies, its main transmission channels and what lessons did Arab governments draw from it.

In order to accomplish this purpose we first try to identify the transmission channels of the crisis and the implications on Arab economies and then we propose to find out what lessons could Arab political and economic decision makers draw from what Ben Bernanke, Chairman of the Federal reserve called "the worst financial crisis in global history, including the Great Depression"[3].

Being a descriptive study above all, the research paper is based on the analysis and critical evaluation of the available literature (literature review).

Key words: Arab countries, Global financial crisis, Economies, Globalization.

J.E.L. classification : F0, G01, A10, F60.

1. Introduction

The global financial crisis that began in 2008 was triggered by the collapse of the American sub-prime mortgage market. Many economists (Weber) consider that the crisis has its roots in a "cocktail of causes"[3]. The U.S. relaxed fiscal policy

and supervision of the financial markets together with the reduction of the interest rates (the interest rate fell from 6,5% to 1,75% in 2001, reaching a record level of 1% in 2003) led to the expansion of credit and, as a result, to high house prices and eventually to economic boom. During the same period of time, in search for substantial revenues, banks and other financial institutions came up with financial innovations, such as collateralized debt obligations (CDOs) and credit default swaps (CDSs) which exposed these institutions to high risks and finally to the transmission of the crisis.

The global financial crisis affected, directly or indirectly, all the regions and economies, including the Arab ones. Some of the effects were reflected in a fall of the international demand, lower exports, a slowdown in economic activity, a decline in foreign investments. The overall economic growth declined.

The impact of the crisis in Arab countries has shown that the region is closely connected to global economic market. The Gulf states (Saudi Arabia, United Arab Emirates, Qatar, Kuwait, Bahrain) are among the most affected. Their opening towards the global financial markets and their dependence on oil revenues in order to finance domestic economic activities came out when the crisis has expanded rapidly across the region.

On the other hand, non-oil countries (Jordan, Syria, Tunis, Lebanon, Egypt, Morocco) registered a contraction in exports caused by the low international demand and a decline in financial inflows from tourism, remittances and foreign direct investments.

In order to reduce the negative effects of the crisis, some Arab countries took the necessary measures. For example, the Gulf countries intervened by pumping liquidities into the banking sector and increased public

spending in order to stimulate their economic activities [7].

2. Transmission channels of the crisis

The global crisis spread across Arab countries through different channels. The major transmission channels were: the financial markets, the oil market (in oil-exporting countries), exports, remittances, tourism and some authors (Jebnoun and Zarrouk) speak about the psychological factor.

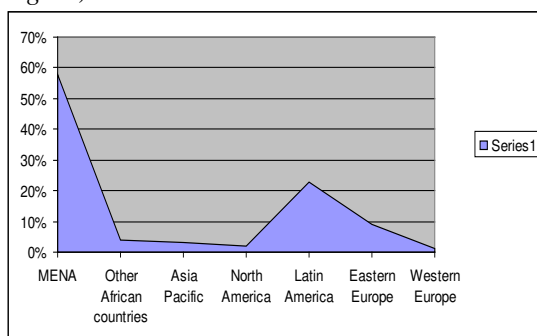
The financial factor was the main channel for the crisis to hit Arab economies, mainly the GCC countries, known for their openness to global financial markets.

Before the crisis, the GCC countries witnessed a boom in financial resources due to substantial increases in oil revenues and foreign financial inflows with the purpose of financing large projects in the private sector. When the crisis worsened, the GCC financial markets had to face many shocks, such as a sharp decline in oil prices on international markets especially in the second half of 2008, a decrease in financial surpluses followed by a liquidity crisis in banking and business sectors because of the withdrawal of funds by some important financial institutions.

The impact of these financial losses, the lack of liquidity and the fall in investments, had significant consequences for the Gulf banking system. As a result, central banks in the Emirates and in other countries intervened by guaranteeing credits and deposits[5].

Another channel for the transmission of the crisis was through *the oil market*, as Arab region is endowed with almost 60% of the world's proven oil reserves (figure 1).

Figure 1. World proven crude oil reserves by region, 2010



Source: Authors' selection based on Arab Competitiveness Report 2011 statistical data)
MENA=Middle East and North Africa

Oil prices started to fall during the summer of 2008, but until December the same year the price dropped from \$100/barrel to \$40/barrel. It started to slightly recover in 2009 and since then followed a more moderate trend [5]. According to the same statistics, in Arab countries the oil exports generates about 50% of the GDP and 80% of its profits. It is no wonder that the drop in oil prices particularly affected exporting countries, such as Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates, Algeria, Iraq, Libya, Sudan and Yemen [5].

The decline of *exports* was the next factor of transmission of the global crisis to Arab countries. The collapse of the international markets led to serious decline in exports in emerging Arab economies. Actually, emerging market economies are the largest exporters to developed industrial countries in Europe, U.S. and Asia [6]. In some cases, much of the exports are to countries within the European Union (80% for Tunisia, 78% for Libya and 76% for Morocco)[5]. Therefore, the economic activity of these countries was affected by the decrease in external demand and exports fell considerably.

The decline in *remittances* and *tourism* were the next factors with repercussions in Arab economies. The latter issue (the decrease in the number of tourists) affected all Arab countries. In terms of tourism, data (World Tourism Organization) report that, in total, Middle Eastern countries received 18% less tourists in 2009. In Egypt, revenues from tourism fell by 17,3% in the first quarter of 2008[5]. The situation in the region worsened because of the recent revolts (the so-called "Arab Spring") that have sent tourists away.

The drop in remittances was determined by the fact that Arab workers abroad, especially in Europe and Gulf states, had to leave their jobs because of the economic crisis. According to the World Bank, the Arab countries suffered the most from this situation, ahead of other countries in Latin America, Asia or Sub-Saharan Africa [5]. In the case of Morocco and Tunisia about 80% of workers' remittances came from European countries while in Egypt, Jordan and

Lebanon more than 50% came from Gulf states. Therefore, these countries suffered indirectly from the economic standstill of oil-exporting countries.

The psychological factor was another important element that contributed to the propagation of the crisis, but often overlooked by most authors. Financial institutions are run by humans who are considered to be greedy and profit-motivated [8]. This is the reason why they assumed high risks and they failed in anticipating the side-effects of their financial innovations. Also, relying on the ability of the state to save them, the bankers behave recklessly, a phenomenon known as "moral hazard". Nobody cares about the economic rationality since potential losses can be transferred to the state (bail-out).

The collapse of some of the world's most appreciated financial institutions (Lehman Brothers) and the decline in the global economic activity brought insecurity to investors and to consumers. And it is well-known that economies and financial systems are driven by confidence [6].

3. The impact of the global financial crisis on Arab economies: diverse effects in different countries

The Arab World is not a monolithic structure, a homogenous reality, therefore the effects of the crisis had many faces, depending on the nature and structure of Arab economies and on their specific plans and strategies of development implemented during the period of economic growth prior to the crisis.

Being highly exposed to Western financial markets (especially in the U.S. and United Kingdom) and to speculative real estate investments, Gulf countries or Gulf Cooperation Council (GCC) countries had to produce large budgetary cutbacks. The decline in oil prices intensely affected the oil exporting countries, such as Algeria, Yemen and Saudi Arabia. Egypt, Morocco or Jordan met social and financial difficulties by the reduction of workers' remittances, exports and tourism. In other countries, such as Emirates, the economy came to a standstill, after many years of economic growth, habitually of 15% [5].

In terms of financial integration, the Arab

region falls behind the other emerging-market regions except for Africa. Under normal circumstances this low level of integration is considered a disadvantage, but it can protect a country when the global financial system sinks into a severe crisis.

The initial impact of the crisis was felt in Gulf countries, where the stock market indices lost on average 50% compared to 40% the other Arab countries [4]. This was due to the high degree of integration into global financial markets (the highest degree of integration among all Arab countries), substantial investments in U.S. assets, the sharp decline in oil price since its record in 2008 (\$147,5 /barrel) and also liquidity problems.

Kuwait was hard hit by this situation as companies had made leveraged investments in equities. The media reported losses of \$20 billion and the Kuwait Stock Exchange was closed for four days. Also, the plans for the construction of a new refinery were cancelled [4].

The same statistics [4] shows that in Dubai and Qatar house prices fell sharply with more than 50%. In 2008, Dubai sovereign debt reached \$10 billion and more than 50% of its residential and commercial projects were put on hold or cancelled.

Arab countries are generally affected by the fluctuations in oil market. Some of these countries maintain strong economic connections with the global market, linkages that go beyond oil. North African countries have strong economic relations with Europe (in terms of trade and investments) and GCC countries have huge financial investments in advanced economies [2]. All these factors have increased the economic exposure to global economic depression.

Some Arab countries (energy-importing economies), such as Jordan, Lebanon, Morocco, Tunisia and the Palestinian Territories are not directly connected to global markets. The economic activity was affected by the decrease in international demand. Therefore, export declined and remittances from workers abroad reduced considerably. Egypt and Syria are two special cases, as they import and export almost an equal quantity of energy.

Foreign Direct Investment (FDI) in Arab countries decreased with an average rate of 30% in 2009. Anyway, this decline has been

less dramatic for the Arab World than for other regions because even before the crisis these countries were not able to attract much of the FDI other than in the oil sector. In Egypt, Tunisia and Jordan FDI declined with 44%, 75% and 64% respectively during the second half of 2008 because investors from Gulf countries froze their planned investments [1].

Because of the global financial crisis Gulf countries looked for emergency lending. The most vulnerable seemed to be United Arab Emirates as the foreign debt increased from \$75 billion in 2006 to \$140 billion in 2008. Other countries, such as Algeria, Bahrain, Jordan, Libya registered a much lower foreign debt. The average foreign debt in the Arab region was less than \$8,37 billion in 2006 reaching \$10,17 billion in 2008 [6].

The effects of the crisis across the Arab World have been diverse, depending on the economy of each country.

4. What lessons did Arab countries learn?

As already mentioned in the previous sections, the effects of the global financial crisis varied among Arab economies. Also, the transmission channels affected them differently. We will develop in this section the lessons learned by Arab authorities and their reactions to the crisis.

One lesson learned by authorities in most Arab countries was that the immediate actions in terms of monetary and fiscal policies may have succeeded in reducing the effects of the crisis. Also, they intervened and tried to activate the strategic productive and service sectors.

In the GCC countries, the buildup of financial surpluses from high oil revenues before the crisis helped them to pump liquidity into their financial markets. The other countries (that did not rely mainly on oil revenues) moved quickly and tried "to implement programs to stimulate economic policies based on expansionary fiscal and monetary policies to support economic activity and maintain local growth trends and economic recovery" [7,p.102].

Some Arab countries have introduced economic reforms before the global financial crisis and they had to postpone them and to adapt to the new economic situation. For example, Egypt postponed the implementa-

tion of reforms into its VAT system.

The effects of the crisis showed in some GCC countries the high risks associated with bank lending during the previous period of economic boom based on oil revenues as well as high exposure on international financial markets. Another lesson learned by these countries was that it is dangerous to depend only on oil revenues to support economic activities. This implies some reforms in order to diversify the economy base and to expand private sector participation in order to reduce the risks associated with the dependence on oil sector.

Arab countries need structural reforms to improve their economic performance. These reforms could imply the expanding of the private sector, the diversification of the production base and the creation of new jobs. Attracting FDI along with the transfer of knowledge and technology from developed countries would add value to their economies.

The monetary authorities are aware of the necessity of reforming the banking sector, by restructuring and liberalizing the public banks, developing their capital markets, reducing the proportion of non-performing loans, increasing transparency for investors and strengthening the role of supervision authorities in order to avoid systemic risks.

Another lesson learned is the importance of continuing and deepening economic reforms and supporting national economies to face the challenges of the crisis. However, many Arab countries suffer from weak institutions and they don't have enough resources to allocate to potential "rescue package" [6]. The same authors assert that Egypt and Jordan face a difficult situation because of the budget deficit, dependence on foreign aid and a high level of unemployment.

Actually, the main emphasis of many energy-importing Arab countries was on fiscal spending programme, with the purpose of compensating the decrease in private domestic and foreign demand for their products. This programme included tax cuts, micro-credit lines and export promotion measures. For example, in Morocco and Tunisia authorities have proposed a tax "holiday", meaning that contributors can postpone or can be excused from paying taxes for a certain period of time. Also, the

level of minimum wages increased in Lebanon, Jordan, Morocco and Tunisia and some schemes of income protection were introduced. In order to avoid laying off workers, Tunisian government recommended firm owners to employ workers on half-day shift. Finally, some forms of subsidies were added or expanded in Morocco.

5. Conclusions

This paper assessed the impact of the global financial crisis on Arab economies. The crisis impacted these countries through different transmission channels, depending on their exposure to these channels.

Oil-exporting countries (especially GCC countries) suffered from a decline in oil revenues, but they were able to support their economies due to large financial reserves. Also, financial markets were hard hit because of their integration into the global markets, but governments intervened proactively in order to protect them.

The other Arab countries were severely hit by the financial crisis through other transmission channels, through reduction in exports, remittances and tourism. Their governments also had to take important measures in order to beef up domestic demand.

It is obvious that the global financial crisis has provided a good opportunity for Arab decidents to learn lessons from it, to identify the weaknesses of their economic and financial systems and to start now to initiate development policies as well as plans for restructuring the financial systems.

Finally, it is necessary for Arab countries to implement regional policies in order to enhance the stability of their financial systems and to set up economic growth.

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Regional Development Policy in Romania – Challenges for the 2014-2020 Period

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Abstract

In agreement with the European Economic and Social Cohesion Policy, Romania promotes regional policy aiming generally on long term to reduce disparities in regional development and country areas. Despite efforts by public authorities to implement the ROP and despite the implementation of a Plan of Priority Measures for strengthening the capacity of absorption of structural and cohesion funds, in Romania the absorption of European funds for regional development remains unsatisfactory. In developing new strategic programming documents for the period 2014-2020, Romania will continue to face major challenges regarding the future regional development, some "taken" in the current period, others induced by the new architecture of EU cohesion policy.

Keywords: cohesion policy, Regional Operational Program, cohesion funds, strategic programming 2014-2020

JEL Classification: R11, R58

1. Introduction

The regional development policy of Romania is closely aligned with the EU cohesion policy, which is defined by its purpose, namely *to support the process of reducing the gaps between the more developed regions and Member States of the European Union and the least developed ones*. The paper presents the main tools of Romanian cohesion policy, with emphasis on the measures aiming to increase the absorption of the EU funds provided for by

the Regional Operational Program. Some new instruments of the new strategic framework of cohesion policy are also briefly presented, as well as the main challenges for the regional/local authorities for both development and implementing the regional development policy in Romania.

2. The Regional Development Policy in Romania

The *EU cohesion policy* has its primary legal basis in the text of the EU Treaty (Title XVII "Economic and Social Cohesion" and Article 148 on the European Social Fund). More specifically, Article 158 mentions cohesion as a prerequisite for the harmonious development of the EU, stating willingness "to reduce disparities between the levels of development of the various regions and the backwardness of the least favored regions or islands, including rural areas" [1].

The regional development policy of Romania is closely aligned with the EU cohesion policy at all levels and levels of development of the EU are used as benchmarks for defining local policies, following closely the Strategic Guidelines and the European regulations. In agreement with the European Economic and Social Cohesion Policy, Romania promotes *a regional policy generally aiming on long term at reducing the disparities in the development of regions and country areas*. Regional Development Act (No. 315/2004) established the main objectives of regional development policy in Romania, on reducing regional disparities, ensuring sectoral coordination at regional level and stimulating interregional cooperation. In correlation with this, the main objective of the National Development Plan (NDP), namely to reduce

the gap between Romania and the EU Member States, aimed at six priorities in development: i) increase in economic competitiveness and development of the knowledge society, ii) development and modernization of transport infrastructure, iii) preservation and improvement of the environment, iv) human resource development, promotion of employment, social inclusion and improvement of administrative capacity, v) rural economic development and productivity growth in agriculture, vi) decrease in the interregional disparities [2].

With the EU accession, the basic document guiding the country's regional development is the *Regional Operational Program*. Transfers allocated to Romania under Cohesion Policy 2007-2013 amount to 19.3 billion euros. Of the total transfers, Romania must allocate 1/3 for the Cohesion Fund, funds that will finance SOP Transport and SOP Environment and 2/3 for the European Regional Development Fund and the European Social Fund.

The **2011-2013 National Reform Program (NRP)** is currently the framework platform for defining and implementing the economic development policies of Romania, in accordance with the policies of the European Union (EU), and it is focusing on achieving smart, sustainable and inclusive growth, with high levels of labor employment, productivity and social cohesion, in line with the Europe 2020 objectives. Based on the objectives of this strategy, Romania has established through the *National Reform Program* its own goals and priorities which set the framework and directions for the sustainable economic development [3].

The, NRP 2007-2010 was **a true post-accession strategy of Romania**, by adopting the most important reforms needed to deepen the integration of Romania and to reduce disparities towards other Member States. The *NRP 2011-2013* continues the reforms undertaken in 2007-2010 and proposes reforms derived from the specific objectives of Europe 2020 and the attached documents (flagship initiatives, *Annual Growth Analysis*, *Euro Plus Pact*). In this context, the *NRP 2011-2013* includes, in addition to new actions, some of the actions already being implemented (e.g., those related to

requirements to be met by Romania in relation to the International Monetary Fund and other international financial institutions).

Stage of Structural Funds Absorption

A key element of the current development policies in Romania, especially at territorial level, is **to increase the absorption of structural and cohesion funds**. The *Priority Action Plan for strengthening the capacity of absorption of structural and cohesion funds (PAP)* is, currently, the roadmap for the short and medium term that the Romanian Government is committed to implement, in close cooperation with the European Commission. In the *medium term*, PAP implementation should lead to avoiding disengagement of substantial funds at 31 December 2013 (when the risk of disengagement is higher) and on *long term*, to create the conditions necessary to achieve the target set by the *National Strategic Reference Framework 2007-2013*, i.e., **at least 90% absorption of structural and cohesion funds allocated to Romania**.

Despite the implementation of such an ambitious plan, the absorption of European funds for regional development remains unsatisfactory. Thus, in March 2012, 8084 ROP projects submitted since January 1, 2007 were recorded, of which 3072 approved (totaling 5,397 million euros), 2684 contracted (totaling 3073 million euros - 82.47% of the ERDF allocation for Romania for the period 2007-2013) and only 580 completed (total value of 391 million euros - **only 4% of ERDF allocations for Romania for 2007-2013**) [4].

The funds from EU paid to beneficiaries in the period 1 January 2007 to 16 March 2012 amounted to 925.15 million euros, meaning 24.8% of the ERDF allocation for Romania for the period 2007-2013. Of the six priority axes, the largest share of projects completed is registered by Priority Axis 6 - (24.29% of the ERDF allocation for Romania for the period 2007-2013) and the lowest by priority axes 1 (0.12%) and 5 (2.10%). By development regions, the highest percentage of funds paid to the beneficiaries in ERDF regional allocations for 2007-2013 have been accounted for by the Centre Region (32.05%) and Northeast Region (31.91%), and the lowest by the Bucharest-Ilfov Region (only 12.64%). By priority axes and intervention

areas, there are large differences between regions in terms of absorption of funds for regional development (Table 1).

Table 1. Absorption of funds from the Operational Regional Program, by development regions, priority axes and areas of intervention in the period 1 January 2007 to 16 March 2012 (payments to beneficiaries, pre-financing and ERDF reimbursements, % of ERDF allocation)

Dev. Reg./Priority Axes/Domain of Intervention	N E	SE	S U	S V	V E	N V	C E	BI
Axis 1/DMI 1.1	17	3	6	9	7	5	15	0,3
Axis 2/DMI 2.1	66	75	71	50	60	58	63	45
Axis 3/DMI 3.1	29	55	22	25	10	38	8	0
Axis 3/DMI 3.2	58	41	4	25	27	29	25	3
Axis 3/DMI 3.3	45	13	42	48	43	61	63	34
Axis 3/DMI 3.4	43	36	25	37	31	33	37	53
Axis 4/DMI 4.1	11	0,9	9	10	11	2,6	33	11
Axis 4/DMI 4.3	26	26	13	28	45	18	42	21
Axis 5/DMI 5.1	37	29	17	51	25	31	48	0
Axis 5/DMI 5.2	18	33	19	10	14	17	23	2,6
Axis 6/DMI 6.1	45	51	37	32	51	44	51	55
Axis 6/DMI 6.2	21	16	34	13	10	24	44	14

Source: *Implementation status of Regional Operational Program 2007-2013*, Ministry of Regional Development and Tourism, March 16, 2012.

But what makes the absorption of European funds more difficult (including those for regional development) is that because of the irregularities noted by the European Commission audits Romania has currently suspended three extremely important operating programs. The European

Commission (EC) decided in October 2012 to pre-suspend most of three programs co-financed by EU structural funds, namely "Transport", "Regional" and "Increase in Economic Competitiveness", as Romania has at its disposal two months to remedy deficiencies. According to the Ministry of Economy, the risk of disengagement of SOP 2007-2013 is 213.8 million euros in 2012 and 1.26 billion euros in 2013 [5]. To cancel pre-suspending of funds, transparency on how they are funding projects is necessary, and also the restructuring of authorities in charge with European funds, as well as "very good preparation" for financing requests submitted to the Ministry of Finance.

3. Future Tools of Implementing the Cohesion Policy in Romania

The *Territorial Development Strategy of Romania* (SDTR) will present Romania's development vision and ensure consistency of national policy by setting targets regarding the strategic land planning (axes, poles, corridors, concentration, polarized areas and so on). The strategy is to underpin national investment programs and Romania's position on European territorial development programs. SDTR is the programmatic document which sets guidelines for Romanian territorial development and the implementation directions for a period of over 20 years, at national, regional and interregional levels, also integrating cross-border and transnational relevant aspects. SDTR will provide a strategic framework for territorial documentation, as well as for urban planning documentation, adding the territorial dimensions to competitiveness and cohesion objectives.

Another important objective of harmonious territorial development in Romania is *to improve the competitiveness of agriculture and ensure long-term sustainability of rural areas*. In this respect, one of the objectives of financial interventions supported by NRDP is to rise the quality of employment in rural areas, through measures aiming at: training of and information to adults working in agriculture, forestry and food sector, increasing the number of young farmers starting for the first time activity as heads of farms, creation and development of micro enterprises in the non-

agricultural sector, the development of rural tourism activities, improving physical infrastructure in rural areas and access to basic public services for the rural population and encouraging local development initiatives. Complementary to measures financed through NRDP *to ensure long-term sustainability of rural areas*, in 2011-2013 the financial interventions supported by ESF (SOP HRD) envisage: guidance, counseling and training for rural residents in entrepreneurship and non-agricultural domain, and labor market integration of inactive people, including those who make their living from subsistence farming. By 2013, it is estimated that a total of 135,500 people in rural areas will participate in integrated programs for human resource development and employment.

Since the economic crisis of recent years has unequally affected the regions, there are significant regional disparities in terms of poverty rates; the social infrastructure development represents an imperative of regional and territorial development policies. Region with the highest relative poverty rate in 2008 was the North East (27.2%) and the least poor were the Bucharest-Ilfov (4.7%). Also, there is a high poverty in the South - West (23.3%) and South - East (22.7%).

In 2011-2013, for achieving a balanced economic and social development of Romania's regions, *the sustainable urban development through integrated urban development plans is supported, which may include social housing projects* (POR/Priority 1, Area of Intervention 1.1., Integrated urban development plans). The purpose of this financial intervention is to improve social infrastructure in urban areas (childcare centers, elderly centers, support centers for people with disabilities, youth centers, people in difficulty and so on) and to ensure decent housing conditions for persons belonging to disadvantaged social groups who may not have access to a home in property or cannot rent one at housing market rents [6].

In line with the Europe 2020 targets regarding *climate change and energy efficiency*, we must also mention here the support for energy efficiency in residential housing, provided through a combination of national, local and EU resources, backed by a proactive regulatory framework. The substantial support for the thermal

rehabilitation of buildings was presented by the Government as a way of reducing the energy bills of households affected by the crisis. However, the budget allocated by the Government for thermal rehabilitation of buildings was reduced from RON 32.9 million (around EUR 7.8 million) to RON 22.3 million in 2009 and from RON 40 million to RON 11.7 million (around EUR 2.8 million) in 2010 as a result of the budget constraints stemming from the crisis [7].

In order *to reduce regional disparities and improve social, health and education infrastructure*, in 2011-2013, Romania envisages investments for the rehabilitation of buildings for residential and multifunctional social centers, interventions aimed at improving the quality of social services infrastructure; investments to improve the quality of healthcare infrastructure and its balanced regional territorial division, to ensure equal access to health services; and rehabilitation/modernization/development and equipping of pre-university education, university and continuous professional training infrastructure to ensure necessary conditions for public education and increased participation in education and training.

For effective implementation of the *Europe 2020 Strategy*, an integrated approach and coordination between all stakeholders, public and private, is required. In this context, an important role could be that of ***Territorial Pact***, which may be an opportunity for a more effective contribution of local communities in achieving the Europe 2020 goals. The Committee of the Regions, the promoter of the concept of *territorial pact*, supports the involvement of municipalities and local authorities in an effort to achieve national targets for 2020.

For the period 2014-2020, the relevant authorities are already developing *strategic programming documents* based on thematic objectives of Europe 2020 and the Regulation of the European Parliament and the Council on new guidelines of EU cohesion policy [8].

A basic tool, both of elaboration, and of implementation of regional development policies and strategies, which reflects the new approach to EU cohesion policy is the ***contract of partnership***, which is developed

at national level, but by consulting and strongly involving all targeted regional partners. In developing this agreement, at national and regional level new partnership structures are created [9]:

a) Inter-institutional Committee for drafting the Partnership Agreement (CIAP) and 12 Consultative Committees organized as sections of CIAP, 10 of which are thematic committees (CCT), organized for the following areas: i) transports; ii) environment and climate change; iii) competitiveness and energy efficiency; iv) communications and information technology; v) education; vi) employment, social inclusion and social services; vii) health care services; viii) tourism, culture and cultural heritage; ix) rural development, agriculture and fishing; x) administration and good governance.

b) Advisory Committees representative for regional development and territorial dimension:

b1) Advisory Committee on Regional Development (CCDR), with responsibility for: i) urban development; ii) business development; iii) disadvantaged communities; iv) regional and local infrastructure; v) energy efficiency.

b2) Advisory Committee on Territorial Cohesion (FCTC), with responsibility for: the Spatial Development Strategy of Romania, monitoring and territorial impact; urban dimension; territorial development instruments; European Union Strategy for the Danube Region and other macro-regional strategies; European territorial cooperation.

In each region **Regional Planning Committee** (RPC) is constituted, which has an advisory role, representing a broad partnership framework for the development and coordination of the **Regional Development Plan**. RPC is coordinated by the Director General of the RDA, for each region, which also provides the secretariat. Its Membership of each RPC includes representatives, depending on the specific of each region, of: prefectures institutions, decentralized services of central public institutions, local authorities (County Councils, Local Councils) research institutes and higher education institutions, economic and social partners.

According to the vision of the new architecture of cohesion policy on focusing and theme integration, **integrated regional**

projects are the projects that contribute to achieve the priorities and measures included in the Regional Development Plan and through which to meet the needs identified at regional level, but which take into account the objectives set for Romania as according to Europe 2020 [10]. Strategic project portfolio will be an annex of the RDP 2014-2020; identification and prioritization of projects will be completed by mid-2013, and in the second half of 2013 and first half of 2014 work on preparing documentation of such projects will be done. At the regional level, the stages of the RDP 2014-2020 will correlated with the development of Operational Programs, which will allow the identification of possible funding sources. To establish a regional project portfolio, should be done the following:

- Analysis of local, county and regional development strategies for the next period and identification of investment needs,
- Analysis of national and European development directions for 2014-2020 and match of necessary investments to these directions,
- Linking information included in socio-economic analysis with the regional strategy and with the identified project portfolio,
- Establishing investment priorities and funding sources for these and discussing them in a broad partnership,
- Deciding on priorities for investment and project portfolio.

The main challenges for both development and for implementing RDP will be the good cooperation of stakeholders (public authorities, private partners, representatives of civil society, educational institutions, etc.) and of the consultative bodies existing or newly established, the coordination of measures and actions, both between regional and local actors, as well as with other national and regional policies, eliminating overlaps and areas uncovered by policy measures and action plans, the identification of those areas where policy intervention is really necessary and/or where it can have the highest efficiency, financial transparency and accountability, improvement of program management authorities, increased involvement of private partners and civil society in decision making and implementation at local and regional

level and elimination of capture of funds by certain political interest, informal or even criminal groups, increase in the absorption of funds, diminution of bureaucracy and corruption in accessing/using the funds.

4. Conclusions

In agreement with the European Economic and Social Cohesion Policy, Romania promotes a regional policy generally aiming on long term at reducing the disparities in the development of regions and country areas, using as main tools the National Reform Plan and the Regional Operational Program. However, since the absorption of structural and cohesion funds was very low in Romania, a Priority Action Plan for strengthening the capacity of absorption of these funds was set, including concrete measures to accelerate significantly the absorption of such funds.

For the future programming period (2014-2020), the Territorial Development Strategy of Romania will present Romania's development vision and ensure the consistency of national policy, while an important role will be that of Territorial Pact, which may provide more effective contribution of local communities in achieving the Europe 2020 goals. In line with the thematic objectives of Europe 2020 and the Regulation of the European Parliament and the Council on new guidelines of EU cohesion policy, the regional/local authorities are already developing strategic programming documents, based on the national contract of partnership between Romania and the EU, and new partnership structures are created at national and regional level. However, important challenges lie ahead for the stakeholders and consultative bodies in charge with developing and implementing the regional development policy in Romania, regarding better cooperation and coordination, improvement of program management and increasing transparency and accountability of funding, better involvement of private partners and civil society in decision making and implementation at local and regional level, increasing funds absorption, and eliminating corruption and red tape.

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The European Union Energy Policy Analysis

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Abstract

The Union has adopted over the time many documents as regards the energetic security, documents that were fulfilled in accordance to the future evolutions, and also, why not mentioning, in accordance to the political internal and external interests of it, or by the mediation of various circles of economic interests. In any of the situations, it looks like the importance of energy has been more intensively understood after the second world war, when the governments have started the nationalization of the energetic sectors. Now we carry out an analysis of the current energy security policy and we ask to face its strengths, and weaknesses to better understand the context of the new european energy challenges.

Keywords: energy politics, energy security, energy priorities, green energy.

J.E.L. Classification: Q01, Q21, Q31, Q34, Q41

1. Introduction

The first crisis stages of the energy have occurred in the 70s, which alerted most of the European countries, and not only. In this way, as a prevision of such crisis, and after 1950, the Treaty of Establishing the European Coal and Steel Committee (abbreviated as ECSC) and the Treaty of Establishing the European Atomic Energy Community (abbreviated as Euroatom).

The aim has been always the same, consisting in the reduction of imports, but also as a balance of the nuclear powers of the Union of Soviet Socialist Republics (abbreviated as USSR) and USA. The Unique European Act (1987) and the Treaty

of Maastricht (1992) did not brought significant modifications to the common energy politics. The Treaty of Amsterdam of 1995 has firstly brought into attention the common community's decisions within the energy field: The Trans-European Energy Networks. But, before that moment, the European Energy Charter was established at Haga in 1951, signed by 51 states and consecrated in 1994 at Lisbon, by the Treaty of the European Energy Charter. These documents established the West-East cooperation in the essential field of energy. One of the parties of the Treaty refers to the environmental issues, as well.

The first major intervention of the European Committee that is taken expressively into account refers to the problems of a common energetic politics, that was established in 1995, and that took the name of Green Book entitled "European Union Energy Policy". The White Book entitled "An Energy Policy for the European Union" was issues in the same year. Surprising was that during 1996 and 1997, the European Committee has started a series of communications under the name of "The Green Paper for a Community Strategy – Energy for the Future: Renewable Sources of Energy", and respectively, „The White Paper: Energy for the Future – Renewable sources of Energy”.[8]

2. The contemporary situation in energy markets

The complete liberalization of the electrical energy market was established in 2004, as regards the trade and industrial consumers, as result of the meeting of Council of Barcelona in 2002. Other elements of contemporaneous energetic

strategy will be analyzed in the following lines of the paper.

One of the most recent concerns of the European Union has as first priority the ensuring, as longer term as possible, the energetic security and of energy supplying. In the last decade, many important steps were especially taken, but seems that not enough, in order to use as much "green, clean and non-pollutant"[3] energy as possible, taking into account the climate changes and the general trend (until the occurrence of the economical-financial crisis), on increasing the energy requirements on the international market.

One might try to understand the term of long lasting development on all the legislative branches, but having direct applicability over the business environment. Firstly, one might take into consideration some important issues: one might try a facilitation of the users' access to energy, on convenient prices, of strong predictability. Secondly, the European Union has taken into account the transport problems and of reducing the energy consumption in this field, especially that this is a high consumer of energetic resources. The third point of interest that concerns the vision of the European officials consists in providing with energy, as well as the vision of such field, taking into account that Europe loses every day its own resources, depending more and more upon imports, which are many times submitted to the political conflicts. All these situations are regarded within the context of reducing the green house effects gas. The policy of the European Union is a complex and complete one, including fields of the traditional sources of energy, up to the nuclear energy and the green energy, also. The aim consists in reducing the quantity of energy consumed or in achieving the most urgent by inexhaustible sources.

When we talk about the European Union policy, in the field of energy until 2020, we might take into account some fundamental objectives, for which the legislative packages were proposed. The first consists in the long lastingness, and the concept emphasizes the concern related to the increase of green house effect gas, for an admitted level, and which might change significantly the world's climate. In order to reach this aim, the plan entitled "Energy – Climatic Changes" was adopted in

2008. Besides this package of measurements, negotiations were performed as regards the common energetic measurements, involving simultaneously the energy providers – in other way, serious turbulences might occur towards the Community's Space.

From here, the idea of an internal energy market will start. And beginning with 2008, the Parliament and the European Council have taken a series of decisions, thus consolidating more the concept of "internal energy market". Although know this state of fact, one cannot say that it is completely established, where the security of energy supplying from the community's space has in view the reduction of European Union vulnerability, as regards the energy imports, the lack as regards the supplying, as well as the predictability on supplying and of prices.

As regards the Energetic Politics of the European Union drawn up in 2007, the energy is identified as an element of special significance, being recognized as an engine of the future economic growth. Its intrinsic value will speak without saying. Its part has declaratively increased by every document drawn up since then, and up to present, but also by means of facts, as regards the economic relationships. Even if its significance is so high, one should understand that the European Union, by its components states, should take measurements in the view of struggle against the effects of using energy; among these, one effect seems to be more significant, meaning: inducing the climatic modifications.

3. The energetic EU future

In order to pass over these challenges, the European Committee agrees that the European Union should promote a common energetic politics, based on energetic security, a long lasting development, as well as on competitiveness. [9] Taking into account the security on supplying with the energetic resources, the European Union made estimations as regards the increase of natural gas, from 57% currently, and up to 84% until 2030, and as regards the petroleum, an increase from 82% up to 93%, taking into account the same time.

Taking into account the objective of a long lasting development, one should mention that in 2007, the energy sector

consisted in the entire Union, from the main producers of gas, by the green house effect. If immediate measures are not applied, in this rhythm of the pollution, the values on EU level will increase by almost 5%, and at the global level, these will increase by almost 55% until 2030 [10].

At this moment, at the level of the European Union, the nuclear and hydro energy emphasize the highest margins of non-pollution with CO₂, although these have had a high impact over the ecosystems.[6] The atomic stations seem to have a significant contribution over the implementation of the long lasting development concept, ensuring a third of the electricity production of the European Union.

If one has an assembly image over the entire world, and if one tries to see what are the current power poles, in accordance to the industrialization level, one will see that the European Union is situated amongst all these, being in strong connection to the United States, Canada, China, India or Japan and Korea.

Though, in order to be in a competition, it is urgently necessary to ensure the energy, which unavoidably will draw up the economic growth. European Union, as any other strongly industrialized state, is facing some paradigms, some ways to be followed, in order to ensure its future existence; among these, within a new age of the energetic progress one might find: the selection of the energy types, the security of supplying with energy and the price agreed, as well as the environment protection.

As regards the Green Book of the energy, finalized in 2006, a diagnosis of the energetic situation in European Union was accomplished, from where some well documented conclusions can be drawn up: the current consumption of the Union consists in 41% of petroleum, 22% natural gas, 16% coal, 15% nuclear energy and 6% of the green energy. Which is more concerning refers to the amounts of the imports, which are about 50%.

The import of natural gas is mainly carried out from Norway and Russia, and the imports of petroleum of the Middle East. Concerning is the fact that if the imports of gas are maintained, we will reach the threshold of 80% in the following three decades. The European Union cannot cover

by itself the energy demand, meaning of own resources.

The world demand of energy has increased with 1.6% per year. The consumption of combustible is increasing constantly, as well as their price, which have trained already massive increases at the electric and thermal energy. The consumers cannot support anymore the increase of prices, which will continue unavoidably because of the high dependency of imports and of the long network of supplying. Notwithstanding, there is also a positive externality: supporting the research in the field. There is an urgent need of investments, which are approximated to reach 1000 milliards of Euro.

The issues that have occurred and people will have to face with are the following: "the need of petroleum, of the high powers that are fighting for supremacy, the need of an adequate information, threatening the arms of mass destruction, the devilry of the terrorist groups, the probability that governments are not honest with people that they lead on, the responsibility and the loyalty of the government representatives". [8]

In 2006, the European Union has established the future energetic priorities, by means of the Green Book of the energy. The strategy proposed has been developed on six fields of interest [7], meaning:

- developing the competition on the markets of electrical energy and natural gas;
- the nutritional safety;
- debates regarding the energy sources;
- the climatic changes;
- strategic plan regarding the research and innovation;
- External common politics as regards the sub-fields of the energy.

The European Union had had to impose some directives in order to oblige the member states on taking efficient decisions in the energetic field. Among these, one might recall a doubling of the green sources weight of consumption from 6% to 12% in 2012, a growth of the electrical energy produced of the non-polluting sources from 14% up to 22% in 2010. In the same time, by a series of measurements on increasing the efficiency, one might expect to a reduction of the energy consumption with 20% by year 2020.

The aim of the Green Book of energy is not an occurring one; it tries to correlate all the European initiatives as regards the energy, on proposing a series of precise actions, with a rich and clear content.[7]

Firstly, the Union, being aware of the internal market lacks, has tried to develop its own electrical energy and natural gas market, by supporting the investments and by establishing institutions able to control the European changes between nations. Secondly, it will try to replay the resources stocks problems, so as to face the crisis situations. By this occasion, an increase of the network security level will be accomplished. In the fourth step, taking into account the crisis situation, a new procedure of ensuring the solidarity between the member states will be imposed, for the member states that are in difficulty.

The measures of the Union have been diversified, and the social dialogue will become every day of priority number one; for these reasons, a public debate was proposed, meaning a debate at the level of all component states, as regards the energetic future of the Community Space, which will try to bring solutions to various issues they are faced with. In the sixth step, an action plan regarding the energy efficiency will be imposed, especially when this will add its feature of temporal updating.

This should be supported by means of a program on implementing the green methods on energy production. The plan has the part on reducing the petroleum and natural gas dependency. In the eighth step, the innovation added to all such efforts on creating a long lasting energy politics in various fields, starting by producing the energy and up to all energy's branches, will reach to the end user. Taking over the discussion has given us a new energetic energy, as regards the European Union, starting with 2007, a complex strategy that covers many fields of interest.

The tenth point takes into account the investments made within the infrastructure for supplying with energy, which unavoidably come from Russia and Middle East; for this reason, the dialogue with these parts was included in these clear measurements on following. We assume the idea of a treaty of the entire European energetic community, able to offer a

steadiness in the region. The treaty will no include only the member states, but also the neighbors, too.

All these ideas we included in the Green Book of energy, establishing as strategic objective the reducing of green house effect gas, with a significant percentage of 20% until 2020. The objective is part of a world objective on reducing such gas, as well as on promoting the energy regenerating resources, by the participation of the entire world community. In the same time, such objective strengthens the position of Europe, and will transform it into a community more and more independent as regards the energetic point of view.

To this main objective, other three adjacent points are added, as regards the increase of the regenerating resources weights, in the total of energetic consumption to 20% until 2020, the increase of energy efficiency by 20% until the same year, as well as using the bio-combustibles until 10%. To these points, a better management on trading the license on green house effect gas emissions, saving of energy, adopting the top technologies, using safely the atomic energy, as well as understanding on large scale the issues related to the energy and environment.

4. Supply and Demand European Diagnosis in energy markets

As regards the energy, although we have the same European strategies, and regarding from the resources and organization point of view, we are in a different position. We might talk about states that can ensure by themselves the resources demand for energy, then about those states that have not any resources in order to produce it [9].

The countries producing of energy are represented by Holland, Denmark and the United Kingdom of Great Britain and North Ireland. Holland has become a huge producer of gas simultaneously with discovering the deposit of Groningen in the years 50s. Though, the community's consumption of gas is covered by Russia and Norway, and then by Holland and Algeria. Denmark has covered its necessary of petroleum in a proportion of over 90% of the own resources, being a natural gas exporter. Great Britain is one of the highest producers and European exporters of energy.

The countries net importing of the European Union are Germany, France and Italy. Germany imports gas especially from Russia, in a percentage of over 85%, and petroleum on over 95%. Such significant percentages have determined Germany to think seriously on diversifying the energy sources.

Germany has adopted a state politics, by implementing the green energies [3] on a larger and larger scale. France is an imported of energy. It imports over 90% of the petroleum and gas, and over 75% coal.[1] From this reason, France has started to develop its atomic sector. Although it has enough resources to be exploited, France hasn't started to product. It imports massively from Russia, Algeria and Norway.

The idea of environment protection is still at its very beginning.[3] Italy hasn't enough energetic resources; from this reason, it imports massively from Algeria. There is not an atomic sector. Italy has adopted the strategy of green sector, being very addicted to imports. The Nordic countries, such as Sweden and Finland, have emphasized the environment protection, as well as the atomic energy.

Austria has a developed hydroelectric potential, and for this reason, it ensures three quarters of the energy from this type of resource. Belgium has adopted the variant of the atomic energy, as well as the energy imports. Belgium signifies the most enthusiastic supporting part on producing the energy in the European Union. Spain, Portugal, Greece and Ireland are importers of energy on large scale. The energetic infrastructure has become less developed in these countries. They have taken into account the massive investments in the infrastructure, though the global crisis has postponed the decisions taking.

The energetic security signifies a very important objective for each state separately, so that any of it will try to beneficiate of the global resources, thus involving themselves in a different way in various regions that own such resources.[2] In this moment, the most significant point on the world seems to be the Caspian region, which includes significant resources of ideas.

Those involved in controlling such region are represented by the states where these resources are, meaning those states that wish

the access, as well as the high petroleum companies, which own the necessary infrastructure on extracting the oil and the gas. According to Hrair Dekmejian and Hovann H. Simonian analysts [5], the states under interest in the region can be classified in accordance to the following form:

- *The front-ager states*, meaning: Russia, Kazakhstan, Azerbaijan, Turkmenistan, Iran;
- *The internal circle*, meaning: Afghanistan, Armenia, Georgia, Turkey, Uzbekistan;
- *The external circle*, such as: China, India (two high emergent forces), Ukraine, and Pakistan, Israel, Saudi Arabia (regional actors) and the group of the high forces (USA, European Union and Japan).

5. Conclusions

The interest for such a region comes from two directions. The first refers on the exploitation of such resources, and the second refers on the transport of those that can bring the interests towards some interested states, for this reason, we will analyze forwards some transport routes, as well as the shape that these might take, depending upon the interests of the high world players, meaning: European Union, Russia and USA. As regards the European Union point of view, this will try to consolidate the European market, to take away the Russia's danger and to ensure the Union's future. Russia wishes that such resources to be transported on its territory by the connection to the Drujba pipe, of over 4000km in length, and which provides supplying to the Central Europe, or by means of the Bosfor and Dardanele straits, on Bulgaria's territory, up to the Adriatic Sea. On common agreement, the European Union and USA wish to avoid such regions, thus relating to the Baku-Tbilisi-Ceyhan pipe. The other states, near the next neighborhood or which can be potential candidates on transit, are registered on virtual or real lists, depending upon interests.

In this way, building transport pipes was imposed, in order to transport the resources on high distances towards the interested regions: on one hand, from the Caspian basin

towards the Black Sea, and towards the Occident, on the other hand.

The interest of the transit countries results simultaneously with the provision with energy, the payment of transit taxes, on facilitating the own companies interests, but also on the final beneficiaries, as USA or EU. There are two ways on selecting: the first includes the definitely position of Russia, and the region will remain in a state of political dependency, thus distributing the resources in a preferential way, by means of the “Novorossijsk” Oleo-duct, the “South Stream” Gas-duct (900 km through Bulgaria and South of Italy), as well as the “Ambo” Oleo-duct (913km)[4].

The second solution has eliminated the Russian monopoly, although pipes able to avoid the Russia’s territory should be used. We might talk here about the Baku (Azerbaijan) – Supsa (Georgia and Black Sea, 833 km) Oleo-duct, the Constanta – Trieste Oleo-duct (with the most of advantages), the NABUCCO Gas-duct (as equally as significant as the oleo-duct previously mentioned).

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Agrotourism – Modality Development of Rural Environment with Touristic Potential and the Major Accounting Issues

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Abstract

Agrotourism contributes sustainability in agriculture through sustainable better management of natural resources in an eco-friendly system. The farmers believe that agrotourism contributes towards the sustainability of agro-business because: proper planning generates various source of income, it helps farmers enhance their knowledge, it is beneficial for small farmers who have low soil productivity. Agrotourism is a new business with less competition, it is business activity as compared to traditional farming and it provides employment to a wide range of farmers. In addition agrotourism is better for human health and the environment and it provides local heritage and cultural experience for tourists..

Keywords: rural tourism, agrotourism, agritourism, sustainability, farm, promotion.

J.E.L. Classification: L83, Q 26, R11, M10

Introduction

In many rural regions, tourism is accepted as a natural part of the socio-economic fabric juxtaposed with agriculture. It is clear that rural tourism is based on rural amenities; however, it is not clear how this relates to agriculture. Are these interrelationships of mutual benefit, in the sense that while rural tourism provides the farmer with auxiliary funding to continue his/her agricultural activity, the latter is an important or even necessary component of rural tourism? Do active farms with rural tourism enjoy economies to scope and run their businesses more efficiently than firms with only a single

activity? [3]. The aim of this paper is on these inter-relationships agrotourism-agritourism and their importance on the rural environment and in the life of local communities.

Tourism activities have been widely regarded as key-tools for rural development. However, even when tourism and leisure may offer many chances for rural areas, policy-makers shall remember about major complexity of local development troubles and actions, these going further from economical or technological frame limits to become part of a global dynamics on changing society as a whole, wherever any activities and/or processes are closely linked to circumstances under which they come in to practice [4]. It seems very important to underscore that rural tourism is engaged by people seeking rural peace, away from areas of intensive tourism activity. Above all, rural tourism is engaged by visitors who wish to interact with rural environment.

1. Agrotourism and agritourism – sustainable vectors on rural development

Agritourism could create awareness about rural life and knowledge about agriculture science among urban school children. It provides the best alternative for school picnics, which are urban, based. It provides opportunity for hands on experience for urban college student in agriculture. It is meant for providing training to future farmers [8].

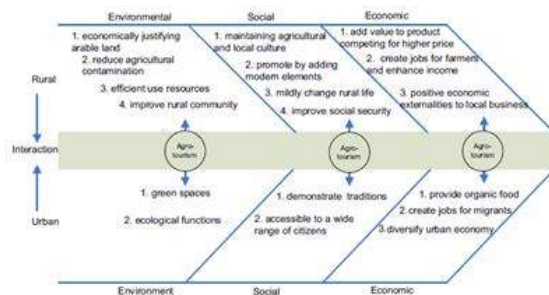
For those unfamiliar with the concept, agritourism “is a hybrid concept that merges elements of two complex industries—

agriculture and travel/tourism—to open up new, profitable markets for farm products and services and provide travel experience for a large regional market [12].

Agritourism and rural tourism are terms requiring some explanations. 'Agri-tourism' refers to all tourism and recreation activities connected with a working farm or any agricultural, horticultural, fishery or agribusiness operation (is equivalent to farm-based tourism or farm tourism). Rural tourism can be defined as a multifaceted tourism / recreation activity that takes place in an environment outside heavily urbanised areas (within rural areas, countryside), but excluding agritourism [6].

Agro-tourism is an activity that is based on the three pillars of development: economic, social and environmental, and as can be seen in the following figure is a multifunctional activity.

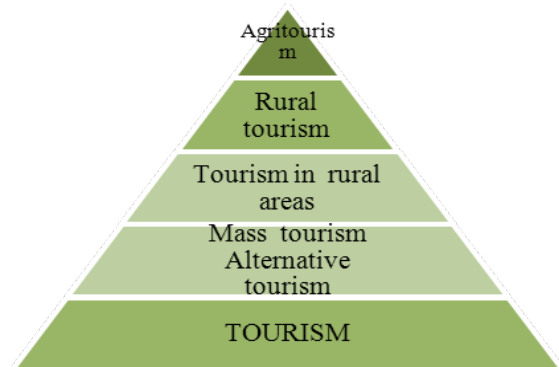
Figure no. 1 Multifunctional agro-tourism in integrated rural and urban development



Source: Zhenshan Yang, 2010, p.383

Therefore rural tourism, agrotourism and agritourism are new concepts and they have to be formed for the very beginning. Figure no.2 shows a pyramid giving a hierarchical positioning of those forms of tourism in relation to each other and in relation to mass tourism and alternative tourism.

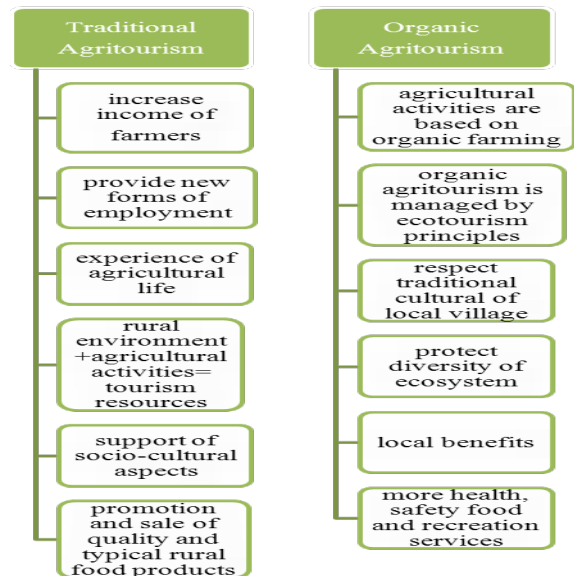
Figure no. 2 A pyramid of the range of terms related with tourism



Source: Sznajder, M., et al, 2009

Agritourism is a commercial enterprise at a working farm or agricultural business conducted for the enjoyment of visitors that generates supplemental income for the owner/operator. Agritourism includes: outdoor recreation like horseback riding, educational experiences like tours and wine tasting, entertainment like farm and garden festivals, hospitality like farm accommodation and parties and on-farm direct sales like u-pick, u-cut, or farm markets and garden centers.

Figure no. 3 Characteristics of Traditional agritourism and organic agritourism



Source: Kuo N.W., Chiu Y.T. (2006)

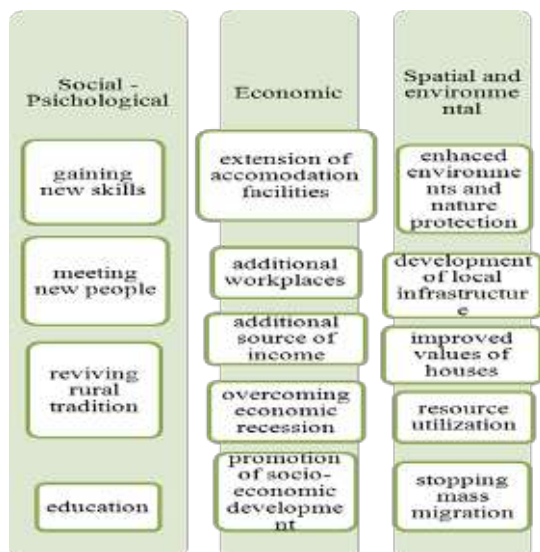
Organic farming is assigned a set of principles that range from stimulating “the natural forces” in order to restore harmony between nature and cultivated plants by a minimum of interference people and total

abandonment of the administration of such industrial chemicals [2].

The economic and social importance of this type of rural tourism it might be considered in many opinions and aspects. In figure no.4 are shown the main functions of agritourism.

Some of mentioned functions of agritourism supplement or result from one another. It difficult to say which of this functions are more and which less important.

Figure no. 4 Functions of agritourism



Source: Sznajder, M,et al., 2009

2. Activities of agrotourism and ways of promotion in Romania

Promotional means used by the owners of rural tourist facilities are: brochures, leaflets, prospects, specialized catalogues, catalogues of domestic tourist agencies, foreign magazines articles, informative panels beside the road, TV/Radio in the Country, printed tourist guidebooks of rural tourism.

Television is for most of us enjoyed a relaxing, leisure, as well as a support in moments of boredom. TV programmes, becoming more numerous, try as much as possible to provide a wide range of TV shows for all ages. Referring to agrotourism and especially how to practice this form of tourism, television in Romania presents a series of programs on this subject, as shown in Table no.1:

Table no.1 Shows that tackle agrotourism in Romania

SHOW	LOCATION
"Viata satului" Show	TVR1, Sunday, at 10.35 am
"Ferma" Show	TVR2, Sunday, at 12.00 pm
"AgriCULTURA" Show	Neptun TV, Sunday, at 13.00 pm
"Rodul Pamantului" Show	OTV, Sunday, at 11.00 am
"Euroferma" Show	National 24 Plus, Favorit TV, Sunday, at 13.00pm
"Minutul de agricultura" Show	TVR1, Sunday, at 11.50 am
"Zestrea romanilor" Show	TVR1, Sunday, at 7.00 am
"Buna vreme gospodari" Show	Favorit TV, Sunday, at 14.00 pm
"Romania Agricola" Show	TV Money, Saturday, at 12.00 pm
"Tezaur folcloric" Show	TVR1, Sunday, at 15.00 pm

Source: realized by authors

Regarding agrotourism activities, the next table highlights a few of these:

Table no. 2 Agrotourism activities

Agrotourism Activities	Agriculture Festivals
	Antique Stores
	Bed and Breakfasts
	Farmers' Markets
	Roadside Markets
	Scenic Byways Tours
	Wineries, Camping, Hiking
	Living History Farms
	Tractor Pulls/Hay Rides

Source: Ramsey M., pp.7, 2006

This shows has a common aim: to promote rural development, and to make known about rural life with its potential, customs and tradition. Agrotourism, seen like a business in rural farms, has a great

opportunity in this TV shows being promoted with agrotourism, rural tourism and their forms of activity.

The category of magazines relating to agriculture, including articles on agriculture, sustainable development, rural development and other areas of great interest, listed below the main periodicals, appearing in Romania:

Figure no. 5 Journals from Rural Development



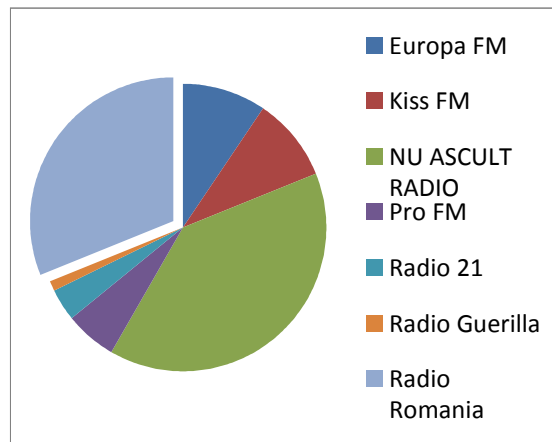
Source: Realized by authors

The Internet is today the most useful way of communication and promotion of the most visited urban population, but also by 8% of the rural population. According to a study in Romania [13], 55% of which are above the age of 50, do not know general information about what is internet and how to browse the Internet. Seen as a channel to promote agricultural information on the Internet has probably the most extensive view over the activities. The most visited sites in Romania on these theme are:

- <http://www.anunturi-agricole.ro/>
- <http://agroinfo.ro/>
- <http://revista-ferma.ro/>
- <http://www.recolta.eu/>
- <http://afaceriagricole.net/>
- <http://www.gazetadeagricultura.info/>
- <http://www.marcoser.ro/>
- <http://www.money.ro/agricultura.html>

On the role of radio to promote rural tourism information, especially on agriculture, this is a way more convenient and more used to transmit useful information. According to the same study conducted in Romania, 29.7% of respondents said they listen to the radio „Radio Romania Actualitati” (see Fig. no. 6)

Figure no. 6 National wide rating



Source: available at web

http://old.fjsc.ro/cercetare/media_rural/concluzii_rural.pdf [accessed 17 October 2012]

Reasons for rural listeners prefer "Radio Romania Actualitati" is that this post has a better coverage than other radio stations. A reason is the range of issues and programs is very diverse, as discussed topical issues of rural development and agriculture.

In addition to these radio stations to discuss issues related to the agricultural situation in our country, there is a radio station that specializes in problems of the Romanian village. „Antena Satelor” Radio station is a radio about country life, traditional values is the benchmark genuine sustainable in a world of consumers of artificial [5].

Official website where you can listen to this post is <http://www.antenatelor.ro/stiri.html>.

As a service provider activity, agro tourism presents a number of particularities which influence the way accounting is organized. Such particularities include the following aspects [14]:

a. Diversity of services, which determines the complexity of the performed activity: lodging, serving and selling alcoholic and non-alcoholic drinks, transport, treatment, entertainment, sightseeing and visits to different monastic landmarks, cleaning / ironing services etc. This aspect allows focusing on types of activities, types and kinds of agro tourism service provision of revenues and expenses, having thus the

possibility to establish the outcome and to perform an analysis of the efficiency resulted in detail.

Regarding lodging, the accommodation fee requires a 9% VAT, in compliance to the Fiscal Code in force [15], with the following particularities:

- if the accommodation fee includes one or more meals (half board or full board), then the corresponding VAT shall be calculated by applying the 9% quota. A 24% quota is applied in case the meals are separately supported by the client.
- additional services, such as cleaning/ironing services, will increase accommodation fees.
- a hotel tax requested by the local Council shall be also applied in the amount of 1% from the total accommodation fee/accommodation fee per each day of stay, a tax which is charged by the legal entities by means of which lodging takes place, together with the counting of accommodated persons, except units located in a touristic resort that owes this tax for a single night, regardless of the actual period of stay [15].

Cooking and pastry-confectionery activities are considered in accounting terms as a production activity. The first accounting recording shall apply to raw materials and supplies purchased against invoice or receipt and difference fact-finding, respectively on the basis of purchasing inventory and acquisition note for supply on the food market. Then, according to consumer bills, utility bills and payrolls, consumptions determined by food products obtaining are recorded (raw materials, supply, salaries, including benefits related to insurance and social protection and a percentage of indirect expenses distributed proportionally according to certain criteria and the utilization degree of production capacity). The final products obtaining is also recorded based on a deliver-transfer-return note. Such final products will be sold by other trade or food units or they are meant for their own restaurant, a situation requiring final products transfer into goods, goods which shall be traded en-detail.

The serving and selling of alcoholic and non-alcoholic drinks as well as meals serving takes place by means of waiter staff. The flow of such activities performed through waiters is the following: the waiter takes the order and sends it further to the administrator (bartender or cooker) from which orders are

taken by filling out the cash register note (a justifying document for outputs and sales occurring either at the bar or in the kitchen). When the client finishes, the bill is made. The cash register note and the bill shall be recorded at the end of the day in the Detailed statements of receipts and payments, detailed on administration sections (bar, kitchen), respectively payment means (cash or by credit). Input-output documents, including cash register notes, are recorded daily in the Accounting report, whose balance account shall be compared to that registered in the inventory made at the end of the day. The detailed statements of receipts and payments as well as the accounting register represent the basis of „Unit sales synopsis”, which shall be further delivered for being registered.

b. The relatively short duration of services provided shall determine emphasizing and underlying incomes and expenses for the same accounting period, being thus entitled to easily establish the financial result for every agro touristic activity developed.

c. The existence of different conditions for providing agro touristic services shall determine differences in the way of refunding services and emphasizing incomes and expenses.

d. It is quite often that they resort to collecting in advance the price charged for the provision of agro-touristic services in order to have the certainty of receiving the money owed for the rendered services and for the maximum use of the tourist lodging unit. Such activity shall determine, in accounting terms, an anticipated recording for ordered agro touristic services, while the incomes resulting from agro touristic services take place after the touristic activity is concluded. Incomes are also displayed after conclusion of such activity, as there is the possibility of cancelling the service contracted, due to various reasons.

e. To provide certain services, the agro unit may turn to the services of other service provider units. Costs incurred by these units will not be revealed in accounting as costs of tourism, but as the costs of tourist services provision activity and will be recovered by the applicant. Incomes consist in service provision

activities. Participation of several touristic for performing a touristic action makes one of them to act as the organizing unit and other units as providers, which makes showing revenues and expenses only in the accounting activity of the organizing unit and the recovery of touristic services price by the service provider units (usually tourism agencies). The providing units receive, for several service rendering activities, a bonus out of which they cover their own expenses and ensure their profits.

3. Conclusions

At first is difficult to understand, then difficult to accept, given its lack of prestige, rural tourism and agrotourism have slowly but consistently gained ground, mainly on the tourism markets in the economically developed countries, highly Industrialized countries with a high urbanization level. Nowadays, the tourism in rural areas (agrotourism) is increasingly appreciated and demanded by the people living and working in increasingly stressful conditions inherent to modern civilization [1].

If rural communities have the goal of enhancing their economy through rural and agro tourism, local staff should identify which agency or institution would be best suited to be responsible for agrotourism planning and development. In some local communities, existing agencies, economic development corporations, and local chambers of commerce develop, or could develop agrotourism.

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The Solutions from Romania's Exit this Crisis

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Abstract

The some solutions to mitigate this crisis and especially its negative impact on the population have been successfully applied in several EU member states, old and new, as well as other states. There is not much to invent - the principal is not to make mistakes elementary experiences to end amateurish, to restore genuine professionalism.

What interests us, rather, is what to do afterwards. The absence of a coherent and realistic vision of the future that we want and that we are able to build it stood at the head of many of the troubles we have faced in the last year from which we all suffer further .

Key words: economic and financial crisis, global, stabilization, EU strategy, Europe 2020

JEL Clasification: F 15, F 35, F 36, F 43

Introduction

This paper is not intended to provide miraculous solutions for Romania's exit from this crisis that haunt the world for over 5 years. Overcome these difficult times will depend largely on developments in European and international economic circumstances.

Crucially, however, the resumption of healthy growth will be determined, in the case of Romania, the consistency with which it will implement measures prescribed rehabilitation and stabilization agreements with the EU, IMF and World Bank programs convergence towards adoption the euro and intelligent use of the advantages that we offer EU membership.

More far reaching strategic plans, some meritorious remained forgotten in dusty drawers of a more timid and obedient bureaucrats because of excessive

politicization. Each new form of government seems to have persisted to start from scratch, abandoning projects midway and launching initiatives whose effects are calculated in terms of media or election more than functional. We missed each time, unifying idea of systemic thinking, awareness of the fact that any apparently reasonable today may create perverse later with multiple ramifications.

That certain deficiencies are found forward thinking and elsewhere can provide only a partial consolation when we analyze our own weaknesses and vulnerabilities conceptual structural here in Romania.

Somehow, the global economic situation resembles the emphasis on climate change. In both cases, errors of judgment and refusal to consider medium and long-term effects of human action in relation to the economy and the natural environment have become global, seemingly isolated phenomena being able to trigger adverse consequences as a generalized chain. It turns thus classic example of chaos theory, which says that a tiny stream of air produced by the beating of the wings of a butterfly somewhere in the forests of Amazonia, may represent the initial impetus of a violent storm on the other side of the globe. Over natural cycles of nature and the economy once able to absorb shocks and to be self-regulating random, human foolishness interventions multiplied overlapping network of global interdependence major destabilizing element with possible catastrophic consequences. The current crisis has only to show that progressive weakening of natural systems, as well as the economic and financial, has brought us dangerously close to the point of inflection, the creation of a critical mass of negative buildup can cause collapse of existing structures become irreversible.

This is the context in which we must reweighing options are handy and offer a

clear perspective for the future. He once said that the ultimate expression of national interest is survival. Resonance of this truth has never been more relevant than now.

In a somewhat understandable, political discourse and public debate in Romania focused mainly on immediate problems in the last months of the crisis. Such concerns are legitimate and necessary. But it seems that expectations for post-crisis recovery is limited to the situation before, without any thought for the future, without questioning that may very unhealthy development model that I followed for twenty and two years has brought us where we are. Even necessary discussion about the reform of the state seems to be confined to a redistribution of power between different sections of the political elite, without showing too clearly what you want to do with this power.

In a somewhat understandable, political discourse and public debate in Romania focused mainly on immediate problems in the last months of the crisis. Such concerns are legitimate and necessary. But it seems that expectations for post-crisis recovery is limited to the situation before, without any thought for the future, without questioning that may very unhealthy development model that I followed for twenty and two years has brought us where we are. Even necessary discussion about the reform of the state seems to be confined to a redistribution of power between different sections of the political elite, without showing too clearly what you want to do with this power.

We can not say that in a time of need, we have enjoyed understanding and support European and international community. But this benevolence is neither unlimited nor unconditional. It is based on ongoing assessment of those facts and tangible achievements that inspire trust its own people and foreign partners seriousness public policy of the country, or just the essential ingredient is being questioned now and restore confidence depends highest degree, our ability to articulate a compelling perspective: this is where we want to go in a given time, is what we do to achieve goals!

The conceptual framework for this approach is future oriented. New EU strategy "Europe 2020" establishes a number of principles of action and targets to be achieved in the next decade horizon. They

are binding on all Member States will have to be transposed into national targets and trajectories to be approved and validated at the session of the European Council in June 2015. This means that each member country, and therefore Romania is responsible for the development and implementation of specific programs to implement the European strategy. Complexity effort to be made within a very tight commercial active involvement of all those who have the necessary skills to complete this process optimally.

The very title of the document produced by the European Commission states that economic recovery in the EU, will have to have three distinctive features such principles: to be smart, in the sense of relying on knowledge and innovation to be sustainable (or sustainable) for the purpose of promoting greater efficiency in use of resources to increase environmental performance and encourage competitiveness, strengthen inclusion in the sense of increasing labor employment and strengthen social and territorial cohesion European Union.

It should be noted that the new EU strategy is closer in comparison with the Lisbon Agenda which preceded it, the classical precepts of sustainable development as the dominant doctrine of European progress in the XXI century. Link human factors, socio-political and economic development process with those on considerate and responsible interaction with the environment is now organic. Has come a long way from militant-hostile attitude towards the environment (best illustrated by the famous sayings *miciuriniștă* "Do not expect a gift from nature. Need to pull them!") To acquire perennial truth that human civilization is a subsystem of the natural order of the Earth and must work in harmony with other subsystems in order to survive.

A careful examination of the five key objectives and programmatic initiatives outlined the 7 European Union for 2020 shows that they like it tailored specifically to meet Romania's fundamental priorities. Proposed measures is committed to correcting perceived weaknesses in the EU-wide global competition. Specific features of Romania in this context is that each of the priority themes, our weaknesses are higher

than those found in most member countries, and efforts will be made to overcome them will also be proportionately higher.

To be honest all the way with ourselves, we must recognize that, within a single decade, they may not be able to fulfill all transformational objectives set for the whole European Union. Total commitment to this path is, however, essential for the future of the European Romania. But let's take them one at a time to see where we stand, what we do and what results can be expected.

The indicative targets Europe 2020 are:

1. Providing an employment rate of 75% of the population aged 20-64 years

With an average of 69% of employment (63% for women and 76% for men but only 46% for those aged 55-64), the European Union is still below key performance global competitors.

The number of hours actually worked is 10% lower in the EU than in the U.S. or Japan. This is compounded by the fact that in the next 3-4 years, the natural growth of the European population will enter a negative slope, emphasizing further aging and resulting pressures on pension and social assistance.

In Romania, the situation is more serious, and the effort to recover gaps will be considerably higher. Employment rate in Romania in early 2012, 58% (11% below the EU average), down almost one percent over the figure of 2011. Negative demographic trend is among the most alarming in Europe and is aggravated by external migration of young and qualified labor.

Under these conditions, the recovery situation in Romania can not be reduced only to create new jobs and introducing it in the production of large reserves existing labor force in rural areas, but requires a range of measures designed medium and long gradual recovery demographic balance and superior capitalization of human capital. Policies increase the employment rate of labor must be combined with those relating to the development of education and training relevant to labor market needs forms, including streamlined ways of retraining and lifelong learning, improving health, promoting active social inclusion. It is necessary, therefore, strategic and integrative thinking to find expression in legislative

packages coherent and effective reporting mechanisms, monitoring and intervention.

Improving employment can not be achieved, as the recent experience of Romania, by artificially inflating staffing the administration and the public sector, often based clientele. Especially in the sphere of civil servants is necessary and urgent to establish clear performance parameters, specify expressly permanent job and monitored according to strict protocols for each type of activity.

But the main reservoir of human capital, still very poorly exploited in Romania, located in rural areas, rather than migrating to the big cities or in search working abroad will solve the problem, but the dynamic diversified through deconcentration and relocation of production activities and services in villages and small towns that are now in an economic drowsiness.

In the modern economy away many of the technological constraints once favored concentration of production in large industrial units. Stimulating the development of small businesses in rural areas, where investment in fixed assets are more modest, as suppliers or subcontractors of large-scale industry, has the advantage of reducing the economic costs associated with congestion ecological and cultural areas. Before the onset of the crisis, many banks in Romania is preparing to expand its activities in areas not yet covered by modern financial services. Beginning of economic recovery will accelerate certainly this process. A wise governance will know to bring that open opportunities, while adopting the necessary measures to create an enabling framework. Judging by the experience of other countries that have had a similar starting point with Romania, the effects on increasing employment could reasonably optimistic exceed expectations.

2. Investing a percentage of 3% of EU GDP in R & D

Accumulated expenditure for research, development and innovation is still less than 2% of EU GDP, compared with 2.6% in the U.S. and 3.4% in Japan. The measures contained in the 'Innovative Union' part of the EU 2020 strategy identifies priority areas on which to focus the efforts of European institutions and Member States, including

through more active attraction of private capital.

In this chapter Romania is not so good. Budget allocations for scientific research and technological development stands as a percentage of GDP, less than half the EU average. According to statistics recently released by the European Commission data, the actual performance of Romania is placed on the antepenultimate place among EU countries in terms of innovation. Much the same is true on objective indicators that accounts for the number of patents filed and the number of contributions published in mainstream publications of knowledge relative to population. It is, however, encouraging that, despite the scarcity of resources for research, the recovery rate of backwardness and improve innovative performance was in Romania in 2011, among the highest in Europe.

This is not just about more money from the budget (although this requirement will be fulfilled by Romania as a requirement of membership), but also by creating an ambience conducive to unleash the creative energies of the Romanian scientific community for recognition and respect for its role propelling the progress of the whole society. There is great need for politicians in Romania to learn, even at a basic level with the rigors of scientific reasoning. It is no less true that the scientific community should lean more specific understanding of the mechanisms of type modern political thought.

3. The 20-20-20 targets in terms of energy and climate change

EU Directives provide, by 2020, increasing to 20% the contribution of renewables in total energy balance, 20% reduction in emissions of greenhouse gases and improving energy efficiency by 20%. It is estimated that implementation of these goals will create at least one million new jobs in the EU, generating also other important environmental and economic benefits.

Romania is well placed to achieve these targets within. Wind energy projects in progress, plus entry into service of hydroelectric power and average and low in the short run, expanding the use of solar energy as production costs become more competitive will create prerequisites even for exceeding the target of 20% renewables.

Problem that requires resolved soon be taking over the addition of clean energy with intermittent production (wind, solar) national network safe. Reducing emissions will be scheduled by the passage of power plants from coal to natural gas and rehabilitation of heavily polluting plants. Greatest potential for compliance with European standards, but in the increase of efficiency by reducing energy intensity per unit of product, limiting losses in district heating networks and substantial improvement thermal performance of buildings. Significant efficiency reserves are in heavy industry, cement and construction materials, transport, agriculture, and domestic consumption.

4. Providing a proportion of 40% of higher education graduates in the 30-34 years age segment

The aim is increasing throughout the European Union in the number of university graduates in the age group mentioned by almost 10%, while the actual figures are 40% in the U.S. and over 50% in Japan. It takes into account the improvement of the quality of higher education, given that only two EU universities within the top 20 in the world, according to the evaluation grid from Shanghai.

Target of 40% synthesizes actually an action program extending upstream and downstream throughout the educational pathway from pre-school to doctoral and postdoctoral studies, including adult and continuing education and professional development through recycling. And in this respect, Romania starts off with the obvious disadvantages of quantitative and especially qualitative. Striving to achieve the percentage of university graduates set by the EU requires more than double the number currently produced in Romania (16%). If the EU wants to reduce early school leaving in 2020 to 10% (compared to 15% today), the current figure for Romania is about 20%. Romania also has a singular European record, recording a decline in the skills of elementary school children from primary schools, according to objective criteria of international assessments. No Romanian university not listed in the top 500 in the world.

They imagined in Romania all kinds of education and education reform discussions on this topic continues, but still leave

tangible results expected. As long as the education sector remains underfunded and poorly led, without almost no relation to the actual requirements of the labor market, as long as social and professional status of the teacher is pushed to ridiculous, Romania will be condemned to backwardness and gaps that separate the advanced countries will deepen further.

Conclusions

In the conceptual framework provided by the new European Union directives no longer have to deal with two distinct strategies: one for competitiveness and creating jobs and another for sustainable development and eco-efficiency. The two areas of concern are interrelated and approaches to fusion.

Strategy "Europe 2020" is in other respects a step towards the vision depicted in the Lisbon Agenda ending somewhat disappointing results this year, and not just because of the disturbing elements introduced by the crisis. It became clear that some agreed priority targets in 2011 will not be achieved due to insufficient allocation of funds at national and EU levers and weakness due to monitoring and assurance obligations voluntarily undertaken by Member States. Targets remain ambitious new strategy, not very easy to achieve, but if more realistic and better articulated in a logical interaction components. Implementation mechanisms are also sharper political and executive, according to the Lisbon Treaty. The main emphasis is still on development and to maximize human factor and qualitative evidence, objectively measurable, gets a share equal to the quantity in numerical or percentage. European Union no longer defines itself only in comparison, in terms competitive with other power centers or traditional or emerging growth areas, but put in competition with itself in terms of its ability to provide welfare and quality of life for their citizens.

Indicative targets established in the European Union later this year concern us directly and we in Romania. We have committed knowingly and will have to make enormous efforts to meet them, or even to get progress on this path. After five years, becoming a member with full rights and duties of the European Union. Romania can

not plead the excuse that did not get used to the EU mechanisms and requirements that they impose. For our own moral failures have no right to blame anyone else. However, it remains a fact that, due to historical disadvantages, Romania is still the main indicators of development on one of the last places in the European Union. We can count on the solidarity and support on our European partners, but the bulk of our endeavors to align the standards of performance and behavior of the EU must be made by us here in this country.

About a year and a half, I did the math, when developing the National Strategy for Sustainable Development of Romania on short, medium and long term, how and in what timeframe we can reach EU average performance on key indicators given that neither our European partners will not stand still. Conclusion experts, validated by the Scientific Council under the aegis of the Romanian Academy, was that, realistically, we can arrive at such a rate about the year 2030. Reviewing the initial estimates in light of the negative shock caused by the crisis and in view of a possible slowdown of growth in the few years of post-crisis recovery, that the point of convergence of average development trajectory of the whole EU and Romania are not changes. It will require perhaps some adjustments intermediate targets, but the strategic goal remains essentially the same. The main thing is to give us finally realize that national development model itself needs to be changed on the fly to fit into the main vein of the development of European civilization.

Necessary changes in specific mentality Romanian spoken so (too often, a defeatist and self-denigrating tone) will occur by itself, naturally, as we appropriate European norms and watch mightily in compliance. Honor honest labor is not in Europe today, an exclusive privilege Nordic or Germanic peoples, respect for law, for everybody, not only is a distinctive feature of British and prosperity through culture is not a French monopoly or Italian. They are now common goods and virtues of modern European-style civilization. Through cultivation, no less Spanish Spanish, Irish or Irish less less Finns Finns. And so non-work, theft and cheap politics are not defects of the Romanian people. We proved in history that when we

know where we are going and why we are capable of great things, worthy of all respect. Becoming more European, we receive and we Romanians additional reasons to be proud of being Romanian in Europe.

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Regional Development Policy in the EU and Romania – State-of-the-art and Future Developments

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Abstract

The paper reviews the main elements of the EU cohesion policy, which is the basis of territorial economic development of the Member States. Reference elements of Cohesion Policy in the current programming period (2007-2013) are presented, and the main aspects of the reform anticipated to be implemented in the future programming period (2014-2020), including key challenges that Romania will have to face.

Keywords: cohesion policy, economic, social and territorial cohesion, strategic programming 2014-2020, strategic framework

JEL Classification: R11, R58

1. Introduction

The *EU cohesion policy* is defined by its purpose, *namely to support the process of reducing the gap between the more developed regions and Member States of the European Union and the least developed ones*. Reform of regional financial projections set out in Agenda 2000 underlined the need to focus of Community assistance in those areas where the development was lagging behind, on the one hand, and on the other hand, the need to simplify structural policies procedures. The paper briefly presents the main reforms of the EU regional cohesion policy during the current programming period, the main changes envisaged for the interval 2014-2020, as well as the main challenges for

Romania in implementing the cohesion policy.

2. Reforms of Cohesion Policy in the Current Programming Period

A new regional policy reform took place simultaneously with the conclusions of the third Report on Economic and Social Cohesion. Old objectives (supporting development in less prosperous economic and social conversion of regions in structural difficulties and human resource development) and four Community Initiatives (Interreg III, Leader +, Equal and Urban II) were reorganized (as of 2007) into only three objectives:

- **Convergence** - intended to improve the growth and factors leading to real convergence for the Member States and the least developed regions. In the EU-27, this objective concerns 84 regions located in 17 Member States, i.e. 154 million people with a GDP per capita below 75% of the Community average.
- **Regional competitiveness and employment** - designed to enhance the competitiveness and attractiveness of regions and employability of workers through a dual approach: first, the introduction of development programs to help regions to anticipate and stimulate innovation-friendly economic changes, conducive to knowledge society, entrepreneurship and environmental protection and improving accessibility, and then increasing the number and

quality of jobs by adapting the workforce and by investing in human resources. In a European Union of 27 Member States, this is valid for 68 regions, representing 314 million inhabitants. 13 of them, i.e. 19 million people, are in the stage of aid "phasing in" and are subject to special financial allocations due to their former status of "Objective 1" areas.

- **European Territorial Cooperation** - designed to strengthen cross-border cooperation through joint regional and local initiatives, to strengthen transnational cooperation through actions to promote integrated territorial development and to stimulate interregional cooperation and exchange of experience. Over 181 million people (representing 37.5% of the total EU population) are living in border areas.

In this architecture, Romania was eligible at two objectives: *Convergence* and *European Territorial Cooperation*.

The total resources available for cohesion policy in the current programming period (2007-2013) were set at 347 billion euros, representing 35.7% of the EU budget. An essential element of cohesion policy reform was the introduction of a more strategic approach to EU priorities, focusing on the Lisbon objectives (and, in 2010, on the objectives of Europe 2020), involving a new planning framework. Strategic objectives of EU cohesion policy have been identified through the *Community Strategic Guidelines*, while Member States have established national strategies and aligned their objectives through *national strategic reference frameworks*. These two documents provided the basis for the design of operational programs, also being introduced a tool for Member States to agree to focus resources on specific categories of expenses directly related to the objectives of the Lisbon Strategy and the Europe 2020 Strategy.

With the *re-launch of the Lisbon Strategy in 2005*, the cohesion policy was recognized as a *key instrument at Community level*, contributing to the implementation of the strategy for growth and jobs - not only because it represented one third of Community budget, but also because strategies designed at local and regional levels had also to part of the effort to

promote growth and jobs. The role of SME's, the need to respond to local labor qualification requirements, the importance of clusters and the need for local innovation centers is such that in many cases strategies must be built from the bottom up, from regional and local levels. Moreover, this applies not only to the economic agenda but also to the broader effort to involve citizens, who through partnership agreements and levels of government managing cohesion policy had the opportunity to become directly involved in the achievement of the European Union strategy for economic growth and job creation [1]. For the 2007-2013 programs, *specific initiatives* have been developed to promote *financial mechanisms for start-ups and micro-enterprises*, combining technical assistance and grants to non-grant instruments such as loans, equity, venture capital or guarantees.

The *Fifth report on economic, social and territorial cohesion* was adopted in the middle of one of the worst financial and economic crisis in recent history. [2] EU and Member States have responded to the crisis by taking measures to keep businesses running and people at work, to stimulate demand and increase public investment. In the midst of this crisis, the EU adopted an ambitious strategy for long-term recovery, called the *Europe 2020 Strategy*, its key objective being smart, inclusive and sustainable growth. Even more than its predecessor, the Lisbon Strategy, it emphasizes the *need for innovation, employment and social inclusion* and a *strong response to environmental challenges and climate change* to achieve its objectives. The main objectives of the Europe 2020 strategy cannot be achieved solely by policies formulated at EU or national level. Such an ambitious agenda can succeed only with a *significant participation of national and regional levels*, which is one of the main lessons learned from the Lisbon Strategy. In addition, the regional diversity in the EU, where regions have very different characteristics, opportunities and needs, requires going beyond the policy of "universal" approach to giving regions the ability and means to design and deliver policies able to address their needs, based on multiple and different types of regional development dynamics. This is what

cohesion policy gives through *localization approach*.

For the Europe 2020 strategy to be effective, it requires a *close coordination between Cohesion Policy and other EU policies*. In many areas, public policies have a greater overall impact if they are closely coordinated, rather than implemented in isolation. Relatively recent OECD studies suggest that it is important to *combine investments in transport infrastructure with support for enterprise and human capital development* to achieve sustainable economic and social development.

Fifth Cohesion Report was the first report adopted under the *Treaty of Lisbon* amending the Treaty on European Union and the Treaty establishing the European Community, adopted in Lisbon on 18 October 2007. It included *territorial cohesion as the third dimension of cohesion policy*, this following to be a *shared competence between the EU and Member States*. Five *guiding principles* were adopted to inspire political action at all accountable levels to guide the implementation of the Territorial Agenda of the EU Member States and to contribute to a culturally, socially, environmentally and economically sustainable Europe: i) solidarity between regions and territories ii) multilevel governance, iii) integration of policies, iv) cooperation on regional issues, v) subsidiary.

In accordance with the *Europe 2020 Strategy*, the EU regional policy should contribute to the achievement of its objectives on *sustainable growth* and *three priority areas* were identified (*a low-carbon economy, ecosystem services and eco-innovation*) and *two pillars of action*: i) *higher investment in sustainable growth* by encouraging a greater strategic focus on investments in sustainable growth through resource efficiency and reducing carbon emissions and ii) *better investment in sustainable growth* by improving the policy mechanisms to strengthen the application of principles of sustainable development into operational programs. It should be noted dual role of regional and local institutions to implement policies: that of *autonomous political agent* which sets local, context-specific targets (real subsidiarity) and the one of *embedded system to provide policies* that are set at a local higher level, but cannot be

implemented solely at those levels (multilevel governance and implementation) and the *task of policymakers is to understand more precisely which interventions are most appropriate to each territorial level* [3]. With regard to institutional capacity building at regional level, the EU introduced over time and supported various programs and tools for good governance practices augmentation (INTERREG and interaction, for example), the regions of the Member States applying them according to their characteristics and ideas .

3. Envisaged Changes in the EU Cohesion Policy for 2014-2020

In the context of the EU budget revision and the Europe 2020 Strategy a range of options to reform policy would be under discussion in 2013, when the current funding period ends. With the publication of the Fifth Cohesion Report in November 2010, the Commission presented its initial ideas *to better streamline the system for implementing cohesion policy and to improve assessment, course and results in a more effective target setting*. For the future cohesion policy, the *Commission proposed that funding to focus on key priorities relevant to Europe 2020 objectives, to maximize its impact*.

As indicated in the revised EU budget, but also in various reports [4], progress must be made in particular in the following *areas*: *concentrating resources on a few areas where Europeans want the EU to act* and on the Europe 2020 objectives and targets as well, *stronger and more focused conditionality contracts between the Commission and Member States/regions* and commitment of Member States to implement the necessary reforms for the policy to be effective, *improving policy effectiveness by focusing on results, major investments of the European Commission in human resources* and strengthened system of checks and balances within a new Council for cohesion policy. Explicit linkage of cohesion policy to the Europe 2020 Strategy offers a real opportunity to continue supporting the real convergence of the poorer regions of the EU, to facilitate coordination between EU policies and to develop cohesion policy into key a growth factor, including in terms of quality, for the entire EU, together with

addressing social challenges such as an aging population and climate change.

EU budget revision outlined a new strategic programming approach for cohesion policy in order to better integrate EU policies to achieve the *Europe 2020 Strategy* and its *Integrated Guidelines*. This approach consists of:

- A **Common Strategic Framework** (CSF) adopted by the Commission to translate the targets and objectives of Europe 2020 Strategy into investment priorities. It would cover the Cohesion Fund, the European Regional Development Fund, the European Social Fund, the European Agricultural Fund for Rural Development and the European Fisheries Fund (now, generic, **common strategic framework funds**). Each CSF fund supports the following thematic objectives, according to its mission to contribute to the Union strategy for smart, sustainable and inclusive growth:

- strengthening research, technological development and innovation;
- improving access to and improving use of and quality of information and communication technologies;
- improving the competitiveness of small and medium companies, of agricultural sector (for the EAFRD) and of fisheries and aquaculture sector (for EMFF);
- supporting the transition to a low carbon economy in all sectors;
- promoting adaptation to climate change, of risk prevention and management;
- protecting the environment and promoting resource efficiency;
- promoting sustainable transport systems and removing bottlenecks in key network infrastructures;
- promoting employment and supporting labor mobility;
- promoting social inclusion and combating poverty;
- investment in education, skills and lifelong learning;
- strengthening institutional capacity and efficient public administration.

Thematic objectives are translated into specific priorities for each CSF Fund and specific fund rules are established. Global resources available for commitment from the Funds budget for 2014-2020 are 338 993 760 032 EUR at 2011 prices [6].

- A **partnership agreement for development and investment**, which, based on a common strategic framework, would set *investment priorities*, allocation of national and EU resources between priority areas and programs, agreed benchmarks and targets to be achieved. This contract would cover the cohesion policy. In order to promote economic, social and territorial cohesion in a coherent and integrated manner, it may be useful to extend its scope to other policies and EU funding instruments. The contract will be the result of discussions between Member States and the Commission on the development strategy set out in their National Reform Programs. It should also describe the coordination between EU funds at national level.

- **Operational Programs** (OPs), which, as in the current period, would be the management main tools and should transpose the strategic documents into concrete investment priorities, along with clear and measurable targets - which should contribute to achieving the national objectives set in the Europe 2020 Strategy.

EU budget revision is a strong argument to increase the leverage of EU budget. New forms of financing for investment were developed in the programming period 2007-2013, departing from traditional financing based on grants towards *innovative ways of combining subsidies and loans*. Financial instruments help create revolving financing forms, making them more sustainable in the long term. New markets for various forms of public-private partnership are opened, also bringing into the equation the expertise of international financial institutions.

To improve financial engineering instruments in the cohesion policy, a series of *measures* could be considered:

- *greater clarity and distinction in regulation framework* between the rules governing financing based on grants and the rules governing forms of repayable assistance, especially regarding the eligibility of expenditure and audit;
- *channeling generic financial support to companies, mainly through financial engineering instruments and grants to co-finance targeted support schemes (innovation, investment environment, etc.);*
- *expanding both the scope and scale of financial engineering:* in terms of the scope

to include new activities (e.g. sustainable urban transport, research and development, energy, local development, lifelong learning or mobility actions, climate change and environment, ICT and broadband) in terms of scale, to combine capital interest subsidies with loans or other forms of refundable financing.

As mentioned above, the Lisbon Treaty added **territorial cohesion** to objectives related to economic and social cohesion. It is therefore necessary to address this objective in the new programs, with particular emphasis on the role of *cities, functional geographical areas, areas facing specific geographical or demographic problems*, and on *macro-regional strategies problems*. Integrated and territorial approach is multidimensional, adapted to the specific features and results on the ground. This may involve overcoming administrative boundaries and may require greater availability of the various levels of government to cooperate and coordinate their actions for achieving common goals. In addition, it meets the new territorial cohesion objective introduced by the Lisbon Treaty, which recognizes that the European level cannot achieve economic and social cohesion without putting a stronger emphasis on the territorial impact of EU policies. For this reason, common provisions proposed by the Commission introduce new integration tools that can be used to implement local strategies on the spot, establishing a connection between thematic objectives identified in the partnership contracts and operational programs and the territorial dimension: **community-led local development** (CLLD) (Articles 28-30 of the draft Regulation laying down common provisions) and **integrated territorial investment** (ITI) (Article 99 of the proposal for a regulation laying down common provisions).

CLLD may stimulate and involve the local organizations and communities to participate actively in achieving the Europe 2020 targets of smart, sustainable and inclusive growth, in increasing territorial cohesion and in reaching the cohesion policy goals. The European Commission proposed a single methodology regarding CLLD for the CSF funds, focused on **sub-regional territories**; placed under the responsibility of local communities through the means of **local**

action groups, formed by representatives of local socio-economic interests of public and private sectors; and achieved through **integrated and multi-sectoral strategies of local development by areas**, elaborated on the basis of local requirements and potentials, and including **features innovative in the local context**, network collaboration and cooperation. Such unique methodology will allow for connected and integrated use of funds to implement the local development strategies.

The integrated territorial investment (ITI) is a tool to implement the territorial strategies in an integrated manner, and not a secondary operation or priority of an operational program. However, ITI allow to the EU Member States to implement operational programs at inter-sectoral level and to attract funding from several priority axes of one or more operational programs in order to enforce an integrated strategy for a specific territory. Consequently, IT will provide the Member States with both flexibility in elaborating the operational programs and efficiency in implementing integrated actions through simplified funding.

4. Challenges of Implementing the New EU Cohesion Policy

Effective implementation of the Europe 2020 strategy requires a system of governance that involves actors of change in Member States *to ensure connectivity of European, national, regional and local government levels*. In order to fully mobilize all stakeholders, representation of regional and local stakeholders, of social partners and civil society should be enhanced, both in political dialogue and in the implementation of cohesion policy. Considering the above, support for dialogue between public and private entities, including socio-economic partners and NGOs should be maintained. In this context, the role of local development approaches to cohesion policy should be strengthened, for example by supporting active inclusion, fostering social innovation, developing innovation strategies and design of systems for the regeneration of deprived areas. They should be closely coordinated

with similar actions supported by rural development and maritime policies.

For Romania, a major challenge will be **to improve the quality of governance policies**, including of regional development policy, subsumed to the EU cohesion policy. European Commission studies [8] have revealed that the scores recorded by Romanian regions were very different in terms of *quality of governance indicators*, the best ranked being the North-West, South West Oltenia and Centre regions, and the worst ranked in this sense being the Bucharest-Ilfov region, the intra-national variation in quality of governance being high in Romania. Other challenge, "taken" from the current programming period, will be the **absorption of funds made available through funding mechanisms of common strategic framework**, and a new one the **strengthening of decision-making and action of local/regional partnerships** provided by the new architecture of EU cohesion policy. Also, the **creation, development and support of true intra- and inter-regional collaboration networks**, involving partners from different domains and on a scale much larger than the current one, would augment the implementation of cohesion policy objectives in Romania in the future.

5. Conclusions

The reform of the EU regional cohesion policy attempted to address the need to focus the Community assistance in those areas where the development was lagging behind, as well as the need to simplify structural policies procedures. Reorganization of policy objectives into three main areas (convergence, regional competitiveness and employment and European territorial cooperation) and specific initiatives developed to promote financial mechanisms for start-ups and micro-enterprises were among the main tools of this reform.

After the adoption of the Europe 2020 Strategy, an important goal of the future cohesion policy became to focus funding on key priorities relevant to Europe 2020 objectives, in order to maximize its impact. To achieve such a purpose, the EU budget revision outlined a new strategic programming approach for cohesion policy in order to better integrate EU policies to

achieve the Europe 2020 Strategy and its Integrated Guidelines, consisting of: a common strategic framework covering common strategic framework funds that support several thematic objectives; a partnership agreement for development and investment; and operational programs. For Romania, the major challenges in implementing the future cohesion policy will be to improve the quality of governance and the absorption of funds made available through funding mechanisms of common strategic framework, as well as to strengthen the decision-making and action of local/regional partnerships.

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The Evolution of European Financial Assistance in Developing Human Resources to Improve The Performance-Competitive Advantage Relationship: The Case of Romania

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Abstract

Maintaining the competitive advantage through performance is the purpose of any company. This mission becomes difficult due to hostile economic, social and politic environment during the economic crisis. External and internal factors have a significant influence on company performance. Past studies show that internal factors as: physical, financial, human and organisational resources seem to be the most important. The research is focusing on the link between investing in human resources in order to gain competitive advantage and surviving the economic crisis. The main purpose is to show the evolution and importance of European financial assistance in Romania. The specific objectives of this paper are to highlight the relationship between human resources-performance-competitive advantage, based on the review of the theories and to describe the process of financial support through structural and cohesion funds. The results will show the evolution of the implementation of The Sectorial Operational Programme Human Resources Development.

Key words: Human Resources, Competitive Advantage, Performance, European Union

J.E.L. classification: O15, J50

1. Introduction

Social economic situation, modification of competition, unfavorable condition as a result of economic crisis has forced the owner of the business to have a serious relook at their management practices and the attitude toward performance, competitive advantage and resources. Based on existent theories the

companies can achieve sustained competitive advantage when they attract and uses resources which are valuable, rare, inimitable and have no substitute. [1] It is believed that human resources with competencies as skills, education, experience, potential and capacity are the major source of competitive advantages fulfilling all the characteristics listed above.

2. Perspectives on concept of performance and competitive advantage

There is a lack of interest in defining the "performance" concept. It is been assumed that the meaning of the word is well known and evident pointing to the end of any process, to outcome and results. French origin of the word indicates the results correlated with the success of the actions. English meaning indicate the carrying out an activity in accordance with certain objectives. The main common point is the positive outcome which can be measured. This is another issue: there are no universally criteria for measuring and evaluating of companies performance. Chronological approach on indicators used reveals five periods of time. Period between 1960-1970 performance criterion was considered firm size measured by indicators such as turnover and total asset. The second period was 1970-1980 when it was used accounting profitability, measured by net income, earnings per share and PER-price earning ration. During 1980-1990 performance criterion was considered released liquidity expressed by indicators of cash flow. The time between 1990-2001 representative performance criterion was value creation. This was measured using indicators as: return of investments through cash flow, economic added value and market value added. Currently used as performance

criterion is value creation from the perspective of sustainable development. A new concept emerged in the literature "overall performance" defined as "aggregation of economic, social and environmental performance" [2]

A superior company performance is linked with competitive advantage. This concept is described by researchers as a multidimensional and relative concept. For neoclassical economists the concept of "competitiveness" is associated with external concepts as market orientation and price manipulation. [3]. Juran adds internal concepts as efficiency and quality and suggest that any analysis of the economic competitiveness of a company must include an assessment of the competitiveness of product characteristics, evaluation of process characteristics or internal operations used for the products. [4] Porter M., probably the most often mentioned in competitiveness study, suggest that the sources of competitive advantage must be studied at enterprise and industry level. He identifies as sources of competitiveness: factor conditions, types of resources, quantitative and qualitative conditions of demand, the level of competition in related industries, the strategy of enterprise, the structure and existing competitors and the influence of national institutions. With other words, the source of a company competitive advantage is the action of two factors: external and internal. The external factors refers to the characteristics of the environment of the company, and the internal factors are the company specific resources, knowledge, capabilities.

Researchers refer to the ability to earn and maintain market share, or ability to provide goods and services at the time and place as requested by buyers, both on the domestic and international markets at prices as good or better than other potential suppliers earning at least from the opportunity costs of resources employed. Competitiveness of the enterprise may be the ability to design and produce products superior to those offered by competitors considering the price and non-price of quality [5]. Other possibility to analyze the competitiveness and the competitive advantage of a company is from value creation perspective. "An enterprise has a competitive advantage, if it is able to create more economic value than the

marginal competitor in its product market" [6]. From the perspective of positional superiority, competitive advantage can be defined as "a unique position that develops vis-a-vis its competitors" [7].

Competitive advantage comes from the ability to perform activities cheaper than competitors by using fewer resources or cheaper production process. Another source of competitive advantage is obtaining produce more effectively than rivals because grater customer benefits are produced with the same resources. The study of competitive advantage is linked to the term "distinctive competence". This term is used to define the ability of an organization to perform a value-adding activity in ways that are superior to that of its competitors.

Competitiveness study is most often related to enterprise factors or resources. There are certain condition for a factor to become a source of competitive advantage. These condition refers to its value they must add positive value to the organization. Heterogeneity, durability and rareness are other condition of resources. They must be unique or rare among an enterprise current and potential competitors. Other condition are imperfect mobility, the inability to be imitated and the inability to be substituted with another resources by competing organizations.

They could be external factors, characteristics of an enterprise environment or internal factors, organization specific resources.

Basically, organization resources are divided in literature as follows: material resources, financial resources and human resources. Another classification in literature is by specificity: tangible and intangible. Commonly tangible resources (physical and financial) fail to met all the condition to be a factor of competitive advantage. The intangible resources as human, organizational and customer capital have a stronger positive influence on competitive advantage than tangible resources. The main reason is that they cannot be easily imitated by competitors. "This is a direct consequence of their invisibility, complexity and the complementarity with other resources and the specific environment in which they were created. Tangible resources are visible and easily to imitate or to purchase from the

market" [8].

In the process of formulating competitive strategies keeping a equitable balance between investments in tangible and intangible resources is a major challenge for the managers. Among intangible resources, human resources are more likely to produce competitive advantage because they are more often rare and can be more difficult to imitate..

3. The role of human resources in performance- competitive advantage relation.

It is widely known that people provide organization with an important source of competitive advantage through competences, intelligence, relations, values, experience and training. The way to generate advantage through superior human resources is by developing human resources through acquisition, retention, training, motivation and coordination/deployment. Because it is a process that requires considerable financial resources managers use external sources of finance.

There is a large amount of studies on the relationship between human resources and organizational performance. The correlation of business results and human resources is based on the simple premise that better deployment and use of human resources is reflected in an high performance level. Some examples are: higher profitability, less rotation, higher product quality, lower costs in manufacturing and a faster acceptance and implementation of the organizational strategy. [9] Human resources must create organizational value in order to be a source of competitive advantage. People can give value to the firm through skills, potential, experience and competences. The rareness criterion is connected with the fact that every human being is unique, it has his own level of specificity. For Romania case the rareness of human resources is translated in terms of labor mobility, due to the European integration, the effect of the brain-drain process and the aging population effect.

To become a source of competitive advantage, human resources must be inimitable. An organization can inimitable human resources in two ways: from the market or by developing internally. During economic crisis managers are forced to

limit their spending, therefore the investment in educating or training the human capital. Managers are seeking on the market workforce already qualified, the qualification responsibility being in the service of public authority. This explains the high number of projects funded by European Union for qualification and retraining of workforce.

For a resource to become a source of competitive advantage it must not have any substitutes. This is an easy criterion for human resources because it is very difficult to substitute an employee's actual work with application of technology. Even if it would be technically possible the cost of purchasing and implementing the latest technology would be too high.

There is no doubt that human resources are valuable in their capacities and abilities. Organizations have to consider the employees as a source of competitive advantage through facilitating the development of competencies that are organization specific with the purpose of generating tacit organizational knowledge. Empirical research showed that investing in specific human capital can generate competitive advantage and long-term organizational performance. Companies that have interest in developing human resources recorded higher level of productivity.

In Romania, many organizations recognize the growing importance of their human resources in obtaining a strategic position on the market. However there are few organizations that have enough financial resources to implement a human resources development program. One of the benefits of European Union accession is contracting European funds as a source of external funding programs.

For European Union education and training developed as a policy area. To increase competitiveness it is necessary investment in human resources through lifelong learning. Emphasis was placed on the need of innovation, exchange of experience and information on good practices, mutual recognition of qualification and skills and the process of lifelong learning.

Particularly in Romania through Sectoral Operational Programme Human Resources Development 2007-2013 sets the priority

axes and the major intervention areas of Romania in the human resources field in order to implement the EU financial assistance.

The main reason of this programme is the fact that a highly qualified labour force, with a high level of education, having the capacity to respond to the new technologies and to the changing needs of markets, is essential to gain a sustainable competitive advantage.

4. The evolution of European financial assistance for developing human resources in Romania

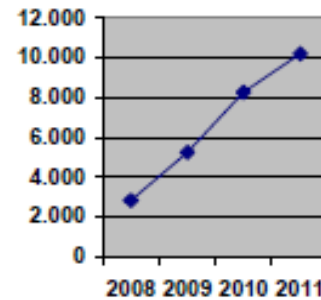
The main instrument implemented to support economic development and structural changes is The Sectoral Operational Programme Human Resources Development. Under the coordination of Ministry of Labour, Family and Equal Opportunities seeks to increase competitiveness through developing human resources. The specific objectives of this programme are linked to improving public employment services, facilitating the access to a high quality education process and continuous education and training. There are seven priority axes: first is Education and training in support for growth and development of knowledge based society, second is Linking life long learning and labour market, third is Increasing adaptability of workers and enterprises, fourth is Modernisation of Public Employment Service, fifth is Promoting Active Employment Measures, sixth is Promoting Social Inclusion and seventh Technical Assistance. Fulfilling the specific objectives of these axes will result in increased competitiveness of organizations by encouraging innovation and the growth of the knowledge economy including new information and communication technologies.

It is known that Romania is lacking flexibility and diversity employment forms as well as forms of work organization correlated with the absence of flexibility and mobility of workforce. All these characteristics affect the competitiveness of enterprises who must face the effects of economic crisis. Through interventions in key areas there is expected an increasing of the number of specialised training, innovative actions aiming at increasing work productivity and the

harmonisation of work with family life, including through more flexible working programmes.

This analysis of data shows a relatively positive trend in the number of submitted projects.

Figure 1. The evolution of submitted projects during 2008-2011

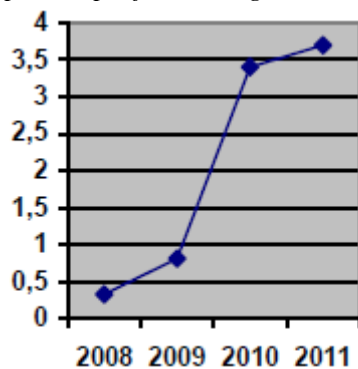


Source: The Sectoral Operational Programme Human Resources Development 2007-2013 Annual Implementation Report 2011 (www.fonduri-structurale.ro)

At the end of year 2011 where submitted 10,204 projects. The total value is 9,92 billion euro of which 9.4 represents the contribution of the European Union. The large number of submitted projects indicates an increased interest of potential beneficiaries in developing the abilities of human resources in their attempt to build a competitive organization in order to survive the economic crisis. The increase by 23 percent compared to 2010 is due to a better coverage of these sources of funding and the development of institutions specialized in writing such projects. Unfortunately from 10,204 grant applications submitted 5,115 were rejected, 280 projects were on the reserve list and 2,993 applications were approved for funding, a total of 3.70 billion euro, of which the European Union contribution is 3.48 billion euro. (Figure. 2)

Cumulative value at 31 December 2011 of the payments made is 1.9 times higher than in 2010. This improvement was driven primarily by the large number of contracts signed during the year 2010, and secondly by increasing the speed of processing applications between 43 and 86 days.

Figure 2. The evolution of total value of the approved project during 2008-2011.



Source: The Sectoral Operational Programme Human Resources Development 2007-2013 Annual Implementation Report 2011 (www.fonduri-structurale.ro)

With a success rate of 35,68% the effects of implementing these projects may be visible at the level of target groups. The number of persons participating in financed operations increased approximately 3,77 times from 156.254 in 2010 to 589.324 in 2011.

Analyzing the distribution of participants by priority axis it is noticed that the highest number of participants are under Priority Axis number 3 Increasing adaptability of workers and enterprises. This is explained by the increased interest into improving the skills level of employees, increasing the training opportunities and the degree of access and participation in professional development. All these actions have as main purpose the high level of competitiveness and adaptability of enterprises. Second place is occupied by Axis number 5 Promoting Active Employment Measures. A number of 175.623 persons were part of active measures of modernization of work organization and human resource development to combat unemployment.

Distribution of contracted projects by type of beneficiaries show that 36% of contracts have as beneficiary public companies, 34% non-profit private companies, 24% private enterprise, the rest of 6 percent are assigned to private companies with public utility.

Though unemployment stood on a rising trend during the implementation of The Sectoral Operational Programme Human Resources Development 2007-2013 positive

effects at society level are difficult to quantify.

5. Conclusions

Nowadays it is more difficult for companies to develop strategies to gain competitive advantage. In the highly competitive market the managers must use all of organizational resources to obtain an high level of performance. A widely recognize source of competitive advantage is human capital. This resource meets four attributes simultaneously: rareness, value, inability to be imitated and inability to be substituted.

To leverage the full potential benefit of human capital investment are needed. Under the current economic crisis are required external financing sources.

The interest of European Union in education, training and employment it is expressed by financing sectoral programs. One of them is The Sectoral Operational Programme Human Resources Development 2007-2013 implemented in Romania. Due to the changes in the market workforce knows new obstacles. With a contribution of 3.48 billion euro from European Union only during year 2011 many projects contributed to development of human resources through education and training in order to improve the competitiveness of enterprises.

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Rural Tourism Development Strategy for The South-West Region of Romania

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Abstract

South-West Region of Romania has numerous and valuable tourism resources both natural and anthropogenic, and a long tradition in the ethnography, arguments for the inclusion of tourism among the main branches of the economy. The tourism industry developed on the background of exceptional natural resources, is a great chance of the county which has untapped opportunities, but may be the only chance of economic market conditions.

Keywords: Rural tourism, sustainable development, touristic offer, touristic infrastructure

J.E.L Classification: R11

Introduction

South West Region of Romania comprises five counties: Olt, Valcea, Mehedinti and Gorj, with an area of 29,212 square kilometers. It is bordered by Bulgaria, Serbia and South-Muntenia and the West Region.

Mehedinti county's tourism potential is dominated by landscape formed by the Danube River and its gorge, the diversity of the mountainous terrain, the existence of particular elements of flora and fauna, many of which are written in scientific reserves, plus an impressive testimony millennia past, expressed through a series of historical, architectural and art, some unique, valuable and their specificity.

Very interesting sights of this county are landscapes of Mehedinti' mountains chain, Cazanele Dunarii, Hydropower and Navigation Systems Portile de Fier I and II archaeological remains, historical monuments (churches and monasteries), nature reserves, grouped by location.

South West Region has a relatively well developed transport infrastructure, the region is crossed by three European roads: E70, E79 and E81, and two of the three pan-European corridors crossing Romania, Corridor IV - Berlin / Nuremberg-Prague-Budapest - Constanta-Istanbul-Salonic and corridor VII-Danube.

The main environmental issues affecting Mehedinti County refers to soil quality due to erosion and desertification, landslide danger exists, and air quality due to mining and chemical agents. Poor conditions of the wastewater collection network generates a high level of pollution of river courses and the insufficient number of garbage have a negative influence on the environment.

Materials and methods

In 2004, the South West region had a population of 2,317,636 inhabitants (10.69% of total population) with a density below the national average (79.3 inhabitants per km² compared to 90.9 inhabitants per km²). Rural-urban structure of the population is 52.8% vs. 47.2% (Romania - 45.1% vs. 54.9%), most rural counties are Olt (59.6%), Valcea (55%) and Gorj (53.3%).

Regarding Mehedinti according to provisional results of the census in October 2011, stable population was 254,600 people, of

which 45.7% had resided in cities and towns, while the percentage was higher in common - 54.3% of the total resident population. Under this criterion the number of resident population, Mehedinți County ranks 39th in the ranking of counties in the country.

Workforce Southwest region is the factor that contributed most to the socio-economic development, which is motivated flexibilă, innovative and highly specialized, thus contributing to the development of a dynamic entrepreneurial environment.

Regarding labor, the share of employed population is reduced 36.6% at regional level and county-level, Valcea has the highest occupancy rate (39.1%), the lowest occurring in River (34.7%). The branches of the economy, employment is concentrated as follows: agriculture and forestry have high weight-42.1%, Mehedinți County having a higher occupancy in these branches (48.4%).

Industry focuses lowest percentage of employed population (26.9%), while services have a higher share of 31%, this sector is more developed in Valcea and Dolj.

The number of unemployed has increased over time due to the liquidation of enterprises in the region, and the closing unprofitable mines, these changes have resulted in some economic and social disparities. Lack of urban jobs as people are led to rural areas, where practical, for maintenance, an inefficient agriculture, but also to other countries such as Serbia, Italy or Spain for unskilled labor.

Registered unemployment Mehedinți the end of January 2012 was 11,606 people (of which 6943 men and 4663 women) with 233 people increased from the previous month. Compared to January 2011 is a decrease of 1,794 people. After the training the 11,606 unemployed are grouped as follows:

- 525 people with higher education,
- With high school and post high 2746 people
- With primary, secondary or vocational 8,335 people.

Thus, the unemployment rate Mehedinți the end of January 2012 was 9.9% (11.3% in men and 8.4% in women), the highest unemployment rate in Romania.

Mehedinți county level, number of employees at the end of January 2012 was 40,714 people, up from 344 the previous month. Net average earnings of employees in Mehedinți in January 2012 was 1266 lei, down 201 lei / employee to that achieved in the country.

Real earning index, calculated as the ratio of the country's net nominal average earning index and consumer price index in January 2012 was 91.2% compared to December 2011 and 117.3% from October 1990, down 11.5 percentage points from a year earlier in late December 2011.

Growth followed a west-east direction, proximity to western markets by acting as a growth factor delivery. Economic growth has a significant geographical component, underdeveloped areas are concentrated in the Northeast, on the border with Moldova and the South, along the Danube. Underdevelopment appears to be largely correlated with the prevalence of rural activities, the inability to attract foreign direct investment and a low rate of entrepreneurship.

Strategic program to develop tourism in the area consisting of the counties of Timis, Caras - Severin and Mehedinți pursuing the following strategic objectives:

General objective:

Promoting economic and social development in the area of the Romania - Serbia through strategic planning in tourism development to support sustainable development of the area.

Specific objective:

Development of regional tourism potential by promoting projects, partnerships and associative structures to strengthen cooperation between the main actors in tourism as a result of the strategic program.

Table no. 1: Development Strategy of tourism infrastructure in the area consisting of the counties of Timis, Caras-Severin and Mehedinți

Priorities	Intervention areas
Tourism infrastructure	Rehabilitation and upgrading of access roads to

	<i>tourist attractions with high potential.</i>
	<i>Completion and modernization of bookmark tourism sistem.</i>
	<i>Rehabilitation of landmarks</i>
	<i>Diversify tourism offer</i>
	<i>Development of rural tourism</i>
	<i>Promoting tourism border area</i>
	<i>Conservation of protected areas</i>
	<i>Thematic tourism development</i>
	<i>Rehabilitation and development of resort spas</i>
	<i>Qualifications of tourism staff working</i>

Source: Regional Operational Programme 2007-2013

Results and discussions

Analyzing economic and financial indicators for the period 2007-2011 shows that after 2008, there was a depopulation in The South-West Region of Romana by the lack of jobs both in urban and in rural areas. Thus, employees chose to migrate to larger cities that have greater labor absorption, but also to other neighboring countries. Since 2010 the situation began to fix the economy at the county level began to rise, employment modificându by 3 percentage points over the previous year.

Based on the data at the county level estimates were made of the main economic and financial indicators by 2014 reflects the following situation: GDP will grow continuously since 2010 with the repopulation of the county. This is due to favorable changes in the labor market, where the number of employees will increase the The South-West Region, reducing the number of unemployed also, all these phenomena are due and employment opportunities in tourism, in all its forms manifestation. Also in upward earnings will change and with a lower but steady.

Analyzing the South-West of the country and especially Mehedinți, the poor tourism

development is due to factors such as relatively low population density in the area, infrastructure access (road and rail) to sights poor and underdeveloped, disinterest active population to develop tourist services, prices quite high existing tourism services, including ignoring the need to develop tourism by the communist regime. Also touristic offers and touristic products are competitive and the staff working in the tourism sector is under-qualified. Companies operating in the tourism sector are more interested in touristic destinations offer international and national law, thus directing customers to destinations outside the border area considered.

Conclusions

The environmental issues of the area are:

- Insufficient capacity of wastewater treatment plants (70% required) and landfill (60% of needs);
- Constant air pollution, especially in cities and around industrial centers, with frequent exceedances of the maximum specific indicators for monitoring environmental factors
- Existence of many former industrial sites, completely unidentified, and for which there is currently a methodology for identification, remediation, ecological, and no strategy for their subsequent destination (their reintroduction into the economic circuit, turning them into green spaces, etc).

SWOT analysis of the county in terms of tourism potential:

Strengths:

- High share of business travel and transit
- Local traditional market tour and transfer
- The county is crossed by European road
- Folklore and local traditions culinary, wine and wineries for wine tasting
- Bo vast cultural heritage: churches, monasteries, castles and monuments from antiquity to the present
- Lakes and watercourses can be arranged

- Parks and other protected areas with large areas
- The existence of surplus housing in rural households usable for tourism.

Weaknesses:

- Lack of unified management of protected areas to allow tourism in this area.
- Spot pollution and pollution made by tourists
- Lack of points and tourist maps
- Lack of access roads to tourist attractions
- Lack of specialized human resources in the field
- Lack of promotion of rural tourism organizations
- Lack of garbage collection and use of river basin as a landfill satulu
- Offer tourist services is poor
- Progressive degradation of cultural heritage tourism

Opportunities:

- Opportunity to access grants of EU Structural Funds
- Existence of programs administered by the Ministry of Environment and Sustainable Development which may give tourism management and operation of protected areas
- Growing interest in cultural tourism
- The existence of funding programs for rural development by non-agricultural economic activities (crafts crafts, tourism, etc.).
- Regaining traditional tourist attraction centers for tourists local and neighboring countries
- Possibility of implementing relatively simple tourist circuit of hiking trails

- Reduce damage to agricultural and forestry roads created and spontaneous manner used by repair and maintenance as a result of practicing tourism
- Existence of educational programs to train and improve tourism workforce

Threats:

- Environmental protection measures to the detriment of tourism
- Delay privatization of tourism units
- The poor quality of the environment in some areas of attraction
- The lack of competitiveness of the tourism product offerings
- Competitiveness of tourism products development in border areas
- Stagnation of rural tourism development in areas mono
- Low investment in tourism infrastructure
- Insufficient funds allocated for rehabilitation of transport infrastructure (especially road)

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Regional Competitiveness: Introducing Clusters and Innovation Systems. Case Study: Sud Muntenia Region

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Abstract

The present research underlies on the idea that recently in both governmental long term strategies and economic theories regions are considered as centers of economic growth and as hubs in the spill-over of knowledge and that innovation is a critical component of long-term economic prosperity. The analyses focuses on discovering how regional competitiveness can be supported by innovation, emphasizing also the role that agglomeration economies and clusters have in this process. The study is based on a Romanian region, Sud Muntenia, and it presents an image of the innovation support structures, academic environment, innovation partnerships and clusters allocation in the region in comparison to the national level. The methodology used relies on quantitative and qualitative instruments, information being processed from statistical data, focus groups and questionnaires applied on the main regional actors involved in the innovation process.

Key words: competitiveness, regional development, innovation, clusters, Sud Muntenia

J.E.L. classification: O31, R11

1. Introduction

Competitiveness is one of the vexed, widely used and defined concepts by economists and scholars over the past years from different points of view. If the concept regarding firm competitiveness is well defined and has received greater attention, when it comes to analyzing a region's competitiveness, things are not that clear and so far a common opinion hasn't been reached. The *macro-economic* level the

concept is poorly defined and strongly contested.

Despite the fact that improving a nation's or region's competitiveness is frequently presented as a central goal of economic policy and that recent developments in both public policy and economic theories place regions as centres of economic growth and of the improvement in the living standards, as key points of governance, organization and decision, arguments abound as to precisely what this means and whether it is even sensible to talk of competitiveness at a macro-economic level at all (*A Study on the Factors of Regional Competitiveness*). This is why presenting some of the definitions that are mainly used when it comes to regional competitiveness is important.

"A nation's competitiveness is the degree to which it can, under free and fair market conditions, produce goods and services that meet the test of international markets while simultaneously expanding the real incomes of its citizens. Competitiveness at the national level is based on superior productivity performance and the economy's ability to shift output to high productivity activities which in turn can generate high levels of real wages. Competitiveness is associated with rising living standards, expanding employment opportunities, and the ability of a nation to maintain its international obligations. It is not just a measure of the nation's ability to sell abroad, and to maintain a trade equilibrium."(*The Report of the President's Commission on Competitiveness, 1984* - in "A Study on the Factors of Regional Competitiveness")

"An economy is competitive if its population can enjoy high and rising standards of living and high employment on a sustainable basis. More precisely, the level of economic activity should not cause an unsustainable external balance of the economy nor should it compromise the

welfare of future generations.” (*European Competitiveness Report, 2000*)

According to Porter, the appropriate definition of competitiveness is productivity. A region's competitiveness and standard of living (wealth) is determined by the productivity with which it uses its human, capital, and natural resources. (Porter, 2002)

Theories that regard regions as hubs of knowledge draw heavily on the notion of innovation, based on Schumpeterian and evolutionary economic insights. Innovation is seen as an interactive learning process that requires interactions between a range of actors, such as contractors and subcontractors, equipment and component suppliers, users or customers, competitors, private and public research laboratories. Systems of innovation also include universities and other institutions of higher education, providers of consultancy and technical services, state authorities and regulatory bodies (Hotz-Hart 2002, after OECD 1999).

It is beyond doubt that knowledge and innovation play a key role in economic development. This is even more visible at a regional level, as geographic disaggregation only highlights differences in development.

Michael Porter's concept of *geographical clusters* has had considerable influence. Drawing on empirical evidence from a wide range of countries, he argues that a nation's globally competitive industries tend invariably to exhibit geographical clustering in particular regions (Porter, 1998). This clustering is both the result of, and reinforces, the interactions between what he calls the 'competitive diamond'. A region's relative competitiveness depends on the existence and degree of development of, and interaction between, the four key subsystems of his diamond. (*A Study on the Factors of Regional Competitiveness*)

The European Union is among the pioneers of policy initiatives regarding the implementation of economic agglomeration concepts. The preoccupation for the reduction of disparities within the EU was probably the most powerful trigger, as this theme is given a very special attention in the regional development policy. (Cojanu, 2011)

Recent studies at the EU level deepens further the territoriality element, emphasizing the role of cities and urban areas in general, as the main sources of economic competitiveness. During the last decades EU has shifted political focus to innovation, the knowledge economy and sustainable competitiveness. Cluster based strategies have become central place in industry policy, but also in connection with regional and science policy at the EU level (Ketels&all, 2012). Clusters and networks have been identified as crucial instruments for the implementation of the Europe 2020 strategy of the EU. The EU 2020 flagship initiatives 'Innovation Union' and 'An integrated industrial policy for the globalization era' in particular mention clusters and networks as critical tools. The latter notably states that "Clusters and networks improve industrial competitiveness and innovation by bringing together resources and expertise, promoting cooperation among businesses, public authorities and universities" but also that "there is a need to develop more globally competitive clusters and networks" (Ketels, 2012)

2. Case Study: Sud Muntenia

2.1. Innovation system

The region is located in the south of Romania and it includes 7 counties (Argeş, Călăraşi, Dâmboviţa, Giurgiu, Ialomiţa, Prahova, Teleorman), 16 municipalities, 32 towns, 519 communes and 2019 villages. Industry is diverse and is the key contributor to the local economy (16.2%). Some sectors have a long tradition, e.g. chemical and petrochemical machinery and products, automotive (Dacia factories), machinery, equipment and transport devices, construction materials, textiles and food industry. Agriculture has huge exploitation potential, with 80.2% arable land. The region has a good road and rail transport infrastructure and connections to five pan-European transport corridors and the A1 and A2 highways. Naval transport is a main regional advantage due to the access to the main European navigation route of the Danube and to four harbours. The region accounts for nearly 33% of Romania's touristic potential due to the Danube, the

southern part of the Carpathian Mountains, thermal resorts, national parks, agro-cultural and religious tourism, etc. The economy has high spatial segregation between the industrialized, richer North and the agricultural, poorer South. The region ranks 3rd in terms of national RTDI resources: it accounts for 7.7% of RDI expenditure, 6.1% of R&D units (82 research institutions, including 57 private, and 10.3% of RTDI employees (4,484 people) (INS 2005, 2009). The region has four public and private universities, with 33 faculties, located mainly in the Argeş and Dâmboviţa counties. [9]

Regional innovation potential is relatively low: with a total of 457 innovative enterprises out of the 5,171 at national level, the South-East ranks 6th among the eight regions of the country (Innobarometer 2008). Innovative enterprises account for 19.9% of the total enterprise population (slightly lower than the 21.1% national mean), with large enterprises being the most innovative (48%). Innovation expenditure is very low at 1.5% of the total enterprises turnover and is mostly used for acquisition of equipment and software (82%), while intra-mural and extra-mural R&D expenditure remain very low at 12% and 4%, respectively. Process and product innovators account for 9.1% of the national total (2004-2006 data), and include a majority of SMEs (84%), concentrated in industry (75%) and services (25%). The region's SMEs (10.7% of the country) are concentrated in Prahova (30.9%) and Argeş (24.7%) and are poorly represented in Giurgiu, Ialomiţa and Călăraşi (0.9%) (*Regional Innovation Monitor*). [10]

The innovation support structure is represented by 16 industrial parks (30% of the national value), a business incubator in Câmpulung Muscel, Argeş, one center of technology transfer, innovation and business at the University of Ploiesti offering consulting services designed especially petrochemical industry and one innovation relay center. The range of services offered by them are less varied and is limited in most cases to utilities (electricity, gas, water, sewage, drainage system, parking). The available infrastructure requires large investments and their visibility among companies the private sector should be improved. The prevailing fields of the hosted companies are textile, petrochemical,

construction, electronics, medical and sanitary. Regarding the shareholder structure, they are owned mainly by county councils, there are also 2 private parks: Allianso Business Park (Ariceştii Rahtivani) and Industrial Park Kolkata - Bradu (Argecom) and 2 with joint public-private ownership: Technological and Industrial Park North and Industrial Park Mija in Dâmboviţa County.

Disparities between the southern and northern part of the region are retrieved also in the geographical distribution of the support structures within the region. Thus, an overwhelming share is located in the northern counties. The representative county from this point of view is Prahova that after the inclusion of Mizil and Urlaţi in the industrial parks category has a number of 8 such structures, ranking second nationally after Braşov. The region's most developed industrial park is Ploiesti Industrial Park, with a public ownership with plans of expansion by opening new "work points" in Mizil, Ciorani and Urlaţi.

The geographical distribution of universities and research institutes in the region confirms once again the regional disparities between northern and southern part of the region. Thus, most research institutions are located in the north and their fields of study are accredited in conjunction with developed industries in the area (the petrochemical in Prahova, engineering and metallurgy in Dâmboviţa County). Academic and research environment of the region is represented by: University of Valahia, Targoviste; Oil and Gas University - Ploiesti; University of Pitesti and "Constantin Brancoveanu" University – Pitesti. In the other four counties work only branches or faculties of universities from other counties or regions. Regarding the form of funding, three universities are financed from the state budget and Constantin Brancoveanu University is funded by private capital. Some universities started having a more pronounced **entrepreneurial character** and are involved in start-ups, spin-offs and spill-over processes.

Partnerships between SMEs, Research institutes and Universities in the region exist, but are specific and do not become permanent. The level of collaboration is different from one enterprise to another and according to the profile of each university.

Common projects are developed mainly with universities and research institutes from the Bucharest-Ilfov region. Few successful partnerships between the private sector and the academia and research sector were mentioned during the focus groups. Although both parties show their readiness to collaborate, things are still at an incipient and declarative stage.

2.2. Clusters

Clusters are seen as an important factor for the explanation of the empirical phenomenon of geographical concentration of economic and innovation activities. More than one definition of clusters exists, depending on its purpose and the specific context of its use.

The “Community Framework for State Aid for Research and Development and Innovation” defines innovation clusters as “groupings of independent undertakings — innovative start-ups, small, medium and large undertakings as well as research organizations — operating in a particular sector and region and designed to stimulate innovative activity by promoting intensive interactions, sharing of facilities and exchange of knowledge and expertise and by contributing effectively to technology transfer, networking and information dissemination among the undertakings in the cluster.”

One of the most used definitions of a cluster is the one of Michael Porter: “clusters can be understood as geographic concentrations of interconnected businesses, suppliers and organizations in a particular field. They bring together a variety of linked industries and stakeholders, as well as governmental and other institutions such as universities or trade associations. Importantly, a cluster is not simply composed of a group of similar businesses — for example car manufacturers — as this would be better understood as a sector. Instead, clusters represent fully formed ‘economies’ incorporating the various intertwined stakeholders involved in the production of a particular theme of end product.” (Porter, 198)

The regional cluster is defined as an industrial cluster, in which member firms are

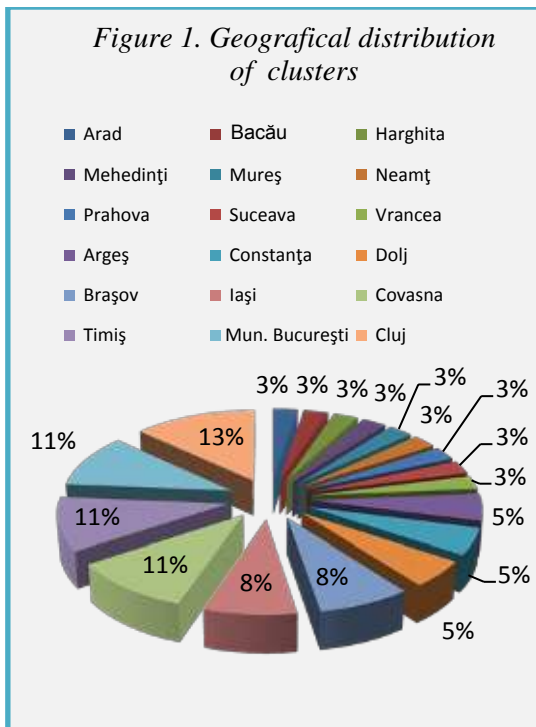
in close proximity to each other (Enright, 2000).

There is no consensus when it comes to identifying and mapping clusters, either in terms of the key variables that should be taken into account or the procedures by which the geographical boundaries of clusters should be determined (Martin & Sunley, 2002).

Innovation is increasingly characterized as an open process, in which many different actors—companies, customers, investors, universities, and other organizations—cooperate in a complex ways. Ideas move across institutional boundaries more frequently. The traditional linear model of innovation with clearly assigned roles for basic research at the university, and applied research in a company R&D centre, is no longer relevant. Innovation can benefit from geographic proximity which facilitates the flows of tacit knowledge and the unplanned interactions that are critical parts of the innovation process. This is one of the reasons why innovation occurs locally whereas its benefits spread more widely through productivity gains. **Clusters** may embody the characteristics of the modern innovation process: they can be considered as “reduced scale innovation systems” (*Innovative Clusters. Drivers of National Innovative Systems*. OECD, 2001). Statistical evidence indicates a positive relationship between the presence of clusters and the prosperity of regional economies has brought to the fore the positive role that clusters and networks could play. Clusters and networks are increasingly seen as catalysts for accelerating industrial transformation and for developing new regional competitive advantages, speeding up the creation of firms and jobs and thereby contributing to growth and prosperity (*European Competitiveness Report, 2012*)

The general accepted *triple helix model* has to be adapted to the Romanian reality and transformed in a “Four clover” model, where the fourth actor is being represented by catalyst institutions: service providers in the field of innovation and technological transfer, centres for technological transfers, chambers of commerce etc (Guth, 2010)

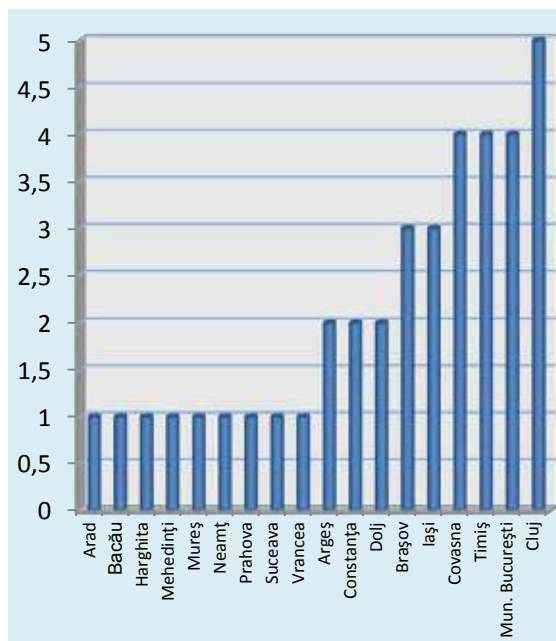
The national geographical and sectorial distribution of clusters is represented in the graphs below:



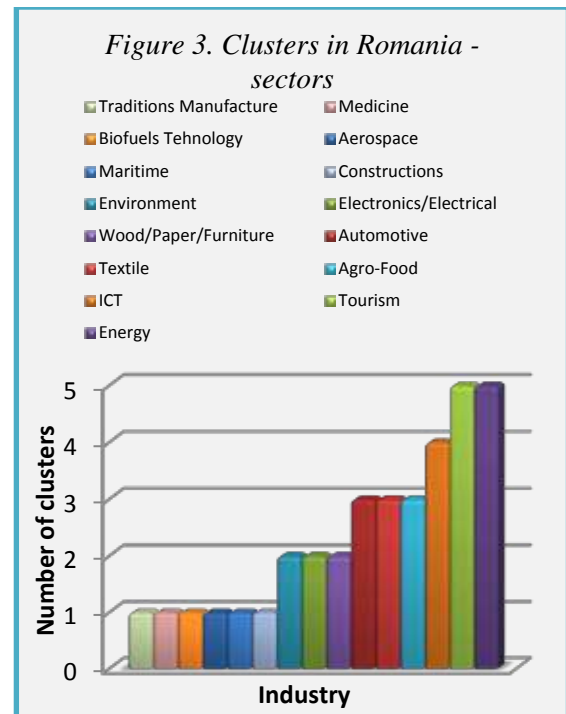
Source: author calculations based on www.clustercollaboration.eu

The higher number of clusters are located in Cluj County representing 13% of the total national clusters, followed by the capital city Bucharest.

Figure 2. Geographical distribution of clusters



Source: author calculations based on www.clustercollaboration.eu



Source: author calculations based on www.clustercollaboration.eu

The results reflect a very heterogeneous situation concerning clusters. Some cluster sectors are more common than others: three in agro-food field (including wine and wood), textile and automotive, four in ICT and five in tourism and energy. The most representative sectors at the national level are tourism and energy, 10 clusters having as main activity this sectors.

In Sud Muntenia there were identified four clusters in Argeș, Dâmbovița and Prahova having as main activity tourism, electro tehnics, automotive and food. Out of this clusters, the Manufacture of motor vehicles cluster in Argeș(AUTO-AG) is clasified as a three stars cluster. (Cojanu, 2011)

Dacia-Renault has been comprising all the elements of the mature innovative industrial cluster, without being a pivot of the scientific research and world technology. Thus, Dacia-Renault is the center of ACAROM-ODETTE Romania (Association of Automobile Constructors from Romania), being the best structured and functional cluster, comprising small and big firms within the main production activity and within the support activities, consulting firms, research firms, financial organizations, universities. All the other clusters have lacked at least one main element for

innovation: the financial organizations (Dudian, 2011).

Table 1. Clusters in Sud Muntenia

NAME	FIELD	COUNTY
Agro-food Sud	Agro Food	Southern part
Electrotehnica	Electro technics	Arges& Dambovita
Carpathians Cluster	Tourism	Prahova
Dacia Renault Cluster	Automotive	Arges & Dambovita

Source: <http://clustero.eu>

Calarasi is considered as a potential cluster in Agriculture, Tourism and Electro technical Industry, **Ploiesti** with its area of influence - 3 cities (Băicoi, Boldești – Scăieni, Plopeni) and 10 communes is thought to be a **growth pole** and Dacia Renault Cluster as a potential **competitiveness pole**. The region has a great potential in developing clusters also in the glass and agricultural sectors.

3. Conclusions

The access and the availability of industry data and company business strategies are very limited.

Sud Muntenia has a set of valuable RDI factors: four university centers, a significant number of research institutes, high percentage of staff involved in research, tradition in mechanical engineering, petrochemical and agricultural good representation of business support structures, specialized human resources engaged in R&D, emerging clusters in machinery, petrochemicals industry and agriculture with great potential, the presence of large companies and multinationals in both traditional and emerging industries, a geographical proximity to Bucharest-Ilfov region, and thus by leveraging these strengths it can increase its economic competitiveness and focus on areas that have in which it has the needed human, financial and infrastructure.

Potential areas that can carry innovation research projects could be those in: machine building, petrochemical, electronics, biongineriering, agriculture or the environment, creation of industrial parks, organic farms, cultural-creative industries by making traditional handicrafts.

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State Interventionism in the Capitalist Europe by Grants

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Abstract

Although, it is often said about the market-regulation antithesis, the market itself can not exist without regulation or without the State guarantee. Market exists because the State regulates private property, contracts, etc. The free market is not chaos but an organization whose responsible and guarantor is the State. The free market, in the strict sense of the phrase, does not exist, because the very idea of the market means the market rules that those on the market must follow. The market is not deregulation, but a certain type of regulation. The State intervention in the economy is constant and normal, because the State must ensure that the rules set - the market rules - are respected, even when it comes to the laissez-faire kind of liberal State.

Keywords: State interventionism, integration, regional policy.

J.E.L. Classification: R58

1. Introduction

Although the European Union is one of the most prosperous geographical areas of the world, the differences between the levels of development of the Member States as well as between the 268 various EU regions (including Romania and Bulgaria), measured by the Gross Domestic Product (GDP) per capita are very high.

To be united and also to remain competitive, the EU works by the regional policy for fixing the economic and social imbalances between its regions and Member States in order to reduce the disparities in the levels of development, in accordance with the Treaty of the European Union (Title XVII, art. 158 -162).

2. The Community regional policy

The socio-economic differences and the imbalances of development between the EU territories are the key factors underpinning the EU action through regional policy. The justification for action in the assisted regions requires taking into consideration the question of the value added of the community. An empirical reasoning leads to the conclusion that this justification exists when the Member State actions are not enough (the need criterion) and when the benefits generated affect (positively) the entire Union.

The community regional policy aims at reducing the disparities between the regions more developed and the ones less developed quantified, usually, in terms of the GDP/capita. This policy aims to "support those actions to help reducing the economic, social and territorial disparities within the Union" [1]. It helps to achieve this goal by concentrating the resources on those areas considered to be "left behind by others". Most of these funds are allocated to those regions where the GDP/capita is lower than 75% of the EU average (the level of the GDP reflects quite different regional realities: in the new Member States – that meaning Romania and Bulgaria also - including the poorest 12 regions of the EU there are some regions where the GDP/capita is less than 25% of the EU average in 2002).

This policy does not address such disparities directly, but rather focuses on those interventions designed to influence the determinants of economic growth such as infrastructure, including transportation, human resources, ability to manage investments and services, in particular by means of a viable system of Small and Medium Enterprises, by an effective management of the public sector and by the information technology.

The regional policy has, in the first place, issues relating to the economic efficiency, the income levels or the employment rates. In the second place, it must be considered the optimal level of intervention: regional/national/supranational from which there can be coordinated and implemented the specific factors of the regional policy. The regional policies are disseminated by the administrative structures that have developed over time, in the same time with the spatial distribution of the economic activity. In the third place and the most important one, channeling funds to regions may generate adverse effects and for this reason it is important for the Structural Funds to not finance objectives that are in conflict or overlap, from the conceptual point of view.

The regional development policy is, by definition, recognition of the market economy weakness or a market response to the fact that the market activities do not properly react to the socio-economic needs.

The operating principle of the regional policy is based on competence shared between the EU, its Member States and its regions. The distribution method, which is the basis of this policy, focuses more than two thirds of the available resources.

When the Union intervenes in the less developed regions, by the Community funds, this intervention is based on the disparities between the regions. The Article 158 of the Treaty provides that, in order to strengthen the economic and social cohesion, the Community shall aim at reducing the disparities between the levels of development of various regions and the backwardness in developing the regions and the less favored islands, including the rural areas.

Thus, the regional policy is not only merely redistributive, transferring resources from the richest countries of the Union to the poorest regions, but it primarily has a very important role in creating new resources as well. Also, this policy has an allocation function because it allows the less advantaged countries and regions of the Union to maintain a high level of investment in the human and physical capital, in order to improve their competitiveness and growth potential and also to promote the sustainable development. It is also a policy based on the sharing of knowledge and technologies, experiences and best practices, as

well as on creating new networks of cooperation across Europe.

The regional policy concept derives from the broader concept of economic and social cohesion and defines, in the EU, a set of measures planned and promoted by the central and local government, in partnership with various stakeholders (private, public, volunteers) in order to ensure the economic growth, dynamic and sustainable, through the efficient capitalization of the regional and local potential for a better quality of life. Regional policy could include, by definition, all the activities that significantly affect the development of a region.

The regulations for the 2007-2013 programming period offers a new dimension and a new role to the regional policy: that of strengthening the growth, competitiveness and the number of jobs by integration of the Community priorities for a sustainable development as defined by the European Council in Lisbon in March 2000 and the one in Gothenburg in June 2001.

3. The European Union intervention in economy through Community Funds

The expression of economic and social cohesion was mentioned for the first time in the Treaty of Rome, but since the founding countries were relatively homogeneous from the economic point of view - at that time they did not face with some excessive disparities in the development between the regions (except for the South of Italy), it was no focus on this concept.

Although the Treaty of Rome stated, in its preamble, the need to reduce the regional disparities (the Member States must pursue the accomplishment of "a harmonious development of economy and the reducing of the disparities between the regions), various redistributive mechanisms were not foreseen at the time. Moreover, the Article 92.3 (now 87.3) of the Treaty of Rome states that the national subsidies (the State aid) could be considered compatible with the internal market only to the extent to which they promoted "the economic development of those areas where the standards of living were very low and that it was recorded a high unemployment". The only institution that played a role in helping to reduce disparities was the European Investment Bank, which

will have given the national governments some low-interest loans for infrastructure projects. Meanwhile, it was created the "European Social Fund" to support the migrant workers.

Regarding the options of the national governments to operationalize their own objectives of regional development, between 1950 and 1960, the priorities related to the creation, development and protection of the basic industries - mining, steel, atomic energy plants, ship building - as a result of the importance which the process of industrialization had in developing the countries as well as in protecting these industries against the foreign competitors.

This approach is gradually changing, since 1970, in parallel with the Customs Union. Following the two oil shocks of the 70s and the degrees of the European competitiveness in relation to the Asian producers (especially Japanese) and Americans, European integration and a new approach to the regional policy were relaunched.

The profile of a regional policy starts to take shape during 1972-1975, while the accession of three new states: Britain, Denmark and Ireland. Thus, given the fact that England claimed damages as compensation of losses derived from the application of some common economic measures, and the last two members brought with them strong community development gaps, it occurs the problem of formulation of a mechanism for attenuating the differences in development within the group (ERDF 1975).

In the early 1980, the Commission launched a series of small integrated development programs that combined the financial support from ESF and ERDF in Naples and Belfast and in the Lozère region - projects combining ESF and EAGGF funds.

The regional policy occurs as a result of the major reforms that have occurred as a result of the EU enlargement and were initiated in the context of planning for the development of the Single Market (1985-1988). The political motivation to accelerate the promotion of the cohesion measures was driven by the fear that not all the Member States and regions will equally benefit from the Single Market. In particular, the least developed economies in the southern and western peripheries of the group (especially

Greece, Ireland and Portugal and parts of Spain, Italy, Germany and the UK) were exposed to an increased vulnerability, in terms of economy, if they did not receive a more consistent aid for their development [2].

The economic and social cohesion represents an objective only in 1986 (after the accession of Greece, Spain and Portugal, the poorest members of the group) by the Single European Act and became a central pillar of their development policy. After the adoption of the Single European Act (1986) and the launch of the Integrated Mediterranean Programs, the role of the cohesion policy increased, by including the compensation fees imposed by the Single Market, which was felt in the southern countries and in the disadvantaged regions. In the Single European Act, the goal of achieving the economic and social cohesion became clear – it was provided the legal framework for the regional policy, structured on the combined resources of the existing Structural Funds (ERDF, ESF and EAGGF - Guarantee), the Commission being tasked to formulate the rules for the management of the development programs.

Basically, the application of the Single European Act in the context of the economic and social cohesion europeanized the regional policy of the EU member states. Some of them - Belgium, Italy, France and Spain - have had to create their own sub-national institutions that have been assigned with the responsibility for implementing the development policies. Thus, in the mid-1980s, governments were no longer the exclusive judges of the regional development policies within their borders.

In February 1988, the Brussels European Council extends the solidarity fund operation, now called the structural funds - that significantly increase their allocations from the Community budget. Thus, it is officially recognized the importance of these instruments to reduce the disparities at the community level.

Reform consisted of five Council regulations and also of implementing Commission Regulations, which came into force on January 1, 1989 (being renegotiated for each programming period). This new approach brings a regional policy based on multi-annual integrated programs, which involved several levels: community, national,

regional. The logic of this approach was to set up a framework program, called the Community Support Framework which to be taken to another level in multi-fund operational programs and implemented through these ones, in the regions [3].

By this reform, there were attempted the integration and the coordination of all the Structural Funds (ERDF, ESF and EAGGF-O) at the Community level, in a single framework, for a period of five years (1989-1993). The allocation of the funds was achieved through six objectives:

-Objective 1: “Promoting the development and the structural adjustment of the regions delayed in point of the level of their development”, the delay being defined, as a general rule, as specific for the areas with a GDP per capita lower than the limit of 75% of the Community average. These regions (Northern Ireland, Greece, Portugal, most of Spain, Corsica, southern Italy, French dominions) accounted for about one fifth of the population and received about 2/3 of the loans granted by the three Structural Funds, for ERDF this part being up to 80% (loans ERDF, ESF, EAGGF);

-Objective 2: “Helping the regions with a declining industry” (ERDF and ESF credits);

-Objective 3: “Tackling the long-term unemployment” (ESF);

-Objective 4: “Facilitating the employability of young people” (ESF);

-Objective 5: “Accelerating the adjustment of the agricultural structures” (objective 5a EAGGF Guidance) and “promoting the development of the rural areas” (Objective 5b is endorsed by the three Funds);

- Objective 6 (introduced in 1995 after the joining of the Nordic countries, Sweden and Finland): “Development and structural adjustment of the regions with a very low population density, less than 8 inhabitants/square kilometer” (ERDF, ESF and EAGGF – the Guidance Section). Four principles were also introduced: compression, programming, additionality and partnership.

Compression is the basic principle of the structural reform in 1988, having the purpose to focus the regional policy instruments only where the biggest problems related to the regional disadvantages occurred. Geographic compression on some certain eligible areas is carried out by EUROSTAT by the instrument called the Nomenclature of the Territorial Units

for Statistics (NTUS), and aims the uniform distribution of the territorial units. NTUS is based on the criterion of the population number, with three levels: I - min 3,000,000, max 7,000,000, II - min 800,000, max 3,000,000, III - min 150,000, max 800,000) [4].

With the 1988 reform, the principle of compression restricts the areas of intervention of the Structural Funds and emphasizes the importance of compressing the regional policy support in areas with the GDP/capita below 75% of the Community average.

The principle of programming arises as a result of the fact that until 1988 there were funded individual projects that have had the impact of overlaps and even inefficiency. This principle relates to the preparation of the multi-annual development plans, which is based on the decisions made in partnership with the Member State and through a series of successive stages, ending up with the tasks taken by the public or private organizations. The multi-annual programming ensures a better coordination across programs.

Additionality, being one of the oldest principles of regional policy, stipulates that the Community resources complement and not replace the financial resources of the Member State receiving the grant assistance for mitigating/eliminating the disparities in development. With the reform, the European Commission succeeded in imposing this principle and in obliging the national governments to keep the national expenditure in areas benefiting from Community financial assistance [5].

The principle of partnership is closely connected with the principle of subsidiarity, which provides some independence to the junior authorities over the senior ones. Introducing the principle of partnership was an important step in the regional policy, meaning the recognition of the importance of regional and local level.

The reform involved doubling the Structural Funds allocated through the Community budget from 6.3 billion ECU in 1987 to 14.1 billion in 1993. The first programming cycle (1989-1993) was implemented differently in each country. It have been the hardest for Italy and Greece because of the difficulty of approaching the institutional changes, while Ireland, Portugal

and Spain quickly adapted to the procedures introduced by the 1988 reforms.

After the 1988 reform, the Structural Funds regulations have been revised three times, for the programming periods of 1994-1999, 2000-2006 and 2007-2013, and so have been the lists of the eligible regions. The desideratum of a balanced development of all the regions of the European community was introduced in the European Union Treaty (1992), by the Title XVII that defines the objective of the economic and social cohesion policy: "reducing the disparities between the levels of development of the various regions and the backwardness of the less developed regions or islands, including the rural areas".

But what were missing until now were the right and the opportunity of the regions and different forms of sub-national governments to be represented at European level. This lack was offset by the Treaty of Maastricht which created the Committee of the Regions, an advisory organization of the EU, and the entry into force of the Single Market in 1993. Thus, in 1994, the nature of the institutional process in Europe changed completely. The regions could interact with the European political and administrative organizations for achieving their goals, having an advisory role for making the socio-economic policy at European level as well as increased responsibilities for the implementation of the policy at the local level.

Another change of regional policy was the creation, in 1993, of the Cohesion Fund (CF), which is for the Member States whose GDP was below 90% of the Community average. Unlike the Structural Funds, the allocations from CF were made for the projects negotiated directly with the European Commission, the intervention areas focusing on the improvement of the infrastructure and of the environmental quality.

As a result of the disparities increasing, as the number of the Member States increased, the total Structural Funds increased more than threefold, from about 43.8 billion ECU between 1988-1993, over 141 billion ECU for the period of 1994-1999 (values calculated in prices, 1992). In point of the structural policy, the community approach is on the one hand to propose and provide financial incentives and on the other hand it is to coordinate the policy of the Member States. The instruments used for this purpose are the Structural Funds (ERDF, ESF,

EAGGF, FIG) and the Cohesion Fund (for funding the environmental projects and the transport infrastructure), the community initiatives and more recently the pre-accession financial instruments. The Structural Funds supplement the usual and traditional financing. Any project financed from structural funds must demonstrate its economic impact.

The European Regional Development Fund (ERDF) was established in 1957 in order to redistribute a part of the budgetary contributions of the Member States to the less developed regions. The philosophy of the ERDF aims to strengthen the economic, social and territorial cohesion by reducing the development disparities and structurally adjusting the regional economies, including the reconversion of the declining industrial regions.

The European Social Fund (ESF) is a European Structural Fund, stipulated in the Treaty of Rome (Articles 123-125) and established in 1960. Initially, the role of this fund was designed on two levels: to cover half of the costs of the Member States for ensuring, to the workers, a productive reconversion through professional reintegration and resettlement allowances and for granting aid to the employees affected by the restructuring of the firms where they work. Managed by the European Commission and assisted by a committee headed by a European commissioner, the ESF has supported a total of 35 million people from 1970 to 1997, with an amount of about 30 billion ECU.

The European Agricultural Guidance and Guarantee Funds (EAGGF), initiated in 1962, are split in two parts about two years later. The Guidance Section contributes to the supporting of the regions whose development is lagging behind, by improving the efficiency in the production, processing and marketing of the agricultural and forestry products and the development of the local potentials in the rural areas. The Guarantees Section supports the rural development under the Common Agricultural Policy in areas with structural difficulties. Guidance section acts as a proper structural fund.

The Financial Instrument for Fisheries Guidance (FIG) helps the fishing industry in Objective 1 regions and other regions to adapt and modernize by creating a sustainable balance between the marine resources and their use, by increasing the competitiveness of the companies, by

improving the provision and development of fishery and aquaculture and by revitalizing the areas dependent on fisheries. This instrument was created in 1994 by grouping all the Community fisheries instruments.

Unlike the Structural Funds, the Cohesion Fund (CF) has not co-financed programs, but has provided direct funding to projects or stages of projects which were clearly identified at the outset. The Cohesion Fund appears as a special instrument of the solidarity policy, promotes the economic and social progress and eliminates the differences between the standards of living in the various regions and the Member States. The fields of action of the Cohesion Fund are the environmental protection and the trans-European networks associated to the transport infrastructure.

The European Union Solidarity Fund (EUSF) is the newest fund of the regional policy and was established in November 2002, as a result of the floods that affected France, Germany, Austria and the Czech Republic. The objective of this fund is to facilitate the expression of the EU solidarity for the population of a Member or acceding State which was affected by a major natural disaster. Thus, it is a fund that allows immediate reaction, efficient and flexible, depending on the nature and extent of the situation.

The pre-accession funds were designed by the European Union to prepare the candidate or acceding States to use the structural funds. As part of the EU pre-accession strategy, the financial assistance for the candidate States through pre-accession financial instruments such as PHARE, ISPA and SAPARD is implemented in compliance with the principle of avoiding the “double intervention”, by promoting complementarity and positive economic impact of implementing various community programs (Regulation (EC) no. 1266/1999).

The enlargement of the European Union from 15 to 27 Member States is an unprecedented challenge for the competitiveness and the internal cohesion of the EU. The relationship between the per

capita incomes of the richest and the poorest regions in the Union increase from 2.6 in the EU 15 to 4.4 in the EU 25, respectively to 6 in the EU 27, and the average of the GDP/capita decreases with 12.5%. In the EU27, more than a third of the population has an income per capita below 90% of the Community average (the current threshold of eligibility for the Cohesion Fund), compared to a sixth in the EU15.

4. Conclusions

Liberalism argues that the market is the only way to ensure the optimal allocation of resources, those reaching the ones that can best economically harness them and being a rewarding economic performance of these actors; the alteration of the market does not ensure such allocation any longer. Therefore, the State intervention in the economy, whether altering or not the competition, is perfectly justified and necessary, because the economy does not exist and cannot exist without the State guarantee. At the same time, the State intervention does not mean the market failure and the State must intervene in order to reconcile the objectives of this abstract entity that is the market - the purpose of the market is to produce as much wealth as possible - and the targets of the citizens, translated by the political agenda. Liberalism must be put at the service of the society and not vice versa.

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Modelling the Disposable Income for the North-East Region of Romania

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Abstract

The regional modelling has become a major topic in the specialty literature starting with the '60s, but in Romania this subject is still at an early stage. The modelling of the North-East region of Romania, which distinguishes itself from the ensemble of the other regions through certain distinct economic features, is a necessity and it aims at substantiate possible scenarios of economic evolution of the composing counties. The model presented in the paper defines the behavioural equations which describe the disposal income and its utilisation of this region.

Keywords: regional modelling, disposable income, econometric modelling.

JEL Classification: C01, J01, R23

1. Introduction

Starting with the '60s, the modelling of the regional development has been a major topic in the specialty works. The need to take into consideration the specificity of each region has led to the creation of complex regional models.

The main types of regional models are the input-output models (Leontief, 1951, 1986), the econometric models (Isard, 1960; Bolton, 1985) and the general equilibrium models (Partridge and Rickman, 2007). The models designed until now are different according to the subject of the model (intra-regional or inter-regional model), the degree of aggregation (aggregate or disaggregate models, at sector level) and the estimation method (deterministic or stochastic models, static or dynamic models) (Lemelin, 2008; Loveridge, 2004).

In Romania, the regional modelling is still at an early stage. The North-East region is different from the rest of the others through specific features: it is a region with a reduced

level of the GDP, of households' incomes and expenses, but with a very important occupational potential. This region contributed in 2008 with 17.87% to the total occupation of the country, still being a region with one of the lowest GDP levels. The modelling of such a complex region is a necessity, aiming to substantiate possible scenarios of economic evolution of the composing counties and, especially, to study the possibility of using this model in similar situations to those of the North-East region.

In the present paper, we shall present an econometric model of the disposable income and its utilisation for the North-East region of Romania which complete the model for the labour market (Pintilescu, 2012). The model is made up of a system of econometric equations which describe the economic structure of this region. In the first part of the paper we shall present the economic and social indicators included in the system of behavioural equations. In the second part, we shall present the econometric equations for modelling the disposable income and its utilisation for the North-East region. After the analysis of the stationarity of variables and the structural breaks of data series, we shall estimate the coefficients of the behavioural equations using estimation econometric techniques. The estimations of the coefficients of regression equations are showed in the last part of the paper.

The designed development model of the North-East region may be subsequently used to build plausible scenarios of economic evolution for the North-East region.

2. Data and methodology

The series of statistical data are formed of the yearly indicators registered for the period 1995-2008 at the level of the North-East region of Romania regarding the regional GDP (billions of lei/year), the total gross value added (billions of lei/year), the disposable income (billions of lei/year), the

incomes from the local budget (billions of lei/year), the governmental transfers (billions of lei/year), the net incomes and current transfers, the total consumption expenditures (billions of lei/year), the yearly total incomes of the population (billions of lei/year) and the gross investments (billions of lei/year).

The main sources for the statistical data are the National Institute for Statistics and the data provided by the National Commission for Forecasting.

The check-up of the series stationarity was performed using the statistical tests *Augmented Dickey-Fuller* (ADF) and *Philips-Perron* (PP). The estimation method used was the least square method (OLS). The structural breaks in the evolution of some indicators have been dealt by the inclusion of dummies variables (Gujarati, 1995; Maddala, 2001; Greene, 1993).

The data processing was performed using the statistical software E-VIEWS, Version 5.00.

3. Modelling the disposable income and its utilisation

The modelling of disposable income is performed, as a rule, by using the wage earnings (Artus and Bismut, 1986, van Miltenburg, 1997), the gross national product (Denton and Oksanen, 1972) or the gross domestic product (Kinoshita, 1994).

In the macroeconomic model of Romania (Dobrescu, 2000 and 2006), the disposable income (yd) is expressed by the equation:

$$YD = GDP - (BR - TR) + NOCAE \cdot ERE$$

where:

GDP – the GDP in current prices (billions of lei/year);

BR – incomes from the local budget (billions of lei/year);

TR – governmental transfers (billions of lei/year).

$NOCAE$ – net incomes and current transfers;

ERE – the exchange rate from lei to Euros.

For the modelling of the development of the North-East region, due to the lack of data as far as foreign transfers were concerned, the disposable income was approximated using the relation:

$$YD = GDP - (BR - TR).$$

Using the accounting equation of the form: $GDP = GVA + NIT$, the net indirect taxes

in current prices (NIT) were computed.

Subsequently, in order to estimate the coefficient of incomes from the local budget ($cbr = br/gdp$), of governmental transfers ($ctr = tr/gdp$) and of net indirect taxes ($cnit = nit/(ch + inv)$), we used the following econometric equations:

$$\Delta cbr = \beta_{14} + \beta_{15} \cdot cbr(-1) + \beta_{16} \cdot \frac{1}{t} + \beta_{17} \cdot D + \varepsilon$$

$$\Delta ctr = \beta_{18} + \beta_{19} \cdot ctr(-1) + \beta_{20} \cdot D + \varepsilon$$

$$\Delta cnit = \beta_{21} + \beta_{22} \cdot cnit(-1) + \beta_{23} \cdot \frac{1}{t} + \beta_{24} \cdot D + \varepsilon$$

where Δcbr , Δctr and $\Delta cnit$ are the first difference of the variables cbr , ctr and $cnit$.

In numerous studies conducted for countries with a consolidated market economy, the investments are correlated with the labour income, the stock of capital (Pindyck and Rubinfeld, 1998) or the employment (Cukierman, Pazner and Razin, 1977). Many other studies highlight the correlation among investments and GNP, GDP or disposable income (Brunia, 1994).

An important explanatory factor when explaining the investments is also represented by the interest rate.

The equation for investments estimation in the model for the North-East region is of the form:

$$mriy = \beta_{25} + \beta_{26} \cdot \frac{mriy(-1) + mriy(-2)}{2} + \beta_{27} \cdot ir(-1) + \varepsilon$$

where:

$mriy$ is the marginal rate of investments in relation to the disposable income

$$(mriy = \frac{d(inv)}{d(yd)});$$

ir is the National Bank of Romania reference interest rate.

To assess the consumption, we took into consideration the level of *Total consumption expenditures (billions of lei/year)* (ch) and we estimated the following equation:

$$richc = \beta_{28} + \beta_{29} \cdot rig + \beta_{30} \cdot ir + \varepsilon$$

where: $richc$ is the growth rate of total consumption expenditures in constant prices,

computed as follows:

$$richc = \frac{ch / ch(-1)}{cpi} - 1$$

rig is the yearly GDP growth rate in constant

$$prices: rig = \frac{gdp / gdp(-1)}{pgdp} - 1.$$

previously defined econometric models was performed by using the least square method.

The estimation of coefficients, the standard error values, the t Student statistics and the probabilities associated to these values as well as the values of the determination ratio (R-squared) and the Durbin-Watson statistics (DW) are presented in Table 1.

4. Econometric estimations

The estimation of the parameters of the

Table 1. The estimations of the coefficients of regression equations

Dependent variable	Coeff.	Values	Std. error	t-Stat.	Prob.	R-squared	DW
<i>Acbr</i>	b_{14}	0.034888	0.017147	2.034685	0.0724	0.303406	2.387155
	b_{15}	-0.226711	0.156556	-1.448108	0.1815		
	b_{16}	-0.094005	0.049534	-1.897777	0.0902		
	b_{17}	0.022812	0.017084	1.335288	0.2146		
<i>Actr</i>	b_{18}	0.080067	0.041391	1.934391	0.0818	0.408608	0.738608
	b_{19}	-0.315259	0.156653	-2.012462	0.0719		
	b_{20}	0.025639	0.013269	1.932320	0.0821		
<i>Acnit</i>	b_{21}	0.230080	0.058878	3.907773	0.0036	0.722289	1.977106
	b_{22}	-0.770448	0.189316	-4.069634	0.0028		
	b_{23}	-0.395814	0.132783	-2.980904	0.0154		
	b_{24}	0.038162	0.022488	1.696983	0.1239		
<i>mriy</i>	b_{25}	0.519091	0.188937	2.747432	0.0252	0.381601	1.95154
	b_{26}	-1.0999	0.518654	-2.12068	0.0668		
	b_{27}	-0.82292	0.514829	-1.59844	0.1486		
<i>rich</i>	b_{28}	0.153543	0.074941	2.048841	0.0676	0.775090	1.853098
	b_{29}	1.193496	0.488720	2.442086	0.0347		
	b_{30}	-0.812652	0.261535	-3.107236	0.0111		

Source: Done by the author in the E-Views software

The results obtained highlight that the regression coefficients are statistically significant, considering a significance level of 10%, with four exceptions. For the utilization of disposable incomes, one should notice an accentuated positive influence of the GDP growth rate on the total consumption expenditures. Still, a small part of the disposable income increase goes to the increase in investments.

One should also observe a great influence of the interest rate on the investment level: at a 1% increase in the interest rate, the marginal rate of investments decreases on average with 0.82292%.

5. Conclusions

The model of disposable income of the North-East region of Romania presented in

this paper is made up of a system of econometric equations which describe the economic structure specific to this region.

The designed model for the North-East region may be, later on, used to build plausible scenarios of economic evolution for the North-East region. The simulations which will be conducted on the basis of this model will mainly focus the following aspects: the output reaction to the change of disposable income, respectively the effects of the change of disposable income on the weight of labour incomes within the gross value added; the reaction of investments to the change of disposable income and to the variation of income rate; the reaction of GDP growth rate in constant prices (the real output) to the change of the level of net indirect taxes; the simulation of inflation, that will be performed for the GDP deflator, in relation to

the change in the level of net indirect taxes; the reaction of growth rate of total consumption expenditures in constant prices to the change of disposable income and the variation of income rate.

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The Impact of Economic Crisis on the Business Environment in Romania

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Abstract

The business environment in Romania in the period 2009-2012 was strongly influenced by global crisis: economic performance declined, entrepreneurship has suffered and many companies were closed. Resisted those who have managed to adapt and to conduct business in areas that have survived best. Regional differences, size of company, financial results were the main characteristics were determined the company's ability not to leave the market.

For this work i used descriptive statistics to highlight companies that have survived the global crisis. After that, using the cluster technique, i showed characteristics of these companies. This paper aims to identify through empirical studies the relationship between economic performances and economic characteristics in Romania.

Key words: firm size, competitiveness, economic performance, business environment, survivor

JEL Classification: D22, M21

1. State of knowledge

In recent years, have written thousands of articles and many books about economic crises, but few of them treated the phenomenon as a whole. Rows flowed recently on the subject refers specifically to the current economic crisis, the main causes that provoked rather than to analyze companies that have survived the economic crisis.

In the literature, the companies survival analysis is based on Survivor Technique first applied by Stigler (1958), which is based on the assumption that the most efficient terminal

sizes is going to survive termination competition. This technique is mentioned by Shepherd (2004) who used it to measure economies of scale, but the author says that "The method is worthless for evaluating firm-level economies, because it automatically includes pecuniary economies. Even some plant estimates may be tainted by pecuniary conditions" ([1], pp. 165)

Another method used was cluster technique, the technique evidenced in the book "Cluster Policies in Europe: Firms, Institutions, and Governance" (2008) written by Borrás, S., Tsagdis, D., Cheltenham, UK, Northampton, USA, 2008. The first economist to describe clusters in terms of "supply chains" was Alfred Marshall (1842 - 1924) (Marshall, 1920), which considering industrial agglomerations in England found that the geographic concentration of firms in a particular sector creates economic effects unintended positive. Cluster definition is found in legislation in Romania (GD 918:2006 - The "Impact") that cluster is a grouping of producers, users and / or beneficiaries for the implementation of EU best practices to enhance competitiveness operators. Michael Porter believes that:

"Clusters are geographic concentrations of interconnected companies and institutions from a particular area. Clusters comprise a group of related industries and other entities important from the point of view of competition. These include, for example, suppliers of specialized inputs such as components, machinery and services, and providers of specialized infrastructure. Often extend downstream clusters to various distribution channels and customers and laterally to manufacturers of complementary products and the industries related by skills, technologies or common inputs. Finally, some clusters include governmental and other

institutions - such as universities, standards agencies, think tanks, vocational training providers and employers - that provide specialized training, education, information, research and support." (Porter M., 1998). (Porter, M.E., (1998), Competitive Strategy: Techniques for Analyzing Industries and Competitors, The Free Press, New York)

2. Research Methodology

To highlight the impact of the economic crisis on companies i used demographic data portal companies offered on the National Office of Trade Register – Recom online (<https://portal.onrc.ro/ONRCPortalWeb/ONRCPortal.portal>). According to the official presentation, the portal "is designated to online users interested in accessing legal information online about operators in Romania, registered in the Commercial Register. Information system of the trade registry is designed by the National Registry Trade in accordance with the laws in force, which has in the field. The Source of information is the business registers, computerized system maintained by trade registry offices attached to tribunals" (<https://portal.onrc.ro/ONRCPortalWeb/appmanager/myONRC/signup?p=portal.informareinitalia>). With this tool i created database of all active companies in 2009, then I checked how many of these companies are active in 2012.

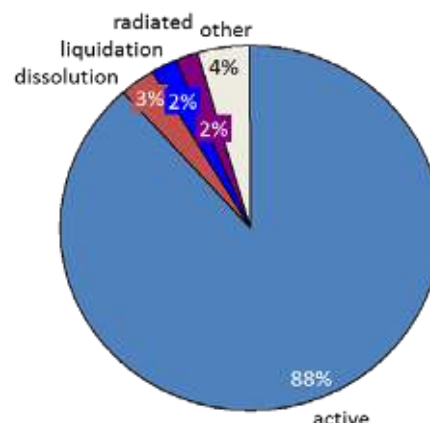
In addition, i accessed the database of the Ministry of Finance, where available "information from the central database for recording MPF corporate taxpayers and public institutions, declarations of tax (VAT, excise, gambling), balance of during 1999 - 2011 the companies and operative records of outstanding obligations to the state budget " (<http://www.mfinante.ro/agentiicod.html?pagina=domenii>). So I had access to information on number of employees, turnover, financial results and regionalization NUTS2 level.

For data processing, i used empirical research by descriptive statistics (method presented Florea I. [1998] in his book "Descriptive Statistics. Theory and applications", Ed Continental, Alba Iulia, 1998.

3. The results of companies in Romania, 2009-2012

In 2009, at the start of the global crisis, at the trade registry was registered 636,964 active companies. Of these, remained active at this time 562,450 (88.3%). Most were closed by dissolution (19,774 - 3.1%), wound (13,435 to 2.11%) and radiation (12,758 to 2.00%).

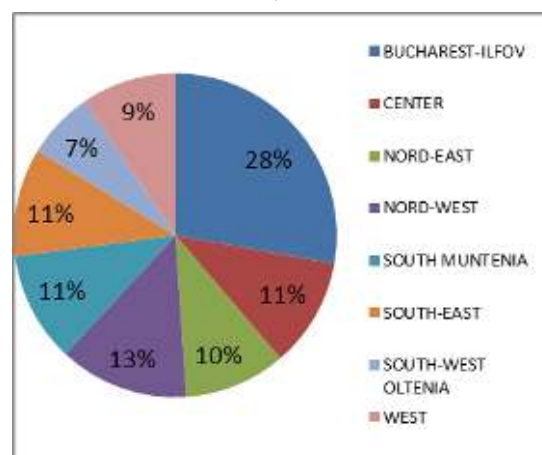
Chart 1. 2012 status of companies active in 2009



Source: Own processing of the information from The National Office of Trade Register

When we look at companies that have remained in the market in 2012 in terms of regional division would look like this:

Chart 2. Split of companies by regions, 2012



Source: Own processing of the information from The National Office of Trade Register

Of the 562,450 companies remained in the market, most of them are LTDs (546,250 to 97.12%) with a total of 1-2 employees (398,238 to 70.80%) or 3-9 employees (113,263 to 20.14%)

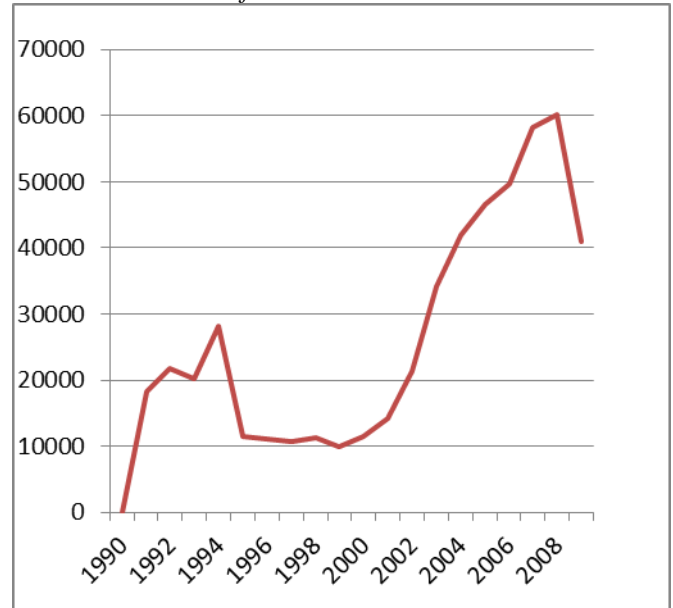
Table 1. Split of companies by number of employees

No of employees	No of companies	Percent
1-2	398238	70.80%
3-9	113263	20.14%
10-49	41922	7.45%
50-249	7603	1.35%
>250	1424	0.25%
Grand Total	562450	

Source: own processing by the National Office of Trade Register information

Most companies that have survived are established in 2008 (60,067 companies - 10.68% of all firms) in 2007 (58,237 companies, 10.35%) and 2006 (49,734 companies - 8.84%).

Chart 3. Year when the companies still on the market in 2012 were founded



Source: own processing by the National Office of Trade Register information

In terms of turnover, best resisted those with turnover of between 100,000 and 1 million RON (23.06%) and those between 1 and 5 million RON (21.72%).

Collaborate with the number of employees, best resisted companies with turnover of between 100,000 and 1.000.000 RON with 1-2 employees (19.28%) and those with a turnover of between 1 and 5,000,000, all with 1-2 employees (11.27%)

Table 4. Split of companies by turnover and number of employees

Turnover/No of employees	No of companies	Percent
<0	153	0.03%
1-2	136	0.02%
3-9	15	0.00%
10-49	2	0.00%
0	184777	32.85%
1-2	183747	32.67%
3-9	937	0.17%
10-49	83	0.01%
50-249	9	0.00%

>250	1	0.00%
0-100.000	27719	4.93%
1-2	26724	4.75%
3-9	941	0.17%
10-49	53	0.01%
50-249	1	0.00%
100.000 - 1.000.000	129681	23.06%
>250	1	0.00%
10-49	555	0.10%
1-2	108417	19.28%
3-9	20703	3.68%
50-249	5	0.00%
1.000.000-5.000.000	122157	21.72%
1-2	63395	11.27%
3-9	52883	9.40%
10-49	5842	1.04%
50-249	31	0.01%
>250	6	0.00%
5.000.000-10.000.000	34651	6.16%
1-2	8465	1.51%
3-9	18456	3.28%
10-49	7614	1.35%
50-249	116	0.02%
>10milioane	63312	11.26%
1-2	7354	1.31%
3-9	19328	3.44%
10-49	27773	4.94%
50-249	7441	1.32%
>250	1416	0.25%
TOTAL	562450	

Source: own processing according to the Ministry of Finance

As activities, most companies that survived were those with commercial activities (193,802 companies - 34.46%), construction (58 736 companies - 10.44%), professional, scientific and technical (PFA, lawyers, doctors, etc. 57375 companies - 10.20%).

Collaborating this information with the turnover, best surviving companies with turnover between 100,000 and 1.000.000RON

with commercial activities (46,417 companies - 8.25%), those with a turnover of between 1 and 5,000,000, also with commercial activities (45,828 companies - 8.15%)

4. Conclusions

In conclusion, these changes represent a repositioning of companies depending on the industry, number of employees and turnover. The changes occurred in demographics reflect the fact that we are witnessing a process of renewal of the business environment in Romania, which can be seen as an opportunity for modernization and innovation. In fact, it is the manifestation of so-called "creative destruction process" described by Schumpeter ([2.]), the emergence of new firms able to cover niches in November market, while firms less competitive economic environment disappear.

Another chance for survival lies in the increase of employee productivity, considering that most companies have a number of employees between 1 and 2. Increased productivity can be done through specialized courses through trainings online sites or through implementation of regional programs for training of companies (especially for the SME sector).

Also, most of the companies still on the market are those with commercial activities (trades) so the companies, to survive, should focus on this sector, and the government should help them with special facilities. More than this, 28% percent are in Bucharest-Ilfov region, so they should focus their activity in this region.

An aid can come in especially for the SME sector it consists gaps in developing regions through investment programs for SMEs by simplifying administrative procedures for accessing structural instruments by supporting regional networks to support local businesses.

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Acculturating or Translating Economical Terminology?

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Abstract

The translation of economical terminology is an intricate subject matter, especially when it is placed in the context of globalization.

It presupposes sharing values, attitudes and identities. That is to say, it places two cultures into contact. This impact presupposes an acculturating process which is to make the difference in assessing the quality of translation.

This is a difficult process but, if the users of economical terminology get through a process of adjustment leaving behind the cultural traits, they may reach to foreignization (an alienation from homeland's cultural values) which is not the aim of our research paper.

Key Words: culture, globalization, translation, identity, acculturation

J.E.L. Classification : Z 11

1. Introduction

Translators are aware that they contribute to the shaping of their own mother tongue, focusing on both the contact between translator and author and on the contact between the translator and the user – or consumer – of the translated text.

Translators have been defined themselves as the 'guardians of language'. The word 'guardian' has been viewed as implying a closed attitude; that is to say, an attitude of defending one's language and culture.

Conversely, the speaker expresses a wish to act not as a guardian but as a host(ess), welcoming new words with open arms, neologisms representing new blood for the language supposing that it is not 'contaminated' blood.

2. Strategies of translating economical terminology

As we have mentioned above, speakers are more inclined to inhale neologisms using different strategies which are more or less consciently put into practice. Writers or economists also have this tendency of adopting or importing new terminology, especially when economical terminology comes into play.

For this reason, the task of the translator is of utmost importance. We should mention the fact that translation is important and necessary because, on the one hand, it reveals the flexibility of a language and its various means of expressing itself and it helps at preserving both the identity and 'personality' of a language, on the other.

Importing foreign terminology implies that we assume the attributes of the other nation; that is to say, we absorb the language, culture and tradition of the SL (source language) which implies, at the same time, a tendency of imitating.

The word, as the minimal unit, is the tool of every translator. It is for this reason why the translator has to be aware of the way s/he manages it and the way s/he transfers it into another language and culture, respectively.

In the discussion of translation strategy, the dichotomy literal vs. free has always been at the centre of the debate. The selection of one translation strategy may be dictated by both textual and extratextual constraints. In this respect, some questions may arise: Is only the text or only the purpose of translation or other factors that generate the selection of a particular receptive mode?

Translators have categorised translation strategies as follows: direct translation (literalness, borrowing and calque) and oblique translation (transposition, modulation, equivalence, adaptation).

In the case of *direct* translation, the translator has to transfer the SL text

constituent by a constituent in the TL. In other words, the primary meaning of the word is attached great importance.

Literal translation may be classified in word for word translation and one to one translation. In the translation process, the translator should be conscious of the gaps or 'lacunae' in the TL that must be filled by matching elements so that a correspondence between the two messages may be created.

Vinay and Darbelnet suggest that *borrowing* (also described as adoption or importation), the most direct translation strategy, is used to fill a lacuna, that is to say, a lexical and cultural gap. [12]

Moreover, they consider that introducing an element of local colour in the TT is a matter of style and message. For instance, the terms "chamber", "table" and "marble" are among the many borrowings introduced in English from Old French.

Dictionaries such as L. D. L. T. A. L. define the entry 'borrowing' as "a word or phrase which has been taken from one language and used in another language". [14]

On the same line of thinking, Newmark mentions that borrowings are not only practical but also a means of introducing elements of local colour. [8]

Another fact to be mentioned is that the invasion of Anglicisms into the other languages makes local people feel alienated from their own LC (language-culture).

Unlike Italian and Japanese languages which import foreign words either to fill a lexical gap or to impress, the English language is liable to inventing. Adams points out that borrowing may be realized either at the lexical level or at the phonetic, phonological, syntactic and morphological level. For instance, Latin borrowed even the sounds of Greek. [1]

It is common knowledge that one of the outcomes of the linguistic and cultural contact between different linguistic systems is the process of borrowing foreign words. English, for instance, has in its inventory loan words introduced from other cultures such as Latin, French etc.

It has been mentioned the discrepancy between past and present-day lexical borrowing. In the past one language might have borrowed from another because the TL (target language) lacked either the technology or the knowledge to invent a term

of its own, as in the case of Latin borrowing terms from Greek in domains such as geography and philosophy. In the globalized world, the situation is changed. There is hardly a country in the world which lacks basic knowledge in any given subject. There are situations when there is a need to create a new term because a new product has come into the market.

Another special type of borrowing which Vinay and Darbelnet identify is *calque*. As Dollerup puts it, calque translation refers to "compounds or phrases which are rendered element-for-element [...]". [4]

Vinay and Darbelnet differentiate between the lexical calque and the structural calque. In the former case, the translator both preserves the syntactic structure of the TL and introduces a new mode of expression.

When the result of the literal translation is unsatisfactory, Vinay and Darbelnet suggest that translators must resort to the *oblique* translation. According to the two authors, the oblique strategies that translators may choose in translation are: transposition, modulation, equivalence and adaptation.

Transposition has been defined as the substitution of one word class by another without changing the meaning of the message.

It may be both an intralingual and interlingual translation procedure. An example of intralingual translation may be the substitution of a verb by a noun as follows: "He announced that he will arrive" may be transposed as "He announced his arrival".

Moreover, the translators admit the possibility of choosing between two types of transposition: obligatory transposition and optional transposition.

The second method, *modulation*, is a variation of the form of the message, achieved by a reshaping in the point of view. According to the two translators, two types of modulations can be distinguished: free (or optional) modulations and fixed (or obligatory) modulations.

Modulation is considered to be a type of transposition at the global level, involving categories of thought, not grammatical categories. [11]; [9]

Equivalence, one of the crucial issues in translation studies, is a relative notion since it is submitted both to the historical-cultural

framework of the ST (source text) and its translation and to the textual and extra-textual elements and situations such as the way reality is perceived or how translation traditions have been passed down.

Vinay and Darbelnet consider that the same situation can be rendered by two texts using completely different strategies. As an outcome of this situation, the SL (source language) and the TL (target language) texts are equivalent.

In discussing equivalence, various translators have debated on possible units of translation that should be conveyed in the TL such as the individual word, group, clause, sentence or the text as a whole.

Equivalence has been said to exist between texts only, not between words or meanings. We share Newmark's opinion that "one is transferring all three, it depends on how you prefer to look at the process-at least all words in the SL text have to be accounted for". [8]

Another interpretation is offered by Bell who claims that meaning is fundamental in translation studies. He points out that "[W]ithout understanding what the text to be translated means for the L₂ users, the translator would be hopelessly lost. That is why the translation scholar has to be a semanticist over and above everything else. But by semanticist we mean a semanticist of the text, not just of words, structures and sentences. This is because the key concept for the semantics of translation is textual meaning". [2]

Adaptation, the fourth oblique translation procedure, is used when the situation in the SLC (source language culture) is not known in the TLC (target language culture) and, therefore, the translator has to create a new equivalent situation.

Dollerup's cultural adaptation occurs when a feature in the SC (source culture) is rendered by a feature which is common to the TC (target culture) and is expected to have the same impact as it does upon the audience of the SC. In other words, "the unfamiliar is replaced by the familiar". [6]

In any translation, gaps may appear. The translator's task is to close the gap between the two cultures involved in translation, to surpass the barriers and transcend the difficulties s/he may encounter. Therefore, s/he should be able to manage the translation strategy and be flexible in any situation. In reality, gaps arise in translation because there

are not corresponding realities in the TLC (target language culture).

3. Linguistic and cultural (un)translatability

Translation does not only presuppose lexical transfer but cultural transfer as well. The cultural element is of great importance in translation because language cannot exist without a culture and vice versa.

Regarding the concept of untranslatability, Catford [3] distinguishes between linguistic and cultural untranslatability. Linguistic untranslatability occurs when there is no lexical or syntactical equivalent in the TL for a SL item.

Catford makes a clear-cut distinction between linguistically relevant features (the situational ones) and the functionally relevant features (they are relevant to the text's communicative function in that situation).

According to Catford, both the ST and the TT must be associated with the functionally relevant features of the situation, so that translation equivalence is achieved. As he puts it, "both source language and target language texts must be relatable to the functionally relevant features of the situation" so that translation equivalence may occur. [3]

A number of objections have been formulated against his theory of translation equivalence. Some critics dismantled Catford's definition of translation equivalence. They argued that a translation is not interchangeable with its ST in a given situation since STs and their translations operate in different language communities.

Consequently, translation equivalence (TE) cannot be verified on the criterion of interchangeability in a particular situation.

As far as the translation shifts that may occur in the process of translation are concerned, Catford asserts that they are "departures from formal correspondence in the process of going from the SL (source language) to the TL (target language)". [3]

He identifies two major types of shifts: level shifts and category shifts. In the process of translation, the level shifts occur when a SL item at one linguistic level has a TL equivalent at a different level. In Catford's view, translation between the phonological and graphological levels or between one of these levels and the levels of grammar and lexis cannot be achieved since 'relationship

to the same substance' is a prerequisite for translation equivalence. The most frequent shifts are those from lexis to grammar and from grammar to lexis.

Catford introduces the terms unbounded and rank-bound translation when he makes reference to the category shifts. Unbounded translation may be identified with "'normal' or 'free' translation in which SL-TL equivalences are set up at whatever rank is appropriate". [3]

These equivalences are established between sentences, clauses, groups or words (e.g. equivalence of the type sentence-to-sentence). Nonetheless, in the translation process, equivalences may move freely up and down the rank-scale and they may generally be created at ranks lower than the sentence.

According to Catford, the syntagm 'rank-bound translation' applies to those special situations where equivalence is intentionally limited to ranks below the sentence.

Consequently, the translation is considered to be a bad one, or a translation in which the TL text is either not a normal TL form at all, or is not relatable to the same situational substance as the SL text.

4. Acculturation-a translation strategy

The growing interest in the notion of identity is an outcome of a continuous contact between distinct communities carried out by phenomena such as globalization.

The concept of "acculturation" is intriguing not only because it covers different meanings but also for its relevance for altering identity. The term "acculturation" is used within anthropology and folklore to refer to modifications produced by intercultural impact which alter a variety of the 'deep structure of culture'.

On the other hand, in cultural studies, the process of learning the socialization rules is labelled as "enculturation". As some culturalists put it, it refers to a process of transformation which begins in the domestic environment through parental appeals which act as guidance for their children.

Others conceive acculturation as a four-staged gradual process starting from euphoria, going through insecurity and recovery and, finally, reaching acceptance. Therefore, in their opinion, acculturation refers to the ability to transit to cultural spaces.

Gudykunst and Kim envisage cross-cultural adaptation as a part of an ongoing process. [5]

They consider that adaptation is a result of **enculturation, deculturation, acculturation** and **assimilation**. Moreover, they link enculturation to the process of socialization of the home culture preceding the contact with the host culture.

They also describe the terms "acculturation" and "deculturation" as a rooting out of the home culture. The term "assimilation" is finally ascribed the highest degree of acculturation. In the light of Gudykunst and Kim's model, adaptation appears to incorporate the development of both the linguistic supply and socio-cultural traits.

In our opinion, acculturation is both a process of embracing a culture of a particular country and a product, that is to say, the outcome of a cultural alteration.

We consider acculturation to be at the centre of our debate on economical terminology because, on the one hand, it brings about issues related to authenticity and questions the problematic of translation, on the other.

5. Economical terminology in translation

We have mentioned above that the invasion of Anglicisms into the other languages makes local people feel alienated from their own LC (language-culture).

As a rule, the phenomenon of importing Anglicisms (such as "broker") appears in order to fill a lexical or cultural gap in the TLC.

Questions may arise: Is it a matter of style as in the case of "chamber"? Is it a matter of message? Is it a matter of untranslatability?

By way of illustration, we have chosen particular economical terminology (words and expressions) in order to demonstrate their translatability.

The term "cash" has been imported by many economists without even endeavouring to translate it. Dictionaries translate it as "bani numerar" or "numerar" or "bani gheață" (used informally). We agree with the translation "plată în numerar" because it suits the economical purpose better.

Moreover, the syntagm "cash flow" has been defined as "flux de cash ale încasărilor și plăților unei întreprinderi" despite the fact

that dictionaries such as D.T.F.A. explained it as "flux de numerar". [15]

We agree with the latest translation although "cash flow" "indică cel mai adesea, printr-o formă tabelară, totalitatea resurselor și obligațiilor de plată ale unei întreprinderi [...]". [13]

Another example is the term "barter" which is not usually translated but acculturated as such. The D.E. dictionary defines the entry "barter" as "schimb direct de bunuri, fără mijlocirea banilor". [13]

In addition, the D.T.F.A. defines it as "barter, troc, vânzare în contrapartidă". [15] Since we are in favour of translating the economical terminology, we agree to the D.E.'s definition of the term "barter".

The term "clearing" appears to be another example of acculturation. It does not fill a gap in the TL, respectively in Romanian, since we have translations of the term. For instance, the D.E. explains this entry as "ethnică de compensare a obligațiilor reciproce între doi parteneri constând în compararea creanțelor cu obligațiile dintre ei, pe baza unor reglementări prealabile". In this situation, the translation is possible and we suggest as counterpart the syntagm "achitare or compensație"

Another example of acculturation is the term "dumping". The fact must be mentioned that the D.E. defines this entry as "politică de vânzare a unor mărfuri pe o piață externă la un preț mai scăzut decât costul marginal". In addition, the D.T.F.A. explains the term "dumping" as being "vânzare de bunuri pe piețe străine sub prețul de cost". We consider that this should not be the case of acculturation and we agree with the translation offered by D.T.F.A.

6. Conclusions

Consequently, translation of economical terminology is necessary and possible. The answer to the question arisen in the title of this research paper has to be "translation" since acculturation implies not only the altering of a nation's identity but also the impossibility of translation.

It is for this reason why the translator has to be aware of the way s/he manages the translation act and the way s/he transfers the source material into another language and culture, respectively.

In the translating process, the selection of one translation strategy may be dictated by

both textual and extratextual constraints. Hence, the translator has to be competent in choosing the right strategy and make the right decision when choosing the counterpart of a specific term or syntagm.

The strategies aforementioned are the tools of a translator but one should be aware of the fact that, in the translating process, the translator comes with his/her own cultural background which shall matter for the final product.

Perfect synonymy cannot be achieved among words and, moreover, perfect equivalence is never possible among different languages and cultures. Despite this fact, translation is and should be possible.

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Section II
Business Economy and Administration

Subsection 1
Economy and Economic Informatics

The Econometric Modelling of the Number of the Unemployed in the SE Region of Romania According to the Number of Higher Education Graduates and the Investment Level

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Abstract

The purpose of this research was to identify several features of the unemployment phenomenon in the SE region of Romania, using several of the most significant indicators highlighting the main correlations between specific labour market indicators and an indicator by which we can assess the economic development degree of a country. The resulted regression equations, tested from the point of view of their significance, allow, on the one hand, the assessment of the existing situation and, on the other hand, the performance of the forecasting calculations required to develop different scenarios and strategies for attracting investments and EU funds in order to reduce the number of the unemployed and to absorb higher education graduates on the labour market.

Keywords: the econometric modelling; unemployment phenomenon; labour market indicators; the multivariate analysis.

JEL classification: C12, C13, C20, E24

1. Introduction

In each historical period, mankind faces a number of negative phenomena, which must be overcome. The last three decades seen through the evolution of unemployment have led states to pay particular attention to this phenomenon which is becoming increasingly thorny. 20-30 years ago, the world's average unemployment rate was 2-3% and, at present, most countries reach the rate of 10% and even over 10%. Nowadays, unemployment is rightly seen as "massive and chronic".

Currently, workforce is highly liberalized; many millions of people leave their poor countries to work in developed countries and to secure a better life. This should be an

effective system of action but, unfortunately, it is working incorrectly. These people that come in more developed countries receive the hardest work, the most thankless; however, they receive a higher salary than the one they would receive in their home country. This is an exodus which cannot be stopped but which can be reduced by promoting efficient labour market policies. Labour market flexibility is the primary means of modelling labour supply and protection, mainly on this path of employment and not by administrative and legislative means. Labour market flexibility is not a therapy applicable with the same good results in any case of "disease"; it may also be a necessary evil. According to a report completed by the National Institute of Statistics, the unemployment rate among young people aged between 15 and 24 stood at 23,7% in 2011. Taking into account, on the one hand, this alarming statistic and the complexity of the studied phenomenon, and, on the other hand, the purpose of this research, the research methods used in this case study were: the bivariate analysis, the multivariate analysis, the correlation analysis, the analysis of variance, the analysis of regression, the statistical testing.

2. The results of the econometric modelling

The study of the unemployment phenomenon was made indirectly, based on "office" information, with statistical indicators derived from various databases; the research objectives aimed to provide all the necessary information in order to support decisions, both quantitatively and qualitatively.

Starting from the premise that the econometric model extracts what is essential at the level of the statistical data series used

in order to characterize an economic process, we considered appropriate to use the econometric modelling within this case study. Given the complexity of calculations, on the one hand, and the multiple variables, on the other hand, we used the SPSS software. All processing by which we obtained the indicators for our analysis and the tests assessing the significance of parameters were made automatically by this software specializing in econometric analysis. The trends in the evolution of unemployment are followed by an analysis of the connection and interdependence between the indicators that characterize the phenomenon, i.e. the number of the unemployed, the number of higher education graduates and the investment level in the SE region of Romania, for 1990-2012.

We are going to check for the SE region the dependence of "the number of the unemployed" on "the number of higher education graduates" and on "the investment level". For the correlation with the processing results in SPSS, we are going to use the following names of the three variables:

y = the number of the unemployed (SOM);

x₁ = the number of higher education graduates (ABS);

x₂ = the investment level (INV).

The multiple linear regression econometric model proposed in this case will be:

$$Y = \beta_0 + \beta_1 \cdot X_1 + \beta_2 X_2 + \varepsilon \text{ or}$$

$SOM = \beta_0 + \beta_1 ABS + \beta_2 \cdot INV + \varepsilon$, where ε is the random variable error (residue) and β_0 and β_1 are the parameters of the regression model.

Table 1. The calculation of simple correlation coefficients

Correlations				
		SOM	ABS	INV
Pearson Correlation	SOM	1.000	-.695	-.737
	ABS	-.695	1.000	.957
	INV	-.737	.957	1.000
Sig. (1-tailed)	SOM		.000	.000
	ABS	.000		.000
	INV	.000	.000	
N	SOM	19	19	19
	ABS	19	19	19
	INV	19	19	19

The resulted Pearson correlation coefficients indicate strong and inverted connections between the number of the unemployed and the number of higher education graduates, and between the number of the unemployed and the investment level. If we also look at the relationship between the number of graduates and the investment level, we find a direct and very strong connection, the Pearson coefficient recording a value of 0,737.

For the multiple linear regression model, using the method of least squares, there were estimated the parameter values listed in Table 2:

Table 2. The calculation of regression equation parameters

Coefficients						
		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
Model		B	Std. Error	Beta		
1	(Constant)	154113.492	13242.316		11.638	.000
	ABS	-6.790	1.705	-.695	-3.981	.001
2	(Constant)	133378.323	19089.474		6.987	.000
	ABS	1.155	5.667	.118	.204	.841
	INV	-1.105	.754	-.850	-1.466	.162

a Dependent Variable: SOM

The regression equation for the number of the unemployed is:

$$\hat{Y} = 133378,323 + 1,155 \cdot X_1 - 1,105 \cdot X_2 \text{ or}$$

$$\hat{Y} = 133378,323 + 1,155 ABS - 1,105 INV$$

The estimation $b_1 = +1,155$ shows that every change by 1 to "the number of graduates", keeping "the investment value" constant, modifies "the number of the unemployed" in the same direction, by 1 person. The estimation $b_2 = -1,105$ shows that every change by 1 to "the investment value", keeping "the number of graduates" constant, modifies "the number of the unemployed" in the opposite direction, by 1 person. The estimation $b_0 = 133378,323$ has no known economic significance in this case.

Table 3. The calculation of the correlation ratio

Model Summary

	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics		
Model					R Square Change	F Change	Sig. F Change
1	.695	.483	.452	31194.7228	.483	15.851	.001
2	.737	.544	.487	30191.7921	.061	2.148	.162

a Predictors: (Constant), ABS

b Predictors: (Constant), ABS, INV

c Dependent Variable: SOM

Considering that, in this case, we decided to use a multifactorial model, the assessment of the intensity of the connection between the 3 variables is done by using the multiple correlation ratios.

The result is $R = 0,737$, indicating a strong connection between the three variables. The estimated value of the determination report (R-squared), i.e. $R^2=0,544$, indicates that, within the chosen model, the variation in the independent variables explain, in the ratio of 54,4%, the variation in the dependent variable (i.e. “the number of the unemployed”), the remaining 45,6% representing the contribution of other factors not included in the model.

An important step is to test the parameters and model significance.

Table 4. Testing the validity of the econometric model

ANOVA

Mo del		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	15424587535.063	1	15424587535.063	15.851	.001
	Residual	16542882415.884	17	973110730.346		
	Total	31967469950.947	18			
2	Regression	17382760945.406	2	8691380472.703	9.535	.002
	Residual	14584709005.541	16	911544312.846		
	Total	31967469950.947	18			

a Predictors: (Constant), ABS

b Predictors: (Constant), ABS, INV

c Dependent Variable: SOM

Testing the validity of the regression model:

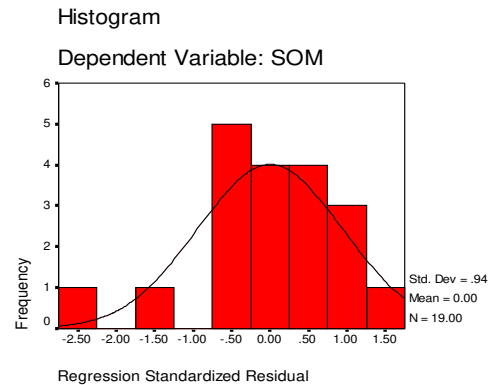
- the null hypothesis is established: H_0 : the model is not valid;
- the alternative hypothesis is established: H_1 : the model is valid.

The F test is calculated: $F_{\text{calculated}} = 9,535$. $F_{\text{calculated}}$ is compared to $F_{\alpha; k; n-k-1} = F_{0,05; 2; 19} = 3,52$, for $k=2$ and a significance level of $\alpha=5\%$, (table value); and since:

$F_{\text{calculated}} = 9,535 > 3,52 = F_{0,05; 2; 19}$ and prob. (F-statistic) = $0,002 < 0,05 \Rightarrow$ the H_0 null hypothesis is rejected at a significance level of 5% and the alternative is accepted; therefore, the model is valid.

The results obtained in Table 2 indicate that only the parameters β_0 and β_2 are significant, with reservations on the parameter β_1 .

The histogram of the standard notes of the residuals (of the errors or deviations of the model from reality) is as follows:

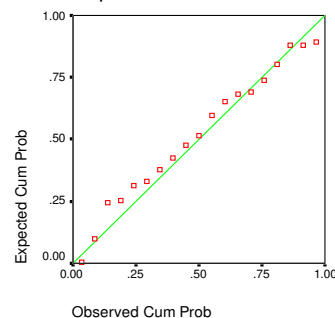


We can observe that it does not respect the normal curve, especially for the very high values, which shows that our model has problems in forecasting the high values of the number of the unemployed, but it is good on the other hand side in forecasting the lower values.

The *Normal P-P Plot* represents the graph of the cumulated possibilities of the standard notes of the residuals. If they would be approximately normally distributed, they should follow the line of the cumulated percentages described by the normal curve, a straight line situated on the diagonal of the graph from the lower left to the upper right.

Normal P-P Plot of Regression Stand

Dependent Variable: SOM



As our points are distributed on the upper graph, we can observe that in the superior part of the graph the points exceed the diagonal, whereas in the inferior part we have an opposite tendency. This shows that for higher values of the dependable variable our regression model has the tendency to overestimate the reality, whereas for the lower values the tendency for underestimating the reality emerges.

3. Conclusions

Unemployment and employment remain some of the most sensitive issues of the economic crisis, the harmonization of the economic performance with social equity generating a multitude of problems that need to be answered.

In the economy, the lost production is the most important consequence of unemployment. Taking into account that the involuntary unemployed would like to work but they cannot find a job, a part of the potential production is thus wasted. This effect is more pronouncedly manifested during recession periods. Thus, production decreases, businesses income decreases, state revenues from taxes decrease and, thus, the population is affected again by the reduction in government transfers. The creation of new jobs depends primarily on the economic growth, which, in turn, depends on investments and on the international context.

A stable economic environment is fundamental to the creation of new jobs in the formal economy for all groups of workers, but especially for the young graduates who are longer affected by the economic downturn due to low seniority at work and lack of experience (last come, first out). The conclusions of this study indicate that, at a significance level of 5%, *the model is valid* and the variation of the independent variables, i.e. “the number of higher education graduates” and “the investment

level”, explain in the ratio of 54,4% the variance of the dependent variable, i.e. “the number of the unemployed”.

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A Multivariate Analysis of the Monthly Unemployment Rate in the County of Constanta

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Abstract

The purpose of this paper was to realize a multivariate analysis of the monthly unemployment rate in the county of Constanta using the following variables: the average net wage (SAL), the number of the employees (EMPL), the consumption price index (IPC) for the January 2000- march 2012 period. This analysis is based on the correlation study that can be established as a consequence of applying the parametric correlation methods between the mentioned indicator and the influential factors.

Keywords: the unemployment rate; the average net wage; the number of the employees; the consumption price index; the multivariate correlation.

JEL classification: C12, C13, C20, E24

1. Introduction

For the complex analysis of the connection and interdependence of the socio-economic phenomena, the elementary statistic methods are mostly insufficient.

The ties between the mass economic phenomena are characterized by the fact that one phenomena or another vary under the influence of a complexity of factors that are of a significant importance or of a secondary importance.

The first step that needs to be taken for the analysis of the statistical connections is the identification of the correlations, establishing the influential factors and their prioritizing.

Furthermore, the analysis of the forms under which the causality relations are

manifested and measurement of the statistical connection degree is needed.

Determining the factors that have the most powerful influence on the analysed phenomena, practical measurements for assuring the optimal conditions of its development, the intensification of the positive factors, the elimination or the attenuation of the influence of the unfavourable factors can be projected and realized.

The following aims were the basis of selecting these methods: a quantification that is as accurate as possible of all the influential factors; the selection of the principal factors, the measurement of the intensity and of the direction of the existing connections between the phenomena which characterize the commercial activity.

Generally, the correlations between the phenomena are based on the fact that each phenomenon is manifested under the influence of a complexity of factors, some of them being essential and other having a reduced and less significant influence.

2. The analysis of the multivariate correlation between the characteristic indicators of the unemployment rate

The tendencies in the evolution of the unemployment rate are completed through an analysis of the connection and of the interdependence between the characteristic indicators of the unemployment rate: the average net wage (SAL), the number of the employees (EMPL), the consumption price index (IPC) for the January 2000-march 2012 period.

This analysis is based on the correlation study that can be established as a consequence of applying the parametric

correlation methods between the mentioned indicators and the influential factors.

In this case, the regression analysis undertakes the following steps:

- the development of the regression model;
- the estimation of the models' parameters;
- the verification of the accuracy of the obtained results.

In the development of the multifunctional linear regression (ANOVA), it is hypothesized that the Y variable depends on the factorial variables X_1, X_2, X_3 and it is also hypothesized the reciprocal of the latter. If the factorial variables are interdependent, the multicollinearity phenomena are produced.

According to Ragnar Frisch in his research, *Statistical Confluence Analysis by Means of Complete Regression Systems*, 1934, Oslo, this represents the linear or nonlinear relation between two factorial variables, which are considered independent, of a collinearity model. In the same time, the multicollinearity determines the distortions of the models' parameters, and its testing can be done with the help of the Farrar and Glauber. In this way, with the help of the first we test the null hypothesis which states there is no multicollinearity in the model of correlation.

The second test allows the identification of the variables that are strongly affected by multicollinearity.

The third test is used in order to establish if the value of the partial correlation coefficients differ significantly from zero. If following the application of these tests it is found that the multicollinearity exceeds limits, to lower it, the data series used in the analysis can be enlarged or we use the transformation of variables.

The multiple linear regression function has the following general form:

$$Y_{x_1, x_2, \dots, x_n} = a_0 + a_1 x_1 + a_2 x_2 + \dots + a_n x_n + \varepsilon$$

where a_0, a_1, a_2, a_i, a_n represents the models' parameters that have the following meanings: a_0 = free term, with a mean character expressing the influence of the considered unregistered factors with constant action excluding the X_1, X_2, X_i, X_n factorials included in the regression model;

a_1, a_2, a_i, a_n = regression coefficients and show with how is amended in average the variable Y when the X_1, X_2, X_i, X_n factorial variable is modified with a unit.

The estimated parameters of the model will be analysed in terms of the sign, size and significance. If we consider statistical criteria and the forecasting, these relate to: the degree of significance of parameters estimated, the share of the explained variance in the total variance of the resulting variable Y, the connections between the variables called multicollinearity factor, the size of the standard error of regression estimation parameters, autocorrelation residual values.

In conclusion, in the case of the complex connections, the calculation of the correlation cannot be limited only to variable pairs, but it must also include other independent variables with significant influence on the dependent variable that are analysed. The joint influence of these variables is measured by multiple correlation indicators.

Also, within multiple connections, the factorial variables have different influences on the variable result; some exert a significant effect on the phenomenon and must be taken into the calculations of regression and correlation, while others have a share less important and can be neglected.

The correlation methods have as an effect the simplification of the calculations and conclusions, because it is very difficult to quantify the set of all causal factors acting on a socio-economic phenomenon or process.

The quantification methods and statistical techniques, of factorial analysis, estimation and testing are represented by a set of procedures and extended range of statistical and mathematical tools.

The most significant of these procedures and tools are also applicable, in one form or another available input data in order explicitness factor and, consequently, the separation of information necessary for making decisions for action.

Multivariate analysis was performed using the 3 models in which we included a factorial variable at a time.

The table Model Summary gives us information about the predictive power of our model to "fit" to the reality that we want to predict.

The multiple correlation coefficients (R) for each model indicate strong the stochastic links for each model and the R Square indicates the proportion of the variation in our dependent variable explained by the model.

Table 1. Model Summary

	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
Model					R Square Change	F Change	df1	df2	Sig. F Change
1	.674	.454	.451	1.7239	.454	118.272	1	142	.000
2	.795	.633	.628	1.4194	.178	68.477	1	141	.000
3	.892	.796	.791	1.0620	.163	111.839	1	140	.000

a Predictors: (Constant), SAL

b Predictors: (Constant), SAL, EMPL

c Predictors: (Constant), SAL, EMPL, IPC

d Dependent Variable: UR

Model 1, with an $R^2=0,454$ shows that 45,4% of unemployment is explained by the first factor considered (average salary), the remaining 54,6% representing the influence of other factors not included in model.

Fisher's F test shows that this model contribute significantly to the predictive power of regression (Sig.F Change <0,05).

Model 2, with an $R^2=0,633$ shows that 63,3% of unemployment is explained by the two factors considered (average salary and the number of employees), the remaining 26,7% representing the influence of other factors not included in model.

Fisher's F test shows that this model contribute significantly to the predictive power of regression (Sig.F Change <0,05), i.e. each variable brings new information.

Model 3, with an $R^2=0,796$ shows that 79,6% of unemployment is explained by the three factors considered (average salary, the number of employees, consumer price index), the remaining 21,4% representing the influence of other factors not included in model. Fisher's F test shows that the third model contribute significantly to the predictive power of regression (Sig.F Change <0,05), i.e. each variable brings new information.

The ANOVA table contains the analysis of variance for each regression model, the analysis shows how efficient is our model for the prediction knowing the independent variables.

The regression models and the components of the variance are presented here: how much it is explained by the model (on the "REGRESSION" row), how residual it is (the "RESIDUAL" row), and the percentage of the variance that the dependable variable has (the "TOTAL" row).

Table 2. ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	351.492	1	351.492	118.272	.000
	Residual	422.008	142	2.972		
	Total	773.499	143			
2	Regression	489.444	2	244.722	121.476	.000
	Residual	284.055	141	2.015		
	Total	773.499	143			
3	Regression	615.590	3	205.197	181.924	.000
	Residual	157.909	140	1.128		
	Total	773.499	143			

a Predictors: (Constant), SAL

b Predictors: (Constant), SAL, EMPL

The results indicate that model 3 explains best the unemployment rate variable (regression=615,590 from residual=157,909).

The verification of truthfulness of the multifactorial regression model and multiple correlation ratio based on the criterion "Fisher" leads to the following conclusion: because the probability Sig. F is less than 0,05, multifactorial regression models are valid, with a significance threshold of 0,05.

Based on the obtained results in the Coefficients table we can draw up the regression equation for the 3 models with which we can predict the unemployment rate from the factorial variables.

Table 3 The Coefficients of the models

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95% Confidence Interval for B	
		B	Std. Error				Lower Bound	Upper Bound
1	(Constant)	9.949	.310		32.082	.000	9.336	10.562
	SAL	-3.521E-03	.000	-.674	-10.875	.000	-.004	-.003
2	(Constant)	33.778	2.891		11.684	.000	28.063	39.493
	SAL	-3.486E-03	.000	-.667	-13.075	.000	-.004	-.003
	EMPL	-5.322E-03	.001	-.422	-8.275	.000	-.007	-.004
3	(Constant)	26.033	2.284		11.400	.000	21.518	30.548
	SAL	-7.778E-04	.000	-.149	-2.396	.018	-.001	.000
	EMPL	-4.494E-03	.000	-.357	-9.218	.000	-.005	-.004
	IPC	.118	.011	.661	10.575	.000	.096	.140

a Dependent Variable: UR

Correlations

c Predictors: (Constant), SAL, EMPL, IPC

d Dependent Variable: UR

		UR	SAL	EMPL	IPC
Pearson Correlation	UR	1.000	-.674	-.433	.818
	SAL	-.674	1.000	.016	-.786
	EMPL	-.433	.016	1.000	-.112
	IPC	.818	-.786	-.112	1.000
Sig. (1-tailed)	UR		.000	.000	.000
	SAL	.000		.425	.000
	EMPL	.000	.425		.091
	IPC	.000	.000	.091	
N	UR	144	144	144	144
	SAL	144	144	144	144
	EMPL	144	144	144	144
	IPC	144	144	144	144

The regression equations for the 3 analysed models are presented as follows:

1. $UR = 9,949 - 3,521E-03 \text{ SAL}$
2. $UR = 33,778 - 3,486E-03 \text{ SAL} - 5,322E-03 \text{ EMPL}$

$$3. UR = 26,033-7,778E-04SAL-4,494E-03 EMPL+ 0,118 IPC$$

The "t" test applied to the non-standardized regression coefficients indicates that they are significantly different from zero for all 3 models.

After the presentation of the corresponding parameters of the models, table number 4 shows information concerning the residuals, to be more precise, the values of the dependable variable, the one that are predicted, compared with the real values.

Table 4 Residuals Statistics

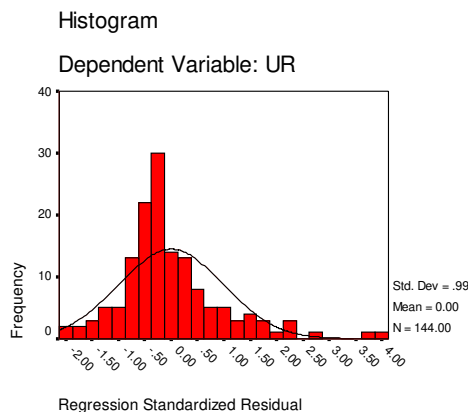
	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	4.159	12.709	6.960	2.074	144
Residual	-2.179	4.363	1.45E-14	1.050	144
Std. Predicted Value	-1.350	2.771	.000	1.000	144
Std. Residual	-2.052	4.109	.000	.989	144

a Dependent Variable: UR

The *predicted value* is the gross value forecast by the model. Using this, the average of the unemployment rate when we know the average salary, the number of the employees and the consumption price index is 6,9%, with a minimum of 4,1% and a maximum of 12,7%.

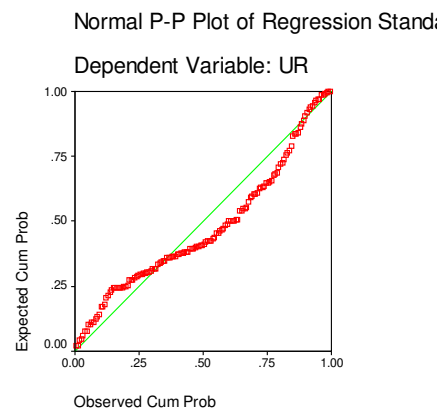
Residual shows us the deviations of our model from reality. In this way we can observe that we can deviate either in minus (forecasting an unemployment rate with 2,1% lower than in reality), either in addition (forecasting a higher unemployment rate with 4,3%). Due to the fact that the average of this residual value is very low (1,45E-14), as well as the standard deviation, we can affirm that our model forecasts the unemployment rate fairly well, with a deviation of $\pm 1,050\%$.

The histogram of the standard notes of the residuals (of the errors or deviations of the model from reality) is presented as follows:

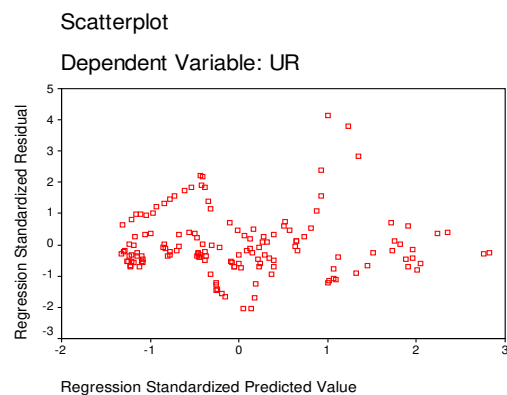


We can observe that it does not respect the normal curve, especially for the very low values, which shows that our model has problems in forecasting the small values of the unemployment rate, but it is good for forecasting the higher values.

The Normal P-P Plot presents the graph of the cumulated possibilities of the standard notes of the residuals. If they would be approximately normally distributed, they should follow the line of the cumulated percentages described by the normal curve, which is a straight line situated on the diagonal of the graph situated from the lower left to the upper right.



As our points are distributed on the above graph, we can observe that in the inferior part of the graph the point exceed the diagonal, whereas in the superior part we have the opposite tendency. This points out that for the lower values of the dependable variable; our regression model has the tendency to overestimate the reality, whereas for the higher values the tendency to underestimate the reality emerges.



The Scatter plot diagram shows that our distribution is normal (most of the values are concentrated in the centre).

3. Conclusions

The valid models presented in this paper have identified correlations on the labour market in particular that can form a basis for analysis and decision-making at both the central and local authorities, which can implement economic and political measures as well as the business and of the academics. They can guide such work according to tendencies observed can explain shortfalls in economic or social indicators can be used to predict future developments of the same indicators.

Alarming increase in unemployment levels associated with a decrease in employment will be the interest issues that require solving. In this paper we tried to systematize wide material information while conducting labour market issues in national and European level. Trying an interdisciplinary approach to the phenomenon of unemployment, the paper aims to support the theory and practice of bringing the minimum information management within the literature presented, without claiming that the subject of this thesis is exhausted.

In the analysed study case we observed that all the 3 independent variables (the average salary, the number of the employees and the IPC) can be used as predictors for the dependent variable (the unemployment rate), model 3 having the highest prediction power. Obviously, our prediction does not totally overlap the reality, deviations from it exist (of $\pm 1,050\%$) and the tendency to overestimate the lower values and to underestimate the higher values appears.

Nevertheless, our model comes with new information, its existence is more beneficial

than its nonexistence, fact that is proven by the fairly high value of the coefficient square of the multiple correlations (0,796).

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The Impact of International Migration on Labour Market

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Abstract

In the twentieth century international migration has become one of the essential factors of globalization alongside the capital mobility, technology and information. Migration has always been a part of global social change like colonization, industrialization and world wars. One of the most significant forms of international migration is labor migration. The stated goal of this form of territorial mobility is to increase social mobility by changing the individual migrant welfare state which has become an important object of study for sociologists.

Complex and of significant proportion phenomenon of the contemporary world, the international labor migration has attracted the attention of many specialists from national and international scientific organizations, governmental circles in various countries. Individually or collectively, voluntarily or forcibly, people have changed their residence within their own country or abroad, almost always connecting the migration act to achieving some aspirations regarding new opportunities and certainties.

The causes and possible solutions of international labor migration and its social and economic effects are mentioned in this article.

Keywords: globalization, labor migration, countries of origin, intelligence exodus, countries of destination.

J.E.L. classification: F22, F66, J11, J15, J21.

Introduction

Migration is not a modern phenomenon, nor has nowadays reached the highest levels, but it has also acquired new meanings thanks to modern communications and transportation. We are witnessing a polarization between rich and poor individuals, as the demand on the labor market structure has changed, fewer workers are needed for the production process due to modern technology now performing most of the tasks, while necessary force employment in the service sector has increased. Also differences between the incomes of those with higher education and those with secondary education are growing and the differences in terms of economic wealth between developed and developing countries are growing.

In countries of origin

For the country of origin, of departure, regardless of external migration, the export of human capital, of workforce in which there have been made significant investments, represents a loss of added value that would have been achieved in the country, source for sustainable economic growth. It could have been possible, because if we look at external migration reasons, we find that the market demand is not actually oriented to create new jobs for the labor force therefore directing it to areas outside the national space.

Analyzing the impact of migration on countries of origin, the focus is primarily on remittances. Economists are cautious in assessing the impact of remittances on development. Although used primarily for consumption, they also produce economic benefits being used to raise the level of education leads to increased productivity. On

short-term, the immigrant family benefits from remittances, on long-term - they may encourage other family members or friends to seek means to emigrate, not only because it provides an example of better income, but also by providing financial resources for departure. In addition to remittances, the effects of departure and returning need to be analyzed.

Contemporary migration compared to earlier periods tend to "collect the cream" in certain sectors of employment, from the most educated and highly skilled ones, causing a poor domestic economy. UNDP (United Nations Development Programme) report that only India, China, South Korea and the Philippines have lost 195000 workers with scientific training in favor of the United States, between 1985 and 1995. However, as in the nineteenth century, the main economic benefit of contemporary migration is the vice versa current, of transferring money from workers to their country of origin. Given that a significant portion of this revenue does not go through official channels, probably totals are much higher and thus exceed official development aid flows given to countries in development.

The impact of migration on unemployment was the subject for some countries' estimations. In theory, migration should reduce unemployment, and the experience of some countries in this field is confirmed. However, this is not the case in Philippines, Indonesia and other countries where emigration is caused by the economic crisis and migrants are a relatively small part of the population, in terms of high growth rates. However, migration can be a loss to the country of origin when migrants are educated and well trained, as the country loses the investments they made in their education and training, a loss that can be partly compensated only if the migrants return.

Old and new technologies have changed our lives, prospects and current migrant psychology. These changes reduced the distance between the migrant and his home. Transport and communication networks' impact is immense on migrants. Television has done more than to "open windows" into other worlds, it has always been the main factor in homogenization of societies. Nowadays, thanks to modern channels of communication and traveling cheaper and

faster, migrants are in constant contact with the country of origin. Psychologically, the migrant stays home and sometimes even physically coming and maintaining their identities in a foreign land. They represent a new type of migrants, which sometimes can not be detected; practicing seasonal work, they work for a while and then return home for a short period.

A special phenomenon is the exodus of intelligence, the exodus of the highly qualified "brains" and their families from less developed countries to the U.S., Canada, Western European countries.[1] It is estimated that 40% of American scientists who are Nobel laureates, come from outside America. Workforce from various underdeveloped countries of Asia, Africa and Latin America headed for Europe, while emigrants mainly from Latin America and less from Europe are heading to the U.S..

Migrating brain (so-called "brain drain") is considered a major issue facing many developing countries, including Romania. Most studies on the subject suggest that the phenomenon has two distinct negative effects. The argument that the brain drain harms the country of origin because it leads to loss of production that could be created if people would not emigrate, is not based on solid foundations. Although if preventing brain drain would increase production, this result does not justify blocking immigration policy. Ultimately, the welfare of society derives from a variety of elements, material wealth being only one of them. For some individuals, living in a society without restrictions, like preventing free movement of labor, can be enough to compensate a lower material wealth. For other people, the social environment in which they operate is more important than material wealth gap.[1] In other words, welfare is subjective, it depends on personal preference, not material conditions.

Temporary migration for business, employment, tourism, education and research is also an important feature of modern life. Effective management of temporary migration offers states the opportunity to guide migration to meet their needs and political priorities. However, the effects of immigration in the host country will depend on the state of the economy. For example, in Germany between 1960-1970, without

employing foreign workers, young and motivated, growth would not have been possible in the same way - at least not without a high rate of inflation, or without transferring production sector over abroad.

Here are some effects of international labor migration for countries of origin:

- positive effects: remittances in convertible currency in the country, reducing pressures from labor surplus resources and social tension, free professional training of their workforce, knowing it with its advanced forms of work organization, receiving grants and aid from recipient countries and international organizations specialized in social and economic development programs, aimed at creating new jobs.

- negative effects: economic losses as a result of reducing human potential and especially the working age population segment; losses from vocational education and training of migrants, demographic risk expressed by reducing reproductive potential of the population and the erosion of family institute, illegal immigration disables the individual of any social, political or economic law.

To stimulate a stable population in the country of origin is calling on three factors: the dynamic development of the economy, improving the life's social conditions and individual security, civil rights and political freedoms. It must take into consideration the interests, needs and possibilities of both countries of destination and of origin.

In countries of destination

For the country of destination, the host, the effects are usually net favorable. They manifest on the labor market by: contribution to reducing labor shortages, alleviate demographic aging and labor market tensions and on budgetary level, contributions to increase production, including exports, even in countries of origin.

For the worker and his family the effects are diverse, but are seen as positive. Regarding earnings, we find: an income that provides reproduction of worker's labor and his family, an income that it would not have been produced in the country; increasing savings and investment capacity either in durables or in launching their own business;

the emergence of a series of career earnings and work culture. The losses are economic and social: discrimination of treatment, compared with domestic labor, breach of the employment contract by the employer risk, tensions in relations with local labor, accommodation difficulties, reduced social protection.[3]

Supported by economists and blamed by the nationalists and conservatives, globalization is increasingly becoming a reality. Discussions about globalization rarely reached international migration. Movement of goods and capital are considered more impressive, comprising 29% of world GNP, while migrants constitute only 2.5% of world population. But if all these migrants would be a country, it would be the sixth in the world according the number of population, so an important feature of globalization is the movement of people.

International Organization for Migration (IOM) and the UN estimates the total number of people living temporarily or permanently outside their home state – at approximately 180 million. Continuous demand of highly skilled labor and unskilled one, and the difference between living standards will continue to structure the nature of migration flows.

In a number of countries, increased commerce replaces or reduces local industrial or agricultural production with cheap imports. Demographic trends and the aging of local workforce in many industrialized countries suggests that immigration will be the replacement solution. An additional argument raised by states which already turned to immigration practice "of replacement" is that migrants are more innovative, flexible and adaptable to technological change.

Demand for cheap and skilled labor in developed countries as well as in some developing countries in Asia, Latin America and Middle East remains evident in agriculture, manufacturing, constructions and also in low-paid sectors such as housekeeping, nursing home and "sex industry." The increasing demand gives migrants the opportunity to get hired relatively easy.

Research made by various international institutions show that migrants execute services that locals usually refuse.

Presence of globalization and its influence on the labor market, expands the number of services that nationals from the host country are not likely to do. Often the migrants are well-educated people who are willing to accept jobs that they would not accept in native entourage, but the wage difference justifies their interest. However foreign workforce in most developed countries is less qualified than national profile and is concentrated in the lowest socio-professional categories, characterized by high mobility in response to cyclical fluctuations in the labor market.

A more detailed picture of the economic consequences of migration for host-economies can be drawn from some qualitative considerations.

First, the impact clearly depends on the precise nature of immigration. Migrants can not be considered as a homogenous mass when evaluating their economic impact. And opposed, there will be different consequences for different groups in the host economy. In the labor market of host states, there is a significant polarization among immigrants. In many OECD countries (Organisation for Economic Cooperation and Development) a considerable percentage of foreign workers consists of highly qualified specialists, often coming from other Western countries. At the other end of the scale, immigrant workers, take jobs that are lacking safety, low-paid and elusive regulated.

Contemporary patterns of migration are broader geographically[2] than large global migrations of modern times, but in general are somewhat less intense. In this period there have been significant changes in technology and social infrastructure migrations. In terms of national engagement, Western European countries have acquired the multiethnic character so far, including important communities of non-European immigrants. For the first time Japan includes significant communities of foreigners while America turns to foreign population levels not seen since peak migration time of pre-war years. Autonomy of nation - states is redefined by the impact of legal migration from the past and continuing impact of illegal immigration. Advanced capitalist countries' ability to control their borders and to monitor population is no longer appropriate to the requirements. International

cooperation has not yet facilitated the implementation of these requirements. Moreover, the notion of "nationality" and "national identity" are renegotiated in response to contemporary patterns of global migration and cultural globalization. But in many cases the trajectory of these negotiations is far from clear.

Many developed countries have imposed restrictions and what is paradoxical is that these restrictions have been adopted by some countries supplying labor. Restrictions have not reduced the number of migrants but are putting pressure on people who want to emigrate. Labor trafficking would be lower if job seekers would have freedom to move and freedom of access to employment. Almost every country of transit or destination faces enduring hostility and violence against migrants, refugees, sometimes against students and tourists. While racism entails distinction based on physical difference, xenophobia describes attitudes, prejudices and behavior that deny, exclude people based on the perception that they are foreigners. Discrimination can occur systematically in the differentiated access to a decent place of living, lower access to education.

At first countries considered migration as a temporary phenomenon: workers and refugees could be repatriated and permanent immigrants were assumed to be assimilated. But migration has proved to be a difficult and complex process, and some of its consequences, accumulated over time, turned into a "a slow bomb". The presence of large numbers of foreigners significantly changed the political landscape of the U.S. and Europe. The main object of xenophobia in Europe at present is the Muslims, who formed the largest non-European minority in France, Germany, Britain and Belgium. Paradoxically, some immigrants are followers of xenophobia and racism against their peers from other nationalities.

A common question in the works of migration researchers is whether free trade and capital mobility may substitute labor migration. ILO (International Labour Organization) suggests that the short term development may encourage migration. In developing, structural changes in the economy creates labor mobility and increases the likelihood of immigration. When the migrant must choose between continuous

improvement of living conditions in the future as a result of free commerce and immediate improvement, even if temporary, often he chooses the latter, especially when the country's stability is questionable.

And yet, who wins and who loses as a result of migration? The cost of fruit and vegetables would increase by 60% if at their gathering would have not been recruited foreigners (sometimes illegal ones). Italian companies, especially in the northeast, insists that many of their factories should be closed if they will not be allowed to hire foreign workers. Farmers in Britain, Germany and other Western European countries, count heavily on seasonal migration. Germany, Canada, UK, Australia, including Italy and France, are following the American example, encouraging immigration of highly skilled workers, especially in information technologies.

In short, growth of developed economies, in a world where globalization is driven by competition, cannot be driven solely by domestic labor.

Here are some effects of international labor migration for countries of destination:

- positive effects: stimulating domestic products' competition as a result of reducing production costs by using cheaper labor, the multiplier effect (stimulation by foreign labor in production and employment in the country of adoption); savings that would have to be made in education and labor training (to import skilled labor); maintaining social stability by paying taxes.

- negative effects: increasing tensions in the local labor market, increasing as a consequence of increased demand on the labor market, the downward trend in labor costs; challenging national and ethnic conflicts between local people and migrants, social tensions manifested through discrimination and hatred towards immigrants; rising unemployment.

International migration flows directly affect the labor markets both in countries of origin and countries of destination. Migration can contribute to reducing unemployment in countries with surplus labor and in receiving countries can reduce labor market demand. Immigration completes the jobs in unsolicited sectors by local workers.

For example, in Belgium, 50% of miners, in the U.S. - 70% of farmers, in Switzerland

about 40% of constructions workers are foreigners. Immigration has an impact on regional labor markets. The migration ensures redistribution of labor in line with current requirements.

Entrepreneurs in recipient countries gain from immigrants' labor. They are ready to work in conditions of a lower remuneration than the remuneration standards in this country, so employers retain local workers wage increase. In several countries operates a labor market with double standards: on one takes place the purchasing of qualified local workforce and high paid, and on the other the foreign one ready to work on hard jobs, low paid. Immigration, so contributes to intensifying competition in the low-skilled labor, contributing to lower real wage for local workers categories, which increases social tensions and pressures made by these to politicians, to tighten acceptability of immigrants.

Organization for Economic Cooperation and Development concluded that there is no direct correlation between increasing number of foreigners in the country and the rising of unemployment. In countries with a large number of migrant workers, the unemployment rate does not grow or grows slowly. When migrants compensate goals in different segments of the labor market, they stimulate the local workforce to use their capabilities effectively and thus increase productivity. However, it can be argued that an alternative to immigration, especially in the low qualified one, is to increase the level of technology and do more intensive production process in terms of capital.

Conclusions

Migration has existed since ancient times, recording, however, different intensities from one historical stage to another and developing new forms. Transformation processes that workforce employment policies go through in the last years globally, through their amplitude, have characteristics closer to what we might call a revolutionary way to manage labor.

The process of economic transition and labor market changes affect also employers, causing changes in the position of the employer, they must establish new recruitment strategies. Today they look for

people who have the ability to perform a certain activity, and the potential to adapt to the new.

The economy, society, relationships are in constant transformation. If not mastered the means to adapt to new conditions, these changes can cause negative effects, imbalances (macroeconomic), both on the individual and in society.

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The Social Effects of Current Economic Crisis on the EU Labor Market

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Abstract

The labor market is the economic space in which work users are traded freely as buyers and the owners of employment resource as sellers, where labor price mechanism of free competition between economic agents adjusts the labor supply and demand. To convince how important this subject is, it is necessary to study the size of global economic inequality, since data and classifications made in the social sciences is not representing exactly the reality because they are not able to interpret situations where many families are directly or indirectly affected by the current economic crisis.

The overall impact of the financial crisis on the real economy was strongly experienced and the economy as a whole was affected by a significant slowdown in growth, which affected people, businesses and jobs.

Therefore, the current crisis has become a challenge that the social Europe can not afford to ignore if she wants to promote a 'sustainable growth'.

Keywords: economic crisis, labor market, housing bubble, recession, employment.

J.E.L. classification: F62, F66, J21, J64, J65.

Introduction

Globally, wealth concentration and inequality in income distribution is growing phenomena that have become increasingly visible in developed countries but also in the global macro-regional relations. The current economic crisis is the driving force of this process, increasing in speed and intensity, is in turn exacerbated by excessive imbalances that have severely reduced consumption.

Macroeconomic theory tends to consider unemployment the result of certain characteristics related to general economic equilibrium, turning his attention to the volume of unemployment considered an indicator of the economic situation, which helps analysts using variations on this volume and on correlations between economic variables (price/quantity) set the growth of this phenomenon, which occurs in almost all advanced capitalist countries.

Values which characterized the labor market performance in 2008, the year when the global economic crisis erupted, whose impact on the labor market is still difficult to decipher, the result of a macroeconomic framework that has changed profoundly during this year, following a route which progressively deteriorated. 2008 was therefore characterized by a significant change in the economic environment.

The objective of this paper is focused on the social effects of the current economic crisis, but also on the trends that have emerged this economic crisis and its implications on the labor market. Since the economic environment is in rapid change and most of the effects on employment are not yet known, the subject's purpose is not just presenting the global socio-economic situation based on available empirical studies, but seeks rather, according also to rapid evolution (changes) of the current context, to construct an overview of the crisis characteristics, useful for interpreting trends that will occur in future periods.

General framing of nowadays economic crisis

The current economic crisis is the result of development that took place at the international level, being important to highlight comparisons between worldwide

prevalent dynamics. Even from the early stages of the crisis, it was characterized by significant similarities in behavior in different countries, as a result of companies alike reactions to respond to a common shock. U.S. recession may end soon, thanks to the flexibility of the economy (people are used to losing their jobs and are able to adapt to another rapidly elsewhere). In Europe, however, population's flexibility is much lower and recession can be a longer and excruciating process.

The negative effects of unemployment on the social, cultural and institutional, is a priority concern of nowadays economists if we consider the variability characteristics of this phenomenon, despite the increased interdependence between different states. Thus, economists along with sociologists, psychologists and statisticians have had that to develop a greater interdisciplinary collaboration taking into consideration several social and institutional phenomena to analyze labor market.

Crisis "caused in America" has complex effects on European economies, so that European officials blame U.S. for externalities supported by their own economies, despite the excesses that took place around the world, without excesses embodied in current regulations, government distortions and poor supervision. When "real estate bubble" exploded, European leaders refused to believe that the EU is facing a problem of economic downturn. The initial ignorance that they have manifested vis-a-vis the international financial system crisis, they postponed a reaction that had to occur earlier to combat the unwanted effects that prolonged depression might have on consumers and on the countries that have integrated capital markets.

Romania, for example, suffered a crisis induced by the evolution of the international framework, but also because it was among the countries that have experienced one of the largest reductions in GDP. To a large extent, it was found that the global economic downturn coincided with the state of weakness in our country. European labor market response to the crisis was not very dramatic in the initial phase, the consequences of the recession on labor market performance is much worse in the

U.S. than in Europe, where the greatest losses occurred in Spain.

The first phase of the crisis was characterized primarily by a reduction in productivity. Regarding unemployment it can be seen a difference in results between different countries, with a significant increase in Spain in comparison with developments in euro zone economies.

The evolution of the international crisis and its social impact

The financial crisis that exploded in September 2008 marked a discontinuity in the behavior of international operators even if the world economy began a few quarters before to manifest symptoms of weakness after two years of expansion. International cycle reaches its peak actually in the second half of 2007, long before the collapse of financial markets in the last months of 2008.

The reverse explanation of the economic cycle has a double justification: on the one hand the first signs of crisis in finance, highlighted by tensions arising on the interbank credit market since the summer of 2007 and on the other hand the increased product market commodities prices, especially of the food and energy followed by accelerating international inflation that took place in early 2008.

It can be said therefore that the international economy has come to "meet" the recession that has been already weakened by a period that lasted more than a year, when they began to notice signs of minor opportunities to accede to credits while global demand felt the effects of an increase in commodity prices.

The interest price was actually focused on quantifying the losses of international financial institutions since the 2nd half of 2007. The evaluation of this loss was continuously represented during 2008, so that collected data package were able to solve the inherent problems in this asset class, which is currently addressed as the toxic Assets. In this context all the prerequisites for a prolonged phase of the difficulties concerning the conditions of accession to private sector loans were already targeted since 2007 for supporting the operation of the credit market.

After the bankruptcy of Lehman Brothers we assist to a general repositioning of the hazard ratio for unit-holders. The stock market collapse that occurs at the end of 2008 is an important aspect, not only an indicator of the severity of the crisis, at least in terms of perception on the financial market, as well as media factor, because it is a promoter element of the crisis in very fast time, of all the economic subjects.

The resentment of gravity of the crisis was distributed immediately among economic operations resonance, effect due to the events from the financial markets. It is understood that the end of 2008 the reliable clues of the companies and of the consumers from the best part of the countries have experienced repeated collapse.

The repeated response of the companies to the uncertainty transmitted by the information on the crisis quickly fell to a postponement of investment plans and decisions to minimize the quantities produced, in order to reduce stock levels held in storage and at the same time significant reductions the end of the year, the demand for automobiles. Over several months we could notice the reduced production levels given in all major countries, so that we can characterize the crisis as the worst after the Second World War.

The phase in which monetary policy fails to be fully effective it requires the proper use of the fiscal policies to counter the decline in the aggregate demand. In the months following the outbreak of the crisis in many countries they have announced measures to stimulate the economy through fiscal policies.

The global economic crisis led to a "dramatic increase" of the number of those who have lost their jobs and those with low wages, as estimated ILO Global Employment Trends 2010 report. By geographical areas, the unemployment rate in 2009, compared with 2008, according to IOM has registered the highest growth in the world just in the EU, especially in the more developed Member States.

The first social effects of the economic crisis on the labor market in the Euro zone

The disruptive effects of the crisis on the production levels influenced the evolution of

labor demand with difficult quantify results. An initial examination highlights how the European labor market in early 2008 did not report significant job losses. Maintaining the employment levels in 2008 is evident if faced with disappointing performance in terms of growth and does not constitute a specific feature for our country since a similar development took place in Italy, France and Germany, in contrast the cycle labor demand immediately reversed the upward trend in Spain, where they reported significant job losses.

In late of 2008 and early months of 2009 the decreased number of jobs was insignificant except in Spain where job losses widened further.

In Italy, in the 4th quarter of 2008 there was a slight decrease in employment (-0.5% from the previous quarter), lower if it is observed that in the same quarter GDP suffered a greater loss of 2%. In early 2009 the decline was moderate (-0.8%) compared with a reduction of 2.5% GDP.

Throughout the euro area the number of employees decreased in the 4th quarter of 2008 from -0.3% to -0.8% in early 2009. The maintaining employment was recorded in France and Spain Germany while the number of employees decreased from -1.6% in the 4th quarter of 2008 to -3.5% in the first quarter of 2009.

The decline of labor market after the recession episode was distributed heterogeneous not only between different sectors, but also between different categories of employees. The effects of the recession on various segments of the labor market (in terms of age, employment contract or skills) clearly depend on the structure of the industry sector and exposure to different sectors to negative situation created by this crisis. In the same structure the role of the indefinite time contracts contribute significantly to explain different labor market responses. Employees on fixed-term contracts do not benefit from the protection offered to "permanent" contracts for an indefinite time being affected disproportionately by adjustment employment in the euro area workforce. Before the recession, this type of contracts registered a constant increase reaching at the middle of 2007 to 17% of the total. The effects of the financial market turmoil began

to feel over the euro area economies, companies could quickly respond by reducing the number and renewing these types of contracts. Between the end of 2007 and the beginning of 2009 the number of limited-time employees has been reduced significantly especially in Spain. During the recession, there have been a number of adjustments on the labor market by using information at company level.

The fragility of economies from Central and Eastern European countries and the social effects of the global economic crisis

Following a comparative analysis between labor markets in Romania, Hungary and Poland we can find many similarities between the three segments. Latest data indicate more clearly that the labor market in Hungary and Poland is being restored, while ours continues to be dominated by uncertainty.

Human resources specialists from those three countries show the possible causes for which Romania is lagging behind. At this point, the most popular specializations from the mentioned areas are in IT/technical, financial and sales/marketing. Also, the time for identifying a good candidate for a position is approximately equal in all those three countries. Differences appear in the case of payments, Romania started from the beginning with the disability of the minimum salary ours barely reaches 153 euro/month, while in Hungary is 270 euros and in Poland - 281 euros.

Interesting are also the job offers received by executives. In Romania, the gross income of a person with such a position varies between 3,000 and 5,000 euros, at this amount adding car, mobile phone, laptop and the financial quarterly or annual bonuses. In Hungary, an employee with a similar responsibility is paid for with a gross monthly income ranging between 4,000 and 8,000 euros/month plus car, laptop, mobile, daily food allowance and bonuses. In Poland, the remuneration level for executives is only 2500-4000 gross euros/month.

While Poland has faced this crisis rather well the other countries recorded a significant reduction in GDP and Baltic countries being in recession before the bankruptcy of

Lehman Brothers suffered a much stronger reduction in GDP.

Poland was the only country which recorded a positive growth of GDP in 2009, when Romania and Bulgaria have experienced with the largest reductions in GDP. Latvia, Bulgaria and Romania had to request international financial support provided by the EU and IMF.

Cyclical differences between countries were reported before the crisis, for example in Bulgaria, Romania and the Czech Republic's GDP growth in 2008 (maintained in the last quarter) turned negative in the first quarter of 2009.

Regarding the labor market, it is more flexible in the Baltic countries, companies acting quickly to crisis effects by cutting wages and dismissal of employees especially in the construction sector where were a large number of temporary employees.

Joining EU the countries of Central and Eastern Europe was foreshadowed a optimal opportunity, and even so it was for several years, but today, triggering global economic crisis has made these countries to face a very difficult period. The economic boom with growth rates which was not being imagined by old Europe, no longer exists, and after the rapid increase followed the fall of the iron curtain, the young democracy accompanied by the current crisis slipped into a deep recession.

Unexpected events such as: the devaluation of national currencies against the euro, reducing the liquidities, public deficits and trade balances in red continue to grow strongly affected the economic and social context of these countries, which led to international institutions (IMF, Bank World EU) to intervene in helping these fragile economies.

Conclusions

There are many variations to explain the significant differences between countries which are not in the euro area and the U.S. on facing the current crisis and for answers to its economic and social policies. Accumulation of imbalances before the crisis explosion had an important role in determining the existing national differences. Countries with the most obvious signs of recovery in the economy and more

accentuated imbalances have proved more vulnerable to the crisis, feeling it in a much greater extent. The crisis had various effects on different countries, depending on the existing macroeconomic policies before and after the crisis. By doing a summary of the most important social effects caused by the global economic crisis, which is affecting and will affect the economic and social context of the EU countries, especially in Central and Eastern Europe (where our country is also located), it can be seen they are not to be ignored, on the contrary, should provoke the interest of society as a whole, in order to prevent or attenuate as much as is possible. The worst effects of the crisis seem to be: social tensions (which will continue in a much more powerful manner) triggered by poverty of increasingly large masses of the population, fears for losing their jobs following the reduction employment by force work, increasing the number of families in desperate financial situations, paralysis of consumer credit financing, the effects produced by workforce mobility (return of migrants due to the crisis and reduce the number of workers from the foreign countries/abroad). It is known that sociologists study people without jobs, and economists study the phenomenon of unemployment. The first does not wonders why there are unemployed, but how they feel and how they react in a such situation, while the economists are concerned in determining the cause of the unemployment phenomenon, why it grows or reduces. The answer to this question and the solutions to solve this problem accentuated by current crisis can be found during the study of this work.

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A More Competitive Romania by Rising Performance and Economic Growth

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Abstract

The increase of competitiveness must not be regarded as a process of exploiting the advantages on a short term but as a process of creating an economic structure based on capital investments and research-development –innovation processes. The governments in transition economies can play an important role in active facilitation of cluster development processes and supporting entrepreneurial initiatives. The challenge today for the governments is not to create more clusters but rather to create better and more sustainable ones or to create competitiveness clusters/competitiveness poles. The paper proposes to present a brief image about Romanian competitiveness and the benefits of stimulating clusters/competitiveness clusters for increasing economic growth. The stimulation of the dynamism and internationalization of the entrepreneurial basis represents a key means of developing a prosperous economy and answering the challenges and opportunities of a globalized market.

Key words: competitiveness, performance, growth

J.E.L. classification: M21, O16

1. Introduction

The most recent researches made at the European Union level go more thoroughly into the territoriality element emphasizing the role of towns and urban areas in general, as main sources of economic competitiveness. Therefore a conclusion has been drawn that the competitiveness classical theories, namely, Adam Smith’s “Absolute Advantage Theory”, David Ricardo’s “Comparative Advantage Theory” and even Heckscher-Ohlin-Samuelson (HOS)’s “Production

Factor Endowment Theory” are no longer able to answer the new specific matters. Hence, competitiveness modern theories have appeared, among which Michael Porter’s “Competitive Advantage Theory” (1998) distinguishes itself and suggests that the obtaining of such an advantage does not lie only in factors or natural resources endowment but also in investment and capital creation efforts and the quality of these efforts stands before their quantity. Therefore, countries with poorer production factors endowment can find key branches to stimulate investments and innovations, investing in infrastructure, research-development and creation of high qualified labor supply. This task is mainly attributable to companies but the government can help with its fulfillment by creating a favorable business environment and an investment climate in order to encourage the firms to specialized and become world leaders.

The emphasized globalization phenomenon and the increase of competitiveness at national, European and international level imposed the necessity of belonging to innovative clusters for SMEs not only as a real advantage for them. Access to research findings in order to implement them in production and realization of innovative products using advanced technologies but also the adoption of common development strategies starting with the cooperation in production, acquisitions of advanced technology and equipment are just some of the benefits offered by these forms of organization which aim the development and the sustainability of some competitive advantages on national and international markets.

2. A brief image about Romanian performance

Romania is a rapidly emerging economy

with a rich history and culture. It has a geostrategic location in South-Eastern Europe, and given its access to the Black Sea and the River Danube, it is a natural hub for commerce, transportation and logistics. With a 2011 GDP of \$263.9 billion (in PPP) and a \$12,300 per capita GDP (in PPP), Romania is the 49th largest economy in the world and the 13th largest economy in European Union. However, with a GDP per capita of only 46% of the average EU GDP per capita, Romania is the second-poorest country in the EU after Bulgaria. Being the largest EU member in South-Eastern Europe, Romania has the potential to become an important player in the region.

GDP Growth. Romania has experienced a volatile economic performance since the fall of communism in 1989. There have been three periods of negative economic growth: in the early 1990s, in the late 1990s when the first major reforms began to be implemented, and in 2009, when the global financial and economic crisis hit Romania, leading to decline of 8.5% in GDP. Although the trend has been reversed in 2010, positive GDP growth has been less than 1% and remains feeble to this day.

Economic declines were caused by both domestic economic reforms and external shocks that occurred as a result of capital markets liberalization and the recent global financial and economic crisis. However, since 2001, the country has pursued fiscal austerity, price stability and structural reforms that allowed for increased macroeconomic stability. These include considerable austerity reforms implemented in 2010, which reduced public sector wages by 25% across the board, as well as public pensions by 15%, in an effort to reduce the large budget deficit.

Structure of the Economy. The Romanian economy has seen a significant change in its sectoral mix since the early 1990s, with both agriculture and industry declining significantly in terms of their contribution to GDP. Indeed, as illustrated in Figure 4a, agriculture's value added as a percentage of GDP has declined from 23% in 1990 to just over 7% by 2010, and industry's from 50% in 1990 to 26% by 2010. Conversely, the contribution of services to GDP has increased from 26% to over 66% over that period.

Moreover, the contribution of various industries in terms of value added within the manufacturing sector has also changed over the past 20 years: textiles and clothing has declined from around 18% to 11.5%; food, beverages and tobacco has been rather volatile, increasing from 19% in 1990 to 35% in 1997 and then declining to 16% by 2008; machinery and transport equipment has declined from 24% in 1990 to a low of 13% in 2000, but it has rebounded since to approximately 24% by 2008; last, but not least, chemicals has remained fairly constant throughout the period at 5%.

Current Account. As Figure 3 shows, Romania has been consistently experiencing current account deficits between 1991 and 2010, averaging -6.3% of GDP (and -7.2% of GDP between 2000 and 2010). Although Romania's exports have generally increased as a share of GDP, the demand for imports has increased even more in virtually each year between 1991 and 2010.

According to Romania's National Institute of Statistics⁵, in 2010, Romania's main exports consisted of machinery and mechanical devices, electric appliances and equipment (27% of total), transportation vehicles (14.5%), metallurgical products (12.2%), textiles, ready-made clothes and footwear (11.8%), chemical products and plastics (10.5%), agro-food products (8.4%), mineral products (5.9%) and other products such as furniture and construction materials (9.7%). Similarly, the country's main imports included machinery and mechanical devices, electric appliances and equipment (26.9%), chemical products and plastics (17.4%), mineral products (12.2%), metallurgical products (11.5%), textiles, ready-made clothes and footwear (9.0%), agro-food products (8.1%), transport vehicles (7.6%) and other products such as furniture and construction materials (7.3%). Most of Romania's international trade takes place with EU and other European countries, although countries such as China and Russia are also important trade partners, particularly in terms of imports.

Foreign Direct Investment. Romania has enjoyed considerable foreign direct investment (FDI), with net inflows of over \$61 billion between 2000 and 2010, as illustrated by Figure 6a. Naturally, the global crisis has severely impacted FDI inflows into

Romania: if 2008 saw almost \$14 billion in inward FDI, in 2009 this had declined by 65% to \$4.8 billion, and 2010 a further decline of almost 30% to \$3.5 billion. Even with this decline, Romania has remained a top destination for FDI. Indeed, Romania was ranked 10th in the world in the 2010 IBM Global Location Trends Report, based on the number of jobs FDI was expected to create. Moreover, at the end of 2010, over 171,000 companies with foreign capital were operating in Romania, according to the Romanian Registry of Commerce. The majority of the companies with international capital (63%) are manufacturing, financial services and insurance, and wholesale and retail trade sectors. The rest are in construction and real estate, energy, IT&C. In terms of source of FDI, Romania has attracted the highest amount of FDI from EU member countries (Netherlands, Austria, Germany, France, Greece), Switzerland and the United States.

3. Current Stage of Romanian Competitiveness

Romania aims to become a high added value generating economy which should bring substantial benefits to the investors and employees. The engine of this evolution is the increase of the productivity by investments in the productive capital, equipment and technologies and the human capital too. The stimulation of the dynamism and internationalization of the entrepreneurial basis represents a key means of developing a prosperous economy and answering the challenges and opportunities of a globalized market. Romania will promote the transition towards a knowledge economy and will try to get an as high as possible position on the added value scale.

Development of competitive economic advantages must be a constant process that takes into account European trends, but also by globalization in general. Therefore, the increase of competitiveness must not be regarded as a process of exploiting the advantages on a short term (such as the reduced cost of the labor force) but as a process of creating an economic structure based on capital investments and research-development –innovation processes. In other words, the outlining of a medium and long

term convergence perspective must have in view the development of an economy based on knowledge. Although great progress has been made lately, Romania has serious discrepancies regarding competitiveness in relation to the states of the West and Central Europe. The reasons of this lagging behind can be found at the level of all the elements that determine the competitive capacity. All can be translated finally in a decreased productivity which defines the competitiveness matter in Romania.

In the spatial context, the economic competitiveness is determined by: the involvement of the urban centers in the creative and innovative turning into account of the national potential that should create an hierarchical system of development areas/poles by concentrating a combination of competitive products and services or with chances to become competitive (IT, financial services, creative industries, environment services, customized services, tourism etc.) at the same time with the development of accessibility, of the education and research-innovation resources, of the business infrastructure, the quality of the environment and life;- the creation of an integrated national potential accessibility system and establishing interconnections among the elements of the polycentric system; - the use of the research- innovation potential , especially the one of the university centers which become the promoters of the innovative activity in this way and which offer multiple opportunities and chances for the professional development as factor for the stabilization of the local labor force and attraction of the highly qualified labor force; the development and promotion of the tourism by turning the natural and cultural patrimony to account as well as the perspective concentrated on the natural and cultural landscape. Also the touristic development will follow the national territory arrangement plan (the tourism section) aiming at the creative administration of the natural landscapes and the rural cultural patrimony; the creation of scale superior connections at the territorial level by stimulating the appearance and consolidation of the economic clusters.

Romania's competitive strengths:

1. Tariff barriers;
2. Firing costs;

3. Legal rights index;
4. Time required to start a business;
5. Number of procedures required to start a business.

Romania's competitive weaknesses:

1. Quality of roads;
2. Transparency of government policymaking;
3. Quality of overall infrastructure;
4. Agricultural policy costs;
5. Extent and effect of taxation / Rigidity of Employment.

Romania has been ranked 77 (fig. 1) out of 142 countries in the 2011-2012 Global Competitiveness Index Report issued by the World Economic Forum (WEF). Romania lost 10 positions from the previous report. According to WEF, competitiveness is defined as the set of institutions, policies, and factors that determine the level of productivity of a country.



Fig.1 Romanian Competitiveness 2011-2012

Source: World Economic Forum – The Global Competitiveness Index Report 2011-2012

The most problematic factors for doing business in Romania are as follows: 15.5 percent consider tax rates to be an issue. In addition, 13 percent mentioned the inefficient government bureaucracy, while 11.9 percent blamed policy instability for hampering the businesses. Access to financing is a problem for 10.8 percent of respondents, while corruption is regarded as problematic by 9.7 percent of respondents. The least problematic factors are crime and theft, and poor public health, each with 0.5 percent.

With respect to the detailed structure of the Global Competitiveness Index, Romania is an underachiever in the transparency of government policymaking (ranked 140 out of 142 countries), quality of overall infrastructure ranked 139, the extent and

effect of taxation ranked 135. Other pillars where Romania reports negative results are the cooperation in labor-employer relations ranked 137, the brain drain process ranked 131, while the availability of latest technologies was ranked 115.

On the positive side, Romania is ranked 4 in trade tariffs and 15 in redundancy costs. Other top 50 rankings are achieved for broadband internet and mobile subscriptions, the quality of math and science educations and the tertiary education enrollment rate. Romania is ranked 34 for the number of procedures to start a business and 40 for the number of days to start a business.

Romania aims to become a high added value generating economy which should bring substantial benefits to the investors and employees. The engine of this evolution is the increase of the productivity by investments in the productive capital, equipment and technologies and the human capital too. The stimulation of the dynamism and internationalization of the entrepreneurial basis represents a key means of developing a prosperous economy and answering the challenges and opportunities of a globalized market. Romania will promote the transition towards a knowledge economy and will try to get an as high as possible position on the added value scale.

As a member state of the European Union, Romania has received support to promote economic growth and social cohesion. National Development Plan represented a strategic planning document to guide and stimulate socio-economic development of Romania in accordance with EU development policies. The overall objective of the NDP, which aimed to reduce socio-economic disparities towards the EU was supported by three specific objectives:

- Increasing the long term competitiveness of the Romanian economy;
- Develop the basic infrastructure to European standards;
- Improved and more efficient use of local human capital.

In reaching the overall and specific objectives for 2007-2013, measures and actions envisaged were grouped in six national development priorities:

- ✓ increase economic competitiveness

and development of the knowledge economy;

- ✓ development and modernization of transport infrastructure;
- ✓ protect and improve the environment;
- ✓ human resources development, employment and social inclusion and strengthening administrative capacity;
- ✓ development of rural economy and increasing productivity in the agricultural sector;
- ✓ decrease disparities between regions.

The increase of the economic competitiveness is the key factor in determining the economic growth under the conditions of a full entering on a market marked by powerful competition forces. Besides, the development of the competitive economic advantages must be a constant process that should take into account the European tendencies and the globalization process as a whole. Therefore, the increase of competitiveness must not be regarded as a process of exploiting the advantages on a short term (such as the reduced cost of the labor force) but as a process of creating an economic structure based on capital investments and research-development – innovation processes. In other words, the outlining of a medium and long term convergence perspective must have in view the development of an economy based on knowledge. Although great progress has been made lately, Romania has serious discrepancies regarding competitiveness in relation to the states of the West and Central

Europe. The reasons of this lagging behind can be found at the level of all the elements that determine the competitive capacity. All can be translated finally in a decreased productivity which defines the competitiveness matter in Romania.

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Tourism Promotion in the Protected Areas-the Way of Slowing Down the Economic Crisis

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Abstract

Our country is characterized by high levels of biodiversity, both in terms of number of species and habitats and the ecosystems they form. In terms of natural protected areas, they are diverse from a typical point of view but also the content. Romania has the most diverse and valuable natural heritage in Europe and it is in a good conservation. Tourism in natural protected areas in our country has much more negative effects than positive ones. The permissive legislation and the inefficient administration of these areas contribute to this phenomenon.

Key words: national parks, natural parks, preservation, biodiversity, natural heritage

J.E.L. classification: L83, Q20, Q57

1. Introduction

A special place in the structure of a sustainable tourism is occupied by protected areas. Travel in these areas integrate a larger range, nature tourism, with numerous common elements of this perspective with the ecotourism, rural tourism, green tourism, adventure tourism and more.

In fact, the interdependence of these forms has made often and/ or numerous authors to address a report saying vice versa, in our opinion argued that the ecotourism, rural tourism, the green or adventure one are ways to spend holidays inside the protected areas. Of course, this vision must be accepted in connection with the areas designated a protected area. As by definition, mild environment, with nature, these forms can be applied without reservation or peripheral buffer zones of protected areas.

2. Travelling in protected areas

Great interest in visiting natural areas, mainly in protected areas is determined by the action of **specific factors**, the emergence of life changes in population, consumer behavior. Between them it must be mentioned:

- Tourists today are more numerous than those of yesterday, in the case of those who wish to participate in recreational activities, sports or evocative of adventure and want to become familiar with the history, culture and natural environment specific regions visited. Tourists today are physically and intellectually more active than the ones in past;
- There are now many forms of particular interest centers on the individual's nature and wildlife, historic sites, economic and professional activities, cultural;
- There is an increase in tourism that draws visitors' wishes to know the areas where their ancestors lived. The ecotourism, the cultural tourism and the adventurous one know also a rapid growth.
- A growing number of people are looking for destinations, tourist areas and novel products. Therefore, the opportunities to develop new areas or developing the existing one abound;
- Much stronger than in the past, tourists are concerned about the environment and society. That's why they come back with pleasure and regularity in well-organized and less polluted areas, avoiding destinations where there are ecological and social problems;
- Highlighting the tourism often encourage the environmental preservation activities, historical sites and traditions.

Therefore, the controlled ecotourism promoted to justify and serve the purposes of preservation;

- The increase of the educational level and with it the respect for nature, to the values of culture and civilization in general, a higher level of education translates into increased demand for tourism, for outdoor activities correlated with the concern of learning during the journey and to acquire new knowledge and experiences;
- Changing the population structure by age groups to increase the share of third age; the previsions of the World Health Organization show a 22.1% share of the world population of more than 60 years in 2050 and an increase in their 28.1% in 2100. Extrapolating current behaviors can appreciate an increase in the number of passengers in nature, the demand for recreational activities such as hiking, wildlife observation, fishing, nature study etc., and interest in less crowded destinations and more comfortable accommodation units and catering;
- Increasing the duration of leisure time and changes within its distribution, in particular, the fragmentation of time spent for holidays in several periods, which favors the traveling for leisure, peace and comfort. However, the increasing life expectancy allows a concentration of free time after the age of 60 years, associated with the behavioral changes caused by natural wear of the body and stimulates travel in nature;
- The increase of revenues; beyond the positive impact on tourism in general, the increase revenues encourage long-distance travel, allowing access to areas where a system of fees (parks, reservations etc.) and encourage the demand for a high level of comfort and quality service. In this context it should be mentioned the diversification options for destinations and/or forms of more unusual vacation travel for remote destinations, active rest and relaxation methods, all resulting in an increased demand for the protected areas;
- The increase of the social and environmental concerns. The worldwide population is more and more concerned about the social injustice and the

environmental issues. There is an increased concern regarding the need of low impact activities on the environment; people are increasingly involved in supporting the conservation and the development initiatives of local communities. There is also a shift of emphasis towards less resource activities with low environmental impact. All this leads to an increased interest in forms of sustainable tourism. The protected areas represent ideal places for the protection and conservation of natural and anthropogenic environment;

- The increase of labor demand determines the necessity to reconstruct the physical and intellectual capacity of the population;
- The increase of the training level of the population determines a reorientation of the hierarchy, seen in terms of a stringent need.

To these factors we can add many others, general or specific ones to an area, affecting the tourism in general or the protected areas. Given their action, we can anticipate a positive development of tourism in protected areas and an increase in the interest of such travel. Obviously, **the quantitative developments** will be accompanied by a series of qualitative changes. The most important may be nominated:

- the increased demand for tourism in protected areas, motivated by the role of these areas in the conservation of natural ecosystems in most countries of the world;
- the diversification of the offer, starting from the fact that the protected areas offer numerous opportunities to spend the holidays, responding to more and more varied needs;
- improve the services offered both in terms of content of holidays and also comfort;
- the active participation, motivated by the need for involvement in the conservation, awareness and promotion of protected areas;
- the promotion of the environmental impact forms (the ecotourism, rural tourism, green tourism, etc.) and the activities with an educational role.

In addition to these general or particular trends, there can be others, specific to each geographical area, country, region or type of habitat.

3. Natural protected areas from Romania

Romania is characterized by a **high level of biodiversity**, manifested both in terms of number of species, habitats and ecosystems that they form.

The natural and semi-natural ecosystems cover 47% of the country. There were identified and characterized 783 types of habitats (13 coastal habitats, 143 specific to humid areas, 196 habitats specific to pastures and hay fields, 206 forest habitats, 90 specific habitats of dunes and rocky areas and 135 farmland habitats) in 261 areas analyzed through the country.

Habitats in Romania are characterized by a specific composition of flora and fauna components and are influenced by different biocenoses or edaphic and climate factors. The influences of the arid climate from the east part and to the ocean in the west of the country and the climate differences between the plain and mountain relief imposed by altitude, have led to a large number of habitats. Another factor that determines the wide variety of habitats in Romania is represented by the chemical composition of rocks in the substrate (soil, subsoil).

Romania's territory includes in a relatively equal proportion, the three geographical units – plains, hills and mountains, with a great diversity of climatic and hydrological conditions which differentiates a number of about 52 eco-regions with a variety of terrestrial and aquatic ecosystems – specific to coastal and littoral areas of the Black Sea, grasslands, hills, mountains, lakes, streams and meadows, the dry or humid areas, including the ones specific to the Danube Delta. Our country has a unique natural heritage composed of the Carpathians (65% of cross-Carpathian region), as well as one of the most important humid areas in Europe – the Danube Delta (the second largest in Europe). It should be noted that Romania holds 30% of carnivore species in Europe and also about 300 000 ha of virgin forests.

Regarding **the natural protected areas**, among the Member States of the European

Union, Romania has the largest bio-geographical diversity (five of the 11 European bio-geographical regions, such as Alpine, Continental, Pannonia and the Black Sea steppe), this being mostly in a good conservation status. Also, due to the geographical position of Romania, flora and fauna have Asian influences from the north, the Mediterranean and southern European continental components from the north-west.

Table 1. The natural protected areas from Romania, during the period 2010-2011

Categories of natural protected areas	2010	2011	Percentage in the total level of the year 2011
	-number-		(%)
Scientific reservations	79	64	4,16
National parks	13	13	0,84
Monuments of nature	230	206	13,39
Natural reservations	661	699	45,42
Natural parks	14	15	0,97
Reservations of biosphere	3	3	0,19
Wetlands of international importance	5	8	0,52
Special areas of protected birds	108	148	9,62
Sites of international importance	273	383	24,89
TOTAL	1386	1539	100

Source: Romania in numbers 2011, National Institute of Statistics, Bucharest, 2011; The National Report of the State of the Environment for 2011, The Ministry of Environment, The National Environmental Protection Agency, Bucharest, 2012

Although in 2011 there was an increase of 153 in the number of nationally protected areas, compared to 2010, the largest increase in the recent years, the authorities in the field do not make an effort in protecting and preserving the natural potential exception only in the last year building roads crossing various protected areas and bringing serious damage to the flora and fauna in these areas. The greatest increase was the number of sites of international importance, from 273 in 2010 to 383 in 2011.

Other positive developments are seen in the natural reserves (+38 areas), wetlands of international importance (three areas), Special Protection Areas (+40 areas). Negative developments can be identified for scientific reserves (-15 areas) and natural monuments (-24 areas).

The declaration of the new natural park Cefa (lies on the border with Hungary and Romania and has 5003,80 ha), its importance and value of the existing resources within its territory, is a step in the preservation of natural areas in our country.

Table 2. The surface of natural protected areas from Romanian during the period 2010-2011

Categories of natural protected areas	2010	2011	Percentage in the total level of the year 2011
	Surface –ha–		
Scientific reservations	310536	218145	1,99
National parks	316271	319495	2,95
Monuments of nature	84448	15406	0,15
Natural reservations	273056	346933	3,19
Natural parks	763894	772803	7,12
Reservations of biosphere	664446	664446	6,11
Wetlands of international importance	616571	680858	6,27
Special areas of protected birds	2988713	3694394	34,00
Sites of international importance	3284092	4152152	38,22
TOTAL	9302027	10864632	100

Source: Romania in numbers 2011, National Institute of Statistics, Bucharest, 2011; Raport național privind starea mediului pentru anul 2011, Ministerul Mediului și Pădurilor, Agenția Națională pentru Protecția Mediului, București, 2012

In terms of Occupied Areas, the Natural Protected Areas in Romania registered an increasing trend with 1562605 ha during the analyzed period, the largest being the sites of Community Importance (4152152 ha) and Bird Special Protection Areas (3694394 ha).

The Natural monuments are occupying the smallest area (15406 ha) as they are represented by species of flora and fauna mainly, such as the chamois, garofita Pietrei Craiului, Edelweiss etc..

Of the three Reservations of Biosphere from Romania, the Danube Delta occupies 580000 ha (declared in 1990) and is in direct coordination of the Ministry of Environment. Retezat occupies 38 047 ha (declared in 1979) and Pietrosul Mare (Rodnei) - 47304 ha (declared in 1979). These latter two are considered national parks in terms of surface as they fit in this category also. It should be noted that the surface of Rodna and Retezat national parks coincides with the reservation of biosphere.

Of the 13 national parks, Domogled-Cerna Valley has the highest percentage (19,35%) of the total concerning the occupied area, followed by Rodna Mountains (14,93%) and Retezat (12,05%). The lowest share belongs to the National Park Buila-Vânturarița (1,42%). Romsilva is the administrator of 12 from the 13 national parks.

National parks Domogled- Cerna Valley and Buila-Vânturarița are in opposite poles concerning the surface, respective 61190 ha and 4491 ha.

Of the 15 declared natural parks in Romania, Maramures Mountains has the highest percentage (17,47%) in terms of area occupied, followed by the Iron Gates (16,78%) and the Geopark Mehedinți Plateau (13,94%). Romsilva is the administrator of 11 from 15 natural parks of the country.

Maramureș Mountains have supremacy in terms of area occupied by natural parks in Romania, 133419 ha. Meanwhile, Cefa is the smallest natural park from Romania, with a surface of 5003 ha.

Also, Romsilva has in his custody, through Forest Reservations, over 200 natural monuments in forests.

4. The current state of tourism development in the protected areas of Romania

In general, *the landscape is in a good state of preservation*, being altered in some areas by human activities such as deforestation, motorized access in scientific reservations, and poaching, grazing and intensive construction of holiday homes. To these interventions it is added the mentality of Romanian people against the concept of protected area, the type of behavior to be taken when traveling inside a national park, the attitude towards ownership of land

located within a national park. Even if the land is owned by local people in the scientific reservations, they do not understand, being educated in this regard to work towards protecting the biodiversity, the sense of ownership is much stronger than the conservation and transmission in its current form the tourism resources in these areas. One reason may be the communist area when the ownership was dispossessed for a long time and therefore this feeling increased. However, the lack of public awareness campaigns regarding the impact of their actions on the environment causes such behavior. Analyzing the conflicts in natural protected areas of our country, we see the predominance of poaching with major effects on the number of chamois copies and motorized access and camping areas for tourists, illegal dumping of garbage in the scientific reservations. Solving these problems requires significant financial resources to control and prevent such actions, for the reconstruction of affected areas such as the dumps are stored, the presence of rangers in the key points on the trails, installing multiple boards in high traffic areas of tourists, because most of them were destructed. Finally, the application of the existing legislation on the environmental protection may reduce the number of offences in the mountains of Romania.

That part of the total national parks and natural pasture which is represented in terms of ownership, belonging to municipalities, arises major disputes in this area such as deforestation, building approvals data for various holiday homes even inside or on the edge of the park, construction of roads inside the park etc. These pastures belong to local communities, the resident population using them for grazing animals in summer. To avoid the intensive use of these natural resources, we must find alternatives for local communities to obtain revenues.

In the Management plans of protected areas, even if it states that hunting and fishing are prohibited, although there were found poaching actions, the consequence being the reduction of the number of valuable species, threatened or endangered species and even with extinction, which is requiring actions for repopulation. To this state also contributed the large number of dogs from the sheepfolds in the area. In addition, it was

reported the construction of numerous roads by illegal poachers, sometimes in areas of scientific research reserves, which prohibited any activity, much less the construction of access roads used by locals and tourists to access the sightseeing in the park or pasturing, for walks on weekends or even for different enduro competitions. All these vehicles bring serious damage to the flora and fauna in the park, pollution (gas, waste, fireplaces, intensive collection of flora etc.) resulting with irreversible effects on the biodiversity.

Also, the natural parks and natural caves are often destroyed in order to extract „mine flowers” and turning them into commercial objects. To all these it is added the household garbage dumped at the edge of glacial lakes and sheepfolds located near the rivers, gathering berries, herbs, muscles and mushrooms.

5. Conclusions

In order to mitigate the negative effects of human actions on the protected areas from Romania, there are required some actions, such as the involvement of volunteers in the management of protected areas in Europe, providing an alternative education and helping to improve the access to those who, regardless of age, acquire new skills in the field of nature protection. There is a need to improve the infrastructure in these parks by building visitor centers and information points, installation of information boards. Also, several initiatives were undertaken in schools close to national and natural parks that need to be repeated to obtain favorable results and involvement of pupils and students in preserving the biodiversity in parks. Finally, the action is to prevent the degradation of the landscapes through the co-participation of custodians, the mountain gendarmerie, police and the representatives of the forest districts.

Local communities are the first by themselves and in their interest to work and help the development of tourism in protected areas, bringing many benefits to the communities. Among these benefits there are listed:

- minimizing the negative impact on the nature and culture, impact which could destroy the protected area;

- educating the tourists about the importance of preservation;
- highlighting the importance of the responsible operators, to cooperate with the population and local authorities in order to satisfy the community needs;
- providing funds for the conservation and management of protected areas;
- the increased need for zoning the regional tourism and planning the flows of tourists for the natural areas which will become ecotouristic destinations;
- the need for social and environmental studies and also long-term monitoring programs to assess and minimize the impact;
- struggle to maximize the economic benefits of the host country, community and local businesses and especially of local people from natural protected areas;
- ensuring that the tourism development does not exceed a certain limit of social and environmental change determined by the researchers in collaboration with the residents;
- using infrastructure developed in harmony with the natural and cultural environment, minimizing the use of fossil fuels and conserving the vegetation and local fauna.

In addition to its negative effects, tourism can contribute to a raise of the living standards and the local community, being an importance source of income, the administrators of touristic areas facing an attraction of workforce involved in the conservation projects and management of the natural sites.

It can be considered that the presented confirm the existence of a valuable potential and some steps already taken in the process of setting us an integrated system of protected areas.

At the same time, the detailed analysis have confirmed, in many cases, a superficiality in managing these areas, reflected in the fact that either are not approved and therefore not operational or the lack of implementation capacity of the administration's (human, organizational, financial etc.) to create the management plans, monitoring and continuously adapting them.

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Environmental Impact of Supply Chains

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Abstract

In this research we create a method to transform the savings/ decrease in CO₂ into quality increase in physical distribution. And the method consists in finding the right allocation of environmental impact (in terms of CO₂ amount) from the distribution activity to every end product. We need to observe and calculate the amount of CO₂ in order to know how much CO₂ needs to be allocated to every product. The mechanism consists in offering to end-customers the possibility of selecting the distribution method they want: they can choose a high distribution level of service with increased environmental impact and, therefore, an extra cost for the customer; or they can select the distribution way with a lower environmental impact, case where they will receive a corresponding discount.

Key words: environment, sustainability, supply chain

J.E.L. Classification: C44, D22, Q01, Q56

1. Introduction

The objective of this research paper is to analyze the environmental aspects in a distribution chain in the strong relation with the economic performance of the system. In the last years the accent moved on having more small deliveries in a period of time. The work performed in all the sectors of supply chains (production/ distribution/ retail) increased the level of development of physical distribution, which can lead to environment problems. Nowadays, all the actors in a supply chain know that respecting the environmental aspects of the activities is the prerequisite of having sustainable supply chains.

This is why now firms are making

changes in their supply chains in order to reduce furthermore the environmental effects (in our case reduce the amount of CO₂). And the approaches used to undertake these actions are: reducing the fuel costs and the energy used. But there are cases when companies cannot reflect the environmental costs into the price to the end customer and they have to bear the impact by themselves. So many firms can be disadvantaged by the possible increase of the environmental costs. The answer to the problem is to determine the perfect match between environmental requests and the economical performance of the actors in the supply chain.

There are many situations in a supply chain when the environmental effects cannot be anticipated and therefore mitigated/ quantified. And the main causes for these are the market fluctuations and the uncertainty of customer demand/ needs.

In this research we create a method to transform the savings/ decrease in CO₂ into quality increase in physical distribution. And the method consists in finding the right allocation of environmental impact (in terms of CO₂ amount) from the distribution activity to every end product. We need to observe and calculate the amount of CO₂ in order to know how much CO₂ needs to be allocated to every product. The mechanism consists in offering to end-customers the possibility of selecting the distribution method they want: they can choose a high distribution level of service with increased environmental impact and, therefore, an extra cost for the customer; or they can select the distribution way with a lower environmental impact, case where they will receive a corresponding discount.

To meet our objective we develop a logistics model using vegetables and we calculate the amount of CO₂ exhaust incurred in sending the products from producers to the end customers. We create a list of data check points which need to be performed by firms

and we also give a measurement way by using specific information. The environmental costs and economic performance are strongly dependent on the customer's demand (how it splits on low costs and high costs distribution way). In other words, if the low cost distribution way is preferred then the amount of CO₂ can decrease without having bigger costs for distributors.

2. Literature review

The literature review conducted showed that there are some paradoxes of supply chain, like Rodrigue J.P. et al. [4] showed: for costs, time, reliability, network etc. For example, they analyzed door-to-door services coupled with just-in-time strategies and pointed out that the more these strategies are applied, the more the negative environmental impact is created by the traffic issues. Moreover, there is the need for every actor in a supply chain to have a tight collaboration with each other. Only this way the supply chain will move toward sustainability.

If Gyöngyi K. [2] created a list of collaboration approaches in the supply chain, on the other hand Potter et al. [3] developed a list of key performance indicators to measure how sustainable the distribution process is:

- Amount of energy used/ product
- Annual fuel consumption
- Tone km by mode
- Vehicle effectiveness
- Bullwhip
- Amount of payload used
- Tone km/ sales
- Vehicle km/ sales

Having these measures it is easier to control how the sustainable system changes and improves performance, as we have the perfect and appropriate control indicators.

The purpose of this research is to determine the amount of CO₂/ product from the distribution process. Here we have very sensitive information for the end customers. For example, if they could have visibility over the amount of CO₂ allocated to every product, their actions could be very much influenced (if they were environmental conscious customers). Example: Fujitsu Corporation Group in Japan developed a system where the ordered personal

computers are shipped directly from the plant to the customers who want fast delivery and using the modal shift transportation (with lower environmental impact) to customers who accept extended delivery lead-times (3rd day, 4th day and 5th day).

In the current model customers are free to choose the best delivery method using their priorities and thus being very efficient in reducing the impact on environment. A study conducted by Fujitsu Co.[1] showed that 30% of customers expect earlier delivery (3 days), 30% are satisfied with the usual delivery period (4 days) and approximately 40% accept an extended delivery lead-time (5 days). The possibility of choosing the transportation way is tightly related to the customer's sense and awareness about environmental issues. When we begin to offer to customers the information about the amount of CO₂ reduction they could expect a higher incentive and, moreover, new marketing techniques could be enforced to serve for this information. The following part of the paper deals with measuring the amount of CO₂/ product.

3. Measuring the environmental impact

There are actors in the supply chain who might be interested in knowing the impact of their activities over the environment. These are the environmental conscious companies for which the information regarding the amount of CO₂ per end-product generated by their activities is highly valuable. In our example we propose a mechanism to calculate the amount of CO₂ per product generated by the distribution of vegetables from the producers to the end-customers:

(1) The process is split in activities and for each activity we calculate the amount of CO₂.

(2) The amount of CO₂ is then split and allocated at product level.

Before calculating the CO₂ amount we have to measure the consumption of energy for all the identified activities. This objective is achieved by partially using the framework proposed by Simons et al. [5]. In the end we obtain the energy consumed, the amount of CO₂ eliminated and the allocation of the CO₂ amount to every product. The first tasks are to observe the processes and to identify all the transport and information steps. Then,

for each process step, the Value Adding CO₂/Time is calculated; for every transport step the Necessary but Non-Value Adding CO₂/Time is calculated. Finally, after adding all the results, the total time and total amount of CO₂ is obtained.

3.1. Analysis performed at activity level in the supply chain process

This part of analysis requires having some input data. We need to determine the amount of CO₂ eliminated in every activity. But we cannot measure this directly; we can use instead the amount of energy consumed. And to get to CO₂ amounts we will use some conversion indexes (for each type of energy), as well as how much energy is used in every activity and what type of energy.

3.2. The allocation mechanism

Basically, the allocation mechanism consists in finding those allocation percentages for every product. The formula is: *Allocation % = the amount of product unit/ the total amount* and it is usually the most efficient. „The amount of product unit” can be measured in „volume”, „number”, „time” etc.

The above formula can be changed as it is very difficult to consider that all the activities in a process are identical. So the allocation % can be calculated in many different ways in a distribution process, depending on the activity type – for example process activities and transport activities. If we consider this split, then in determining the suitable formula for the allocation% we have to take into account some specifics, like:

- Every activity has its own specifics, different machines are used in different activities, different amount of energy is used depending on the activity type - for process activities;
- The machines used in transportation have different characteristics, the loading sub-activities require different information - for the transport activities.

The following table highlights the conversion indexes values needed to determine the amount of CO₂.

Table 1. Conversion indexes of CO₂ for each energy type

	Type of energy	Conversion indexes
Process	LPG	6.3 (kg-CO ₂ / m ³)
	Water	0.58 (kg-CO ₂ / m ³)
	Electricity	0.7 (kg-CO ₂ / kwh)
Transport	LPG	3 (kg-CO ₂ / l)
	Gasoline	2.34 (kg-CO ₂ / l)

Source: www.ecomagazin.ro

3.3. Estimation of environmental impact on end product level

The mechanism of finding the right allocation of CO₂ amount to the end-product has 2 steps:

1) The activities identified in the process are analyzed and a total amount of CO₂ is calculated for the entire process. In calculating the CO₂ amount we begin with determining the amount of energy used in every activity and we continue with applying the conversion indexes already shared.

2) This is step of performing the allocation of CO₂ amount to every end product. When making the allocation we take into consideration rationality and the measurement requirements.

4. Case study

As a case study for this research paper we analyzed a distribution process from the producer to the customer in Bucharest (Ilfov County).

We choose the distribution of vegetables, this being the simplest distributive processing. In this situation we have a three-layered process formed by *procurement distribution*, *basic distribution*, and *distribution to consumer*. The ordering mechanism is based on customer filling a paper form or by using the Internet. In addition, the customer has 2 distribution methods available for selection. He can choose from having a personal or a group distribution. In “The personal distribution” the driver delivers to the customer’s door. “The group distribution” is a way in which the driver delivers to the distribution station

at the apartment complex or representative's house, and the members of the group go there, get the goods, and bring them to their own house. It is clear that from an environmental perspective the group distribution is more effective, but, in the same time, latest research studies show that customers want more personal distribution (which might require some incentives to be added).

In our example we restated all the activities from the producers to end customers with the purpose of creating an activity flow. There are 2 basic distribution centers for basic distribution and about 10 district distribution centers for distribution to the consumer in the metropolitan area. The number of orders includes about 1,000 groups (including families) per week. The district distribution centers are the case for the delivery of the jurisdiction district and those characteristics are different depending on the district area. Therefore, we investigated two different types of the district distribution center. One is situated in the center of the city in Bucharest, and another one is situated in the outskirts of the city, in a logistics center. We used for CO₂ amount estimation data collected from June to August 2012. The results for vegetables are detailed in the below two tables:

Table 2. The amount of CO₂/vegetable for distribution from city district [g- CO₂]

	Procurement distrib.	Basic distrib	Distrib. to consumer	Total
June	56.24	23.67	45.10	125.01
July	71.10	34.94	48.42	154.46
Aug	50.45	25.22	44.31	119.98
Avg	59.26	27.94	45.94	133.15

Table 3. The amount of CO₂/vegetable for distribution from the logistic center [g- CO₂]

	Procurement distrib.	Basic distrib	Distrib. to consumer	Total
June	56.24	23.67	57.46	137.37
July	71.10	34.94	59.33	165.37
Aug	50.45	25.22	53.78	129.45
Avg	59.26	27.94	56.86	144.06

The amounts of CO₂ exhaust in procurement distribution are strictly the

same, but those of two district distribution centers are different. In the logistic center, the transportation from the center to customers becomes a long distance. The result of calculation of CO₂ exhaust depends on the area of district. On the other hand, the amount of CO₂ exhaust in the basic distribution is the minimum of three processes of distribution. Oppositely, that of the procurement distribution is a high average. In the basic distribution, a huge amount of vegetables is transported and the transportation is relatively efficient.

We obtain the following result from making available the information about the amount of CO₂ to the customers: the incentive for group distribution with a lower environmental impact is enhanced.

6. Conclusion

This paper proposed the way to allocate environmental cost that translates to CO₂ amount in a distribution process for commodities and goods. The information items to measure and allocate CO₂ were arranged and the practical way was discussed. From the case study analysis, we showed that the calculation of CO₂ amount is possible. The information of CO₂ amount per product unit may be an incentive for customers to choose the better way of delivery, i.e. group delivery.

Acknowledgements

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Recruitment of Personnel Management in the Context of the Current Economic Crisis

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Abstract

To ensure the necessary human resources are one of the most important activities that they carry out staffing specialists within the organization. The main aim of recruitment activities is to identify sources of qualified candidates for a post and get them to run for a vacancy in an organization.

Key-words: human resources, recruitment, personnel

JEL classification: M12

2.Body text

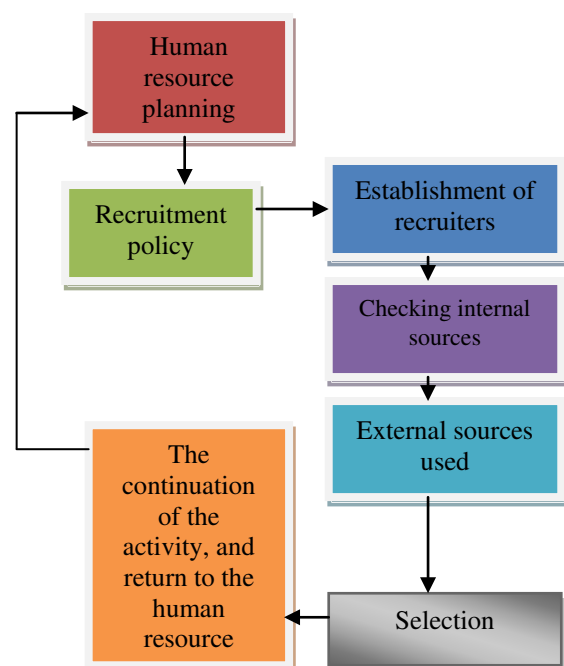
Recruitment is a natural stage in the development of a company strategy, which seems as natural, so it becomes important when the results are not those originally predicted[1]. It is a stage of providing personnel to meet the requirements and best interests of the company, a step that requires special techniques, much documentation, professionalism and involvement; all this because the quality of recruitment causes a company's future performance.

Stages in the recruitment of human resources are clearly defined, as follows:

1.Introduction

Recruitment is an essential element of the human resources policy of an organization, being the result of Confluence, the implementation of the agreement of some of the components of the performance of their duties staff of the Enterprise. Recruitment is triggered as soon as the new posts appear, or when existing ones become vacant through transfer or retirement of holders. In most organizations, the human resources Department is in charge of planning the recruitment of number of employees, representing the activity. The main task of the Department is to ensure that the number of people that it is necessary in accordance with the personnel in your organization. It is important that the person responsible for recruitment of personnel to have a large enough group of candidates, that are able to select those candidates who best match the requirements for stations that do the hiring.

Figure no. 1 „Stages in the recruitment of human resources”



Recruitment policy

The establishment of policies and procedures coherent and uniform is one of the first steps to be taken when planning the recruitment of employees for your organization. Recruitment policy is the code of conduct of the organization in the field of human resources and must be in accordance with the laws, regulations and good practices in the field, in accordance with the objectives of the business of the Organization; fair and consistent; non-discriminatory in regard to sex, race, age, religion and disabilities.

Because recruitment is to be effective it is necessary to have regard to a number of principles of management practice checked. Of these, an essential role played by the following[2]:

- ✚ the choice of discerning the sources of recruitment;
- ✚ making recruitment of competent persons impartial and objective;
- ✚ making recruitment after a recruitment plan developed a differentiated for unskilled workers, skilled workers, technical staff, etc.;
- ✚ the determination of the amount of recruitment on the basis of an inventory of needs in the form of detailed descriptions of the post;
- ✚ exact information on the requirements of the post text advertising (it is not valid to provide descriptions of jobs better than in reality);
- ✚ design your ad text so that "to strike the sight and imagination";
- ✚ do not denigrate competing undertakings recruiters in the same specialty.

It is considered that a lack of professionalism providing inappropriate information or negative comments about the competition, for the purposes of recruitment of the best candidates. Those who wish to engage will consider this a sign of weakness.

Starting from these principles, you can move on to the design and implementation of detailed plans and recruitment procedures.

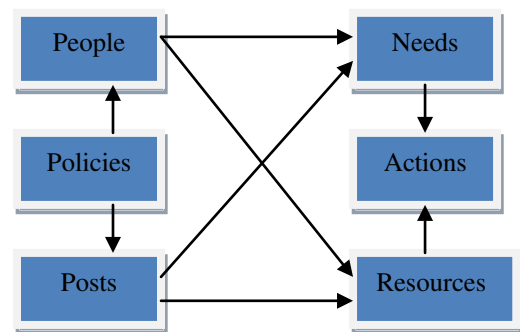
The recruitment of human resources shall be drawn up according to the following criteria[3]:

- ➡ it is consistent and fair, avoiding human resources decisions of circumstance;
- ➡ it is flexible, allowing maximum adaptability to changes in the external and internal environment of the Organization;

- ➡ corresponds to the human resources policy of the Organization;
- ➡ it is designed as a marketing plan;
- ➡ includes all the necessary elements for effective recruitment;
- ➡ calculation of direct recruitment needs is carried out by comparing the number of staff with the existing one;
- ➡ drawing up the plan of recruiting prospective nature.

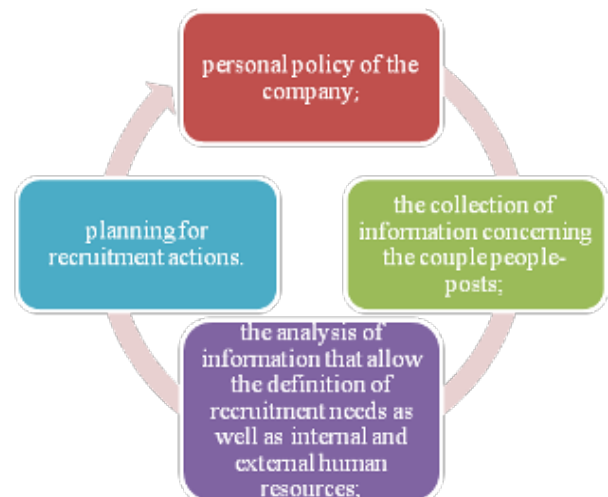
Develop recruitment plan involves a logical approach whose main components are shown in Figure 2.

Figure no 2. The recruitment plan



Recruitment plan phases are:

Figure no 3. Plan phases



Methods of recruitment of human resources

Recruitment results are influenced by the method used. Of the methods applied for staff recruitment are:

- ✚ advertising;

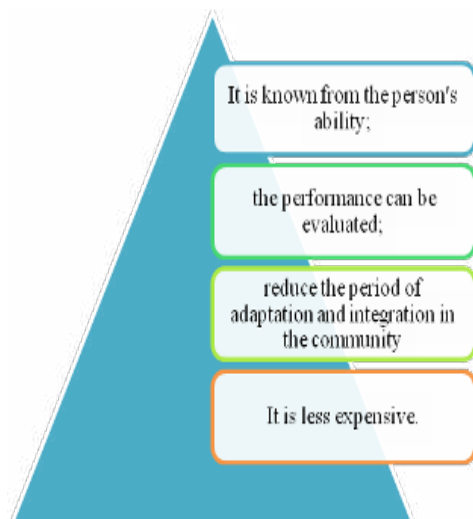
- ✱ knowledge network;
- ✱ the use of advisors for recruitment;
- ✱ searching for persons;
- ✱ the prospective employees;
- ✱ marketing activities.

Sources of human resources recruitment

Any organisation recruits staff in the internal and external environment. For stable organizations, typically, are key internal sources, this path is stimulating for personal organization, allows promotion and realization of the prospect of career plans for existing staff.

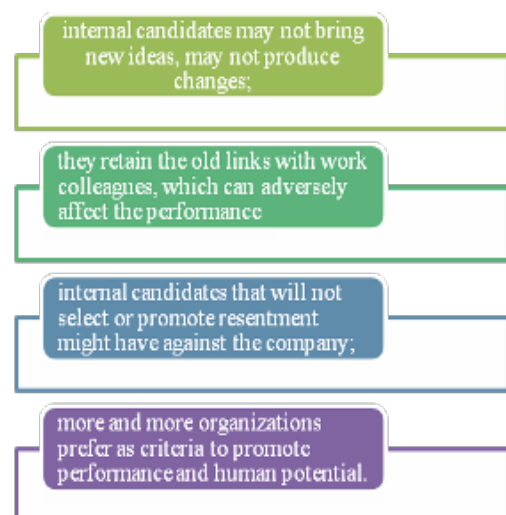
The main advantages of recruitment of staff in your organization are[4]:

Figure no 4. Advantages of recruitment



Disadvantages of recruitment of staff in your organization are:

Figure no 5. Disadvantages of recruitment



The main problems related to the recruitment of the interior can be solved through the implementation of programmes for staff development that allows the taking of the employees of some broader responsibilities, and development of adequate criteria of promoting (and/or performance of service organization)

For internal recruitment method to be effective, it is necessary prerequisites:

- both promotion and transfers to be announced;
- your ad should be displayed with a certain amount of time before you start recruiting from outside;
- the selection criteria to be clarified and communicated.

External sources of staff calls when they register a rapid development of business, when the organization is faced with the departure of some employees who cannot be înlocuiti from the inside, or when it takes people with special training.

The benefits of external recruitment:

- offers several options for choosing the right candidate;
- employees come from outside can bring a new spirit in the Organization;
- the cost of new hires are often lower than those necessary training and preparation of internal employees for some new posts (especially if it comes to the technical or management).

Recruiting from outside (attracting, contacting and evaluating candidates) is a more difficult process, which has the following disadvantages:

◆ effective integration of the new employees in the company can generate other expenditures of time and money;

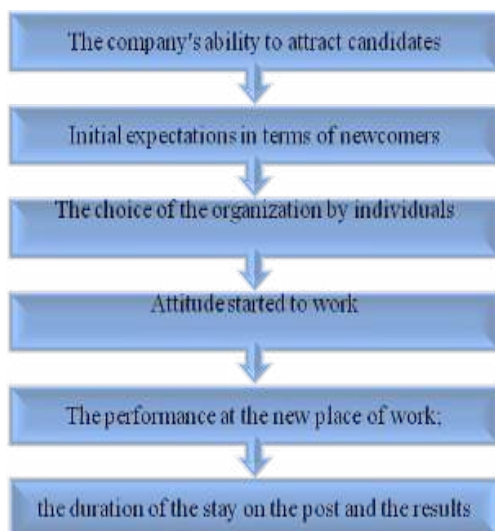
◆ recruiting from outside can adversely affect the morale of the staff (it will adopt a hostile attitude toward new-hires) given that there are inside the firm employees able to take loads of workers from outside.

Recruitment sources with the best chance to produce results with minimal costs are: applications direct, references of employees, placement agency manpower, higher-education institutions, candidates find the recruitment announcement, front candidates.

Program assessment recruiting

The need for recruiting permanent changes with the changing conditions of the environment internal or external environment of an organization. The Department of human resources or personnel issues specialist must provide a programme of recruitment, depending on specific conditions that exist in the organization. There are some models presented in the literature that serve as sources of inspiration for the drawing up of such a program. The model's perspective of recruitment Wanous offers both short term and long term. Assessment criteria of recruitment after Wanous's model are as follows[4]:

Figure no 6. Assessment criteria of recruitment after Wanous's model



Although the model can highlight strengths and weaknesses of a program of recruitment, it may not give quantitative

information concerning the costs and benefits of recruitment.

In contrast to this model, that of Hawk makes it possible to estimate the costs and benefits. It is rather a short-term rating and does not offer the prospect of measuring the effects of the recruitment of individual and collective performance, the staff in general, and its morals.

Criteria for evaluating the programme, after the recruitment model Hawk are:

- recruitment Cost per person engaged
- cost per person employed and recruitment source
- the number of employees on recruitment sources
- „production" of the source and the source efficiency
- time required recruitment sources
- the offers/acceptances
- the interviews/quotes
- employment report analysis and interviews bounce causes of employment
- comparing test results to those of the employees rejected the comparison with test results
- the performance of the new job.

3.Conclusions

In conclusion, an organization that finds and committed staff able to carry out their duties with consistency and to assume increased responsibilities is elevated in relation to the opportunities and risks of her work environment than those who struggle constantly to compile and to retain employment.

The negative effects of the crisis on departments and human resources policy are[5]:

- reducing the number of staff – firms functioned "under the employees required;
- stop employment – which occurred despite an acute needs of new employees and the increased loading of existing employees;
- reducing or blocking of training programs and training
- decrease wages and benefits-poor internal
- in most cases, measures anticriza were adopted and implemented without informing and consulting employees previous.

Direct effects on employees are:

- dropping dramatic motivation organizational performance-dropping;
- change of the attitude of the employees spirit of initiative to "fear the initiative", due to fear of losing job;
- constant Feelings of uncertainty and fear;
- diminishing confidence in the company's management;
- reducing the significant commitment to organization.

However, the economic crisis has brought a series of opportunities:

- ✓ the great work at the level of companies and the possibility of a job offer and selections in accordance with the objectives of the company's

- ✓ facilities provided by the State for the purpose of engaging people from categories considered to be disadvantaged on the labour market;

- ✓ diversification methods of hiring, which until now were considered "isolated cases: contracts for the period determined, project-based or part-time etc.;

- ✓ a large number of new graduates of higher education without job, willing to

accept an internship program that would provide work experience (and would ensure the company employing the minimum costs)

- ✓ availability – temporary – current employees to see the stability of the site demunca more important than reward pecuniara. There are, however, a risk that the attachment face of the Organization to be insincere or disappear entirely if wage reductions are not related to the growth of non-financial benefits and prospects of promotion or recognition of status and role.

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Good Practices Regarding Information System For University Management - Quality in Higher Education

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Abstract

The paper deals with the flexibility of informatic systems in the context of multiple and unavoidable changes at the level of companies.

The concept of flexibility of informatic systems is defined and we present the factors which determine the flexibility along the whole life cycle of the informatic system. Each university is mainly interested in improving higher education and this holds true both at national and international level. At first sight the activities within a university may seem simple, but in reality they are very complex and dynamic. The application is based on the following basic requirements: on the one hand, the planning of lesson schedule of degree courses, on the other hand, the chance of having an application for constantly monitoring the occupation of classrooms or any other structure of the university. Therefore the application requires a precise and detailed mapping of all physical structures of the University.

Key words: Flexibility, Adaptability, Interoperability, System Integrating, University Management

Clasificare J.E.L.: M15

1. Introduction

Demographic changes, population migration, and reducing funding designated to national education, creates big problems concerning the university management. The main objective of the SIMUR Project is improving university management in five universities involved in this project by increasing their academic eco-systemic quality.

The major benefits of university governance systems are:

- increasing universities performances,
- ensuring academic transparency.

2. Logistics Resource Life Cycle

The management cycle of the logistics of the university's resources can be divided into three macro phases, not necessarily sequential, which can thus be considered, also simultaneously, by an operator: [1,4]

- Planning: the first drafting of the timetable, if possible diagrammatic form in the case of a recurrent event, or a simple calendar of single dates.
- Management of variations: once activities have started, the provisional calendar may certainly undergo single variation over time, which can be managed in such a way as to provide a precise and punctual communication transmitted to the person involved, and to simultaneously monitor the effective use of the resources.
- Monitoring: defined as a final opportunity to detect the actual course of events planned and the actual employment of resources. These recordings – normally registered on a sample basis – can then be the subject of statistical analyses, or used by the decision-making support system.

3. Objectives - Informatic Systems For The Management Of University Learning

The starting point of the SIMUR project is the experience of academic systems of Western Europe that successfully improve university management by introducing University Governance based on informatic technologies (university e-governance).

A computerized system of university e-governance is an integrated platform in

which all informatic flows of a university circulate synergetically, covering information referring to students, the content of the e-learning platforms and the scientific research projects. the five universities involved in the SIMUR Project (three of them universities of old tradition and two young ones) have as a partner an inter-university consortium from Western Europe which in the last decades has proved to be a provider of important solutions for university governance at the world level.[2]

Specific objectives of the SIMUR project are:

- Designing and implementing a standard configuration in the five universities which should be adapted to the requirements of Romanian universities to the Romanian legislation in force and to the European priorities;
- Redesigning and optimizing the main existing informational flows;
- Increasing the transparency level by providing up to date information at any moment;
- Increasing the efficiency of the activities of the staff involved in university management;
- In the context of Romania's integration in the European Union and according to the Lisbon priorities, Romanian universities are faced with the necessity to meet the new requirements and standards.

4. The Collaborative Network

The collaborative network of the system U-GOV has been achieved on the base of academic partnership, including several universities and some companies specialized in developing and implementing software in the university domain.

The role of the universities within the partnership is that of making an inventory of the problems of the Higher Education and of proposing solutions; the specialized companies are supposed to ensure the transfer of the logistic and technical support for the implementation of the system.

In a partnership of this kind, the numerous entities involved constitute a collaborative network based on synergism. Within this context synergism means simultaneous action

or entities collaboration towards the same goal with a view to achieving a common objective with economical material, financial and human means, which otherwise would have been difficult to achieve.

The collaborative network includes universities from Italy and Romania. The Romanian universities have been selected in such a way as to allow sensing different university fields (economic, technical, and pedagogical) as well as different education forms (private and state universities).

In Figure 1 is shown in a graphically manner the collaborative network diagram.

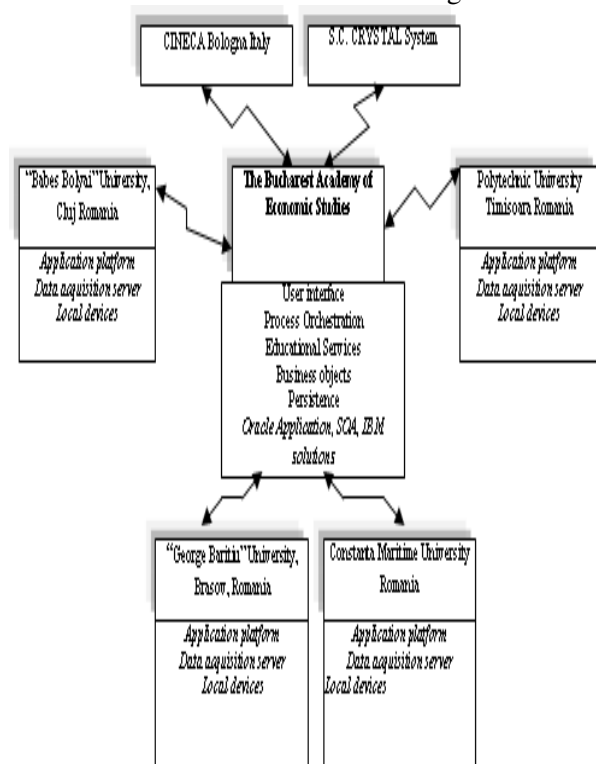


Figure 1: Collaborative network architecture

Among the advantages of collaborative networks, we can enumerate:

- Offers the possibility to reduce the duration of development and implementation of the system;
- Increase the chances to achieve a performed system because it is based on previous achievements, verified in practice and on the accumulated experience of partners along the time;
- Offers the possibility of cost reduction for the development and implementation of the system because we can use partially or

totally the software already made (software reusability);

Decreases the risk of implementing the system because it is based on the achievements already verified in practice.

5. Simur Functional Model

After performing a feasibility study in several universities in our country and abroad we have identified the following modules, shown in figure 2.[3]

- Planning and controlling;
- Accounting;
- Human resources;
- Students and Learning;
- Research.

The figure 2 suggests that there are multiple and complex connections between functional modules.

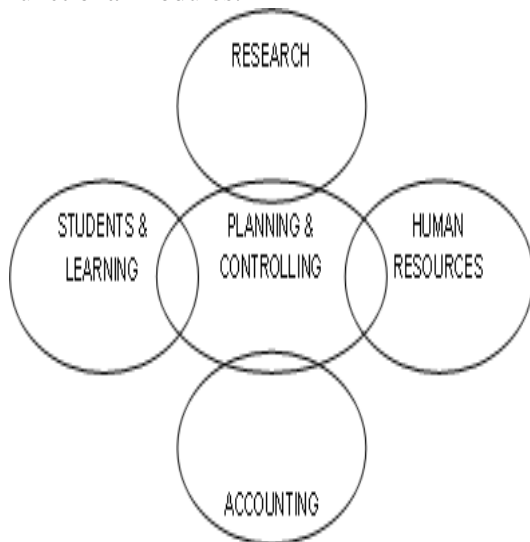


Figure 2 - The U-GOV synthetic functional areas

The Functional areas are shown in the figure 3 in an analytical form.

The name of each module and sub-module suggests the informational content.

The Informational System, in a conceptual vision, covers almost all the fields of activities within a university.

The **planning and controlling** process needs timely information, certified and above all coherent with the vision and the strategy of the university.

The **accounting module** is an integrated accounting system that does not impose a single model to the entire university

organization. Thus is guarantee full autonomy of all the inner structure of a university (departments, faculties, service centers).

U-GOV supports **Human Resources** management in increasing broader contexts, economic management, development planning, skill analysis, assessment and training.

Regarding the **Students and Learning**, UGOV offers new module that manages the course planning and scheduling.

UGOV provides uniform management of all **research** projects activates within the university, both from the operative and from the financial point of view. In addition to research products, U-GOV manages information about projects, activities, professors, researchers, groups, publications, scientific areas, laboratories and instruments.

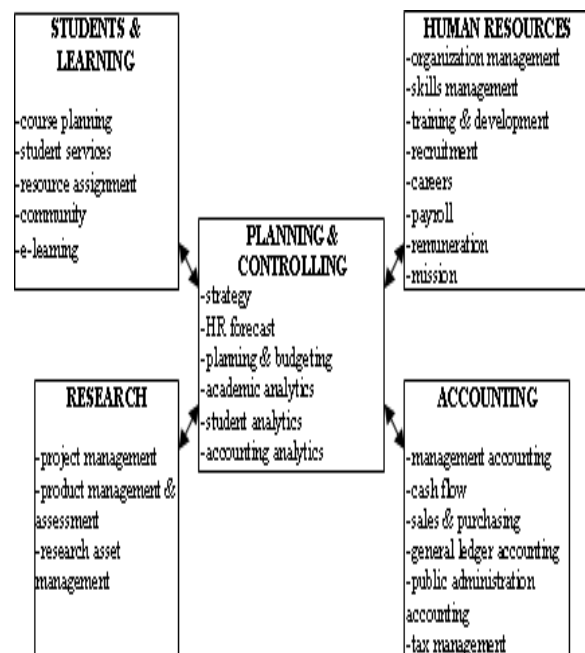


Figure 3 – The U-GOV analytical functional areas

6. Simur - A Possible Solution For An University-Gov In Romania

Based on a questionnaire we made, a study of the informatic systems in 35 Romanian universities and some universities from abroad was conducted.

The informatic solutions identified were analyzed from the point of view of:

- their level of integration,

- the modules they offer,
- the architecture and the technologies used,
- the facilities they offer.

Some conclusions were reached following this analysis:

- Generally there are five main modules (fig. 5) which include in their turn a series of applications;
- The modules of the Western countries U-Gov systems are not fully adaptable to Romanian universities and do not have all the functionalities required by Romanian Universities;
- As for the integration level of the applications of the modules and even among the modules themselves the integration is little accomplished or inexistent.

Based on the conclusions reached in fig 6 we proposed our own solution of U-GOV. Our solution is SOA oriented.

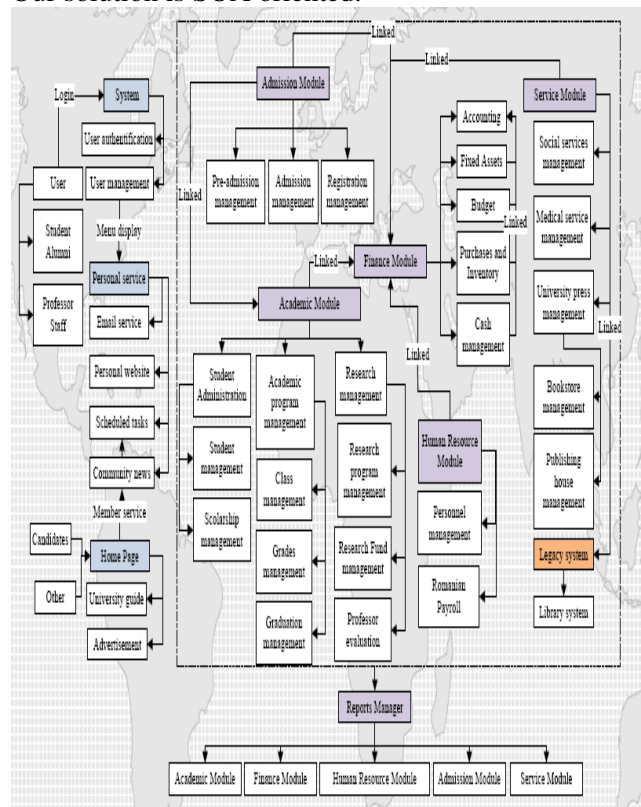


Figure 4 – A possible solution for an efficient ERP system

7. Conclusions

In the actual context, analyzing the academic environment we have drawn a

series of conclusions, among which we can mention:

- The activities in the university environment are characterized by dynamism and complexity;
- There are several factors that generates a series of changes; for this reason there is much more emphasis placed on strategic planning and management control;
- It is necessary to develop an efficient Informational System for U-GOV;
- The development of an Informational System in the SOA context is highly advantageous.

This application has been designed to allow, in general, the planning of all typical activities within a university context, with a particular reference to teaching and examinations, in terms of duration, teachers, types and other characteristics. Secondly, other activities can be planned – faculty councils, periodic meetings, seminars, conferences- for which you can manage the appointments of each person involved in terms of space and time. The application involves all the activities required to organize the calendar of events implying fixed or mobile structures of the university.

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A Comparison Between Two Predictive Models of Artificial Intelligence

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Abstract

In this paper we done a comparison between a Neural Network model and a Support Vector Machine model adapted to predict the exchange rate EUR-LEU.

We emphasize the strengths and weakness of these two Artificial Intelligence paradigms and we compare the results of prediction obtained with those two models.

The Support Vector Machine model exceeds the Neural Network model regarding the prediction horizon.

Key words: Artificial Intelligence, Neural Networks, Support Vector Machines, Prediction.

J.E.L. classification: C 45, C53, C 63.

1. Introduction

Increasing accuracy of forecasting can save millions for a company and is a major motivation for using formal methods of forecasting and systematic investigation of new methods and better prognosis [27].

If a number of explanatory variables or question must be identified and predicted - time series approach has the advantage of easier collection of data and data preparation for modeling. In time series forecasting, historical data regarding prediction variables are collected and analyzed to develop a model that captures the relationship between time series observations. The model is then used to extrapolate time series forecasting in the future.

There were numerous efforts to develop and improve methods for time series prediction.

Linear approach assumes a linear process that characterizes the data generation.

There are a large number of linear forecasting models, such as moving average, exponential smoothing, time series regression and time series decomposition.

One of the most important and popular linear models is Autoregressive Integrated Moving Average - ARIMA, which was popularized by Box and Jenkins in the 1970s [3]. Often, ARIMA is also called Box-Jenkins model.

Although ARIMA models are quite flexible in modeling a wide range of time series models, their major limitation is given by the assumption of a linear form for the model. This means that a linear autocorrelation structure is assumed before the model to be according to the data. Therefore, an ARIMA model cannot capture nonlinear models that are normally encountered in the time series from economics and business. Approximation with linear models of complex real-world problems is not always satisfactory, as reflected in the well-known M-competition in the early 1980s [18].

Approach to modeling nonlinear time series is probably more adequate for most real-world problems. The world is rather nonlinear and complex than linear because there are so many possible nonlinear relationships or structures. Most nonlinear models developed during the last two decades are likely parameters. To use these models, they must be specified before. Therefore, these models cannot be used if the data characteristics do not fit the model assumptions involved. The parametric approach is quite suitable for nonlinear problems with complex structures, but there is a lack of theories to suggest a specific form of the structure.

Artificial Intelligence like Neural Networks and Support Vector Machine are

algorithms that can be used to perform nonlinear statistical modeling and provide a new alternative to logistic regression, the most commonly used method for developing predictive models.

2. Neural Networks

An Artificial Neural Network (ANN), or simple Neural Network (NN), is an information processing paradigm that is inspired by the way biological nervous systems, such as the brain, process information.

A Neural Network is a parallel computing system of several interconnected processor nodes. The input to individual network nodes is restricted to numeric values falling in the closed range $[0,1]$. Because of this, categorical data must be transformed prior to network training [20].

ANNs have been applied to an increasing number of real-world problems of considerable complexity. Their most important advantage is in solving problems that are too complex for conventional technologies - problems that do not have an algorithmic solution or for which an algorithmic solution is too complex to be found. In general, because of their abstraction from the biological brain, ANNs are well suited to problems that people are good at solving, but for which computers are not. These problems include pattern recognition and forecasting (which requires the recognition of trends in data).

Neural networks are used extensively in the business world as predictive models. In particular, the financial services industry widely uses neural networks to model fraud in credit cards and monetary transactions [13].

3. Strengths and weaknesses of Neural Networks

Neural networks, with their remarkable ability to derive meaning from complicated or imprecise data, can be used to extract patterns and detect trends that are too complex to be noticed by either humans or other computer techniques. A trained neural network can be thought of as an "expert" in the category of information it has been given to analyze. This expert can then be used to

provide projections given new situations of interest and answer "what if" questions.

Other advantages include:

- Adaptive learning: An ability to learn how to do tasks based on the data given for training or initial experience.
- Self-Organization: An ANN can create its own organization or representation of the information it receives during learning time.
- Real Time Operation: ANN computations may be carried out in parallel, and special hardware devices are being designed and manufactured which take advantage of this capability.
- Fault Tolerance via Redundant Information Coding: Partial destruction of a network leads to the corresponding degradation of performance. However, some network capabilities may be retained even with major network damage.

Neural networks are universal approximators, and they work best if the system you are using them to model has a high tolerance to error. However they work very well for:

- capturing associations or discovering regularities within a set of patterns;
- where the volume, number of variables or diversity of the data is very great;
- the relationships between variables are vaguely understood;
- the relationships are difficult to describe adequately with conventional approaches.

The greatest strength of neural networks is their ability to accurately predict outcomes of complex problems. In accuracy tests against other approaches, neural networks are always able to score very high [2].

There are some downfalls to neural networks.

First, they have been criticized as being useful for prediction, but not always in understanding a model. It is true that early implementations of neural networks were criticized as "black box" prediction engines; however, with the new tools on the market today, this criticism is debatable.

Secondly, neural networks are susceptible to over-training. If a network with a large capacity for learning is trained using too few data examples to support that capacity, the network first sets about learning the general

trends of the data. This is desirable, but then the network continues to learn very specific features of the training data, which is usually undesirable. Such networks are said to have memorized their training data, and lack the ability to generalize. Commercial-grade neural networks today have effectively eliminated overtraining through "bootstrapping holdout (test) samples", and by monitoring test versus training errors [13].

Another issue with neural networks is training speed. Neural networks require many passes to build. This means that creating the most accurate models can be very time consuming [12]. However, the speed of most current machines is such that this is typically not much of an issue.

The major issues of concern today are the scalability problem, testing, verification, and integration of neural network systems into the modern environment. Neural network programs sometimes become unstable when applied to larger problems.

The mathematical theories used to guarantee the performance of an applied neural network are still under development. The solution for the time being may be to train and test these intelligent systems much as we do for humans. Also there are some more practical problems like:

- the operational problem encountered when attempting to simulate the parallelism of neural networks. Since the majority of neural networks are simulated on sequential machines, giving rise to a very rapid increase in processing time requirements as size of the problem expands. One solution to this problem is to implement neural networks directly in hardware, but these need a lot of development still.
- instability to explain any results that they obtain. Networks function as "black boxes" whose rules of operation are completely unknown.

4. Support Vector Machines

Machine learning involves designing and developing algorithms that allow computers to simulate the behavior based on empirical data.

Machine learning use learning process and examples to capture the interest features of the unknown probability distribution of

data and perform tasks that are difficult or impossible to achieve using classical algorithms.

The problem of machine learning is the need to develop techniques to enable the machine to learn from past experience and to predict the future.

Supervised learning objective is to automatically generate rules from a database of examples already treated to make predictions on new cases. Learning database is a set of input-output pairs (x_n, y_n) with $x_n \in X$ and $y_n \in Y$, which we consider to be prepared in accordance with a unknown law on $X \times Y$.

We have a regression problem when the output values are in a continuous subset of real numbers, $Y \in \mathbb{R}$ and a classification problem when the set has finite cardinal output values $Y = \{y_1, y_2, \dots, y_r\}$.

A Support Vector Machine (SVM) is a machine learning that can be used in classification problems [9] and regression problems [23].

In order to perform classification, SVMs seek an optimal hyperplane that separates data into two classes.

Support vector machine are also called classifiers with maximum edge. This means that the resulted hyperplane maximizes the distance between the closest vectors from different classes taking into account the fact that a greater margin provides increased SVM generalization capability.

The elements closest to the optimal separating hyperplane are called support vectors and only they are considered by the SVMs for the classification task. All other vectors are ignored.

SVM is one of the most promising algorithms in machine learning field and there are many examples in which SVMs are successfully used, for example, text classification, face recognition, Optical Character Recognition (OCR), Bioinformatics. On these datasets SVMs apply very well and often exceeds the performance of other traditional techniques. Of course, this is not a magic solution as set forth in "Support vector machines: hype or hallelujah?" by Bennet and Campbell [1], there are still some open issues, such as incorporation of domain knowledge, a new model selection and interpretation of results produced by SVMs.

5. Strengths and weaknesses of Support Vector Machines

Support vector machines are fairly simple concept, but very powerful, very well behaved in comparative tests with other popular classifiers [19] and have been successfully applied for problems in many fields.

Some examples of applications in that support vector machines have proven their superiority are: identifying images, medical image classification, face recognition and visually speech recognition.

Besides solving some problems that many learning methods are facing, such as small samples, overtraining, large dimensions and local minimum, support vector machines have shown a power of generalization (in the case of support vector classification - SVC) or prediction (if support vector regression - SVR) better than artificial neural networks.

Unlike neural networks, support vector machines have far fewer parameters to be set which makes it easier to determine a suitable structure for a studied problem.

An open problem is to adapt the SVM for online use (real time), the main drawback here is the long time necessary for training given that new models are rapidly and continuously presented.

Support vector regression has emerged as an adaptation of support vector classification problems to forecasting. Support vector regression has the same advantages as classification and finds increasingly more applications.

Chen, Jeong and Hardie conducted a comparative study for predicting financial gains in which the support vector regression obtained better results in estimating an ARIMA model over the MLE (Maximum Likelihood Estimation) and recurrent MLP (Multi Linear Perceptron) [10].

Although the results of support vector machines, in both classification and regression, are very good, we cannot say that exceed in any circumstances other methods.

Support vector machines (SVMs) are promising methods for classification and regression, due to solid mathematical foundation provides several important properties that other methods do not possess. However, despite the significant advantages

of SVMs are not as widely favored for data mining as a model for recognition or machine learning because the complexity of training SVMs is highly dependent on the size of the dataset. Many real data and applications to extract knowledge from databases involving millions or billions of data records and complete multiple scans are too expensive, in terms of time and computing power required to perform.

6. Models comparison

To perform a comparison between these two paradigms of Artificial Intelligence we have considered the time series of exchange rate EUR-LEU and constructed two models that predict next value for this time series.

We have trained a NAR (nonlinear autoregressive) Neural Network that uses nine past values of the exchange rate and predict the next value of the time series. The structure of the network consists in 100 hidden neurons with sigmoid activation function and an output neuron with linear activation function.

Also, we have trained a SVM that uses eight past values of the exchange rate and predict the next value of the time series.

We measured the models performances using MSE (Mean Squared Error). In both cases, for the training set and testing set considered in our example we obtained MSE between $2 \cdot 10^{-4}$ and $3 \cdot 10^{-4}$.

We used these two models to predict the next 100 values. First we used as inputs the observed values, introducing nine, respectively eight, measured values and obtaining our next prediction for the exchange rate. The results are presented in Figure 1. and 4.

Then, we used the models to predict the next 100 values but using as input the predictions obtained. For this case the the graphics observed values versus predicted values are shown in Figure 3. and 6.

Figure 2. and 5. presents the prediction errors obtained in the case of one step ahead prediction.

Regarding the prediction with one step forward, the two models showed the same performance.

The SVM model has exceeded the NN model in terms of prediction with more steps forward.

Figure 1. 100 prediction with one step ahead obtained with NN model.

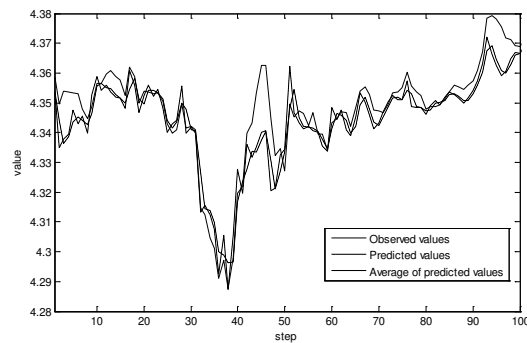


Figure 2. The errors resulted in case of 100 prediction with one step ahead obtained with NN model.

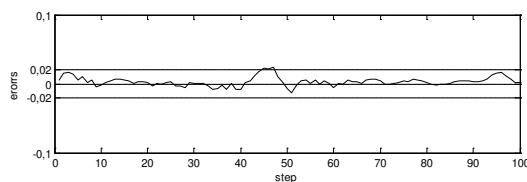


Figure 3. The errors resulted in case of prediction with 100 step ahead obtained with NN model.

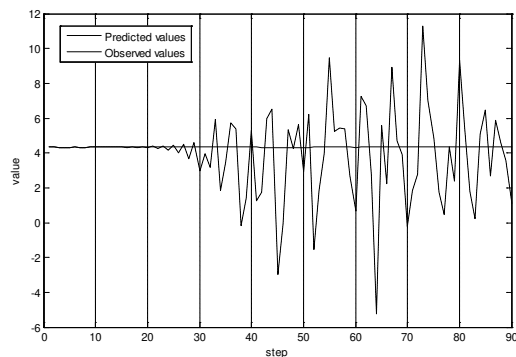


Figure 4. 100 prediction with one step ahead obtained with SVM model.

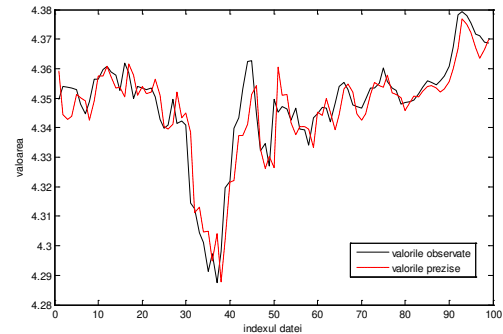


Figure 5. The errors resulted in case of 100 prediction with one step ahead obtained with SVM model.

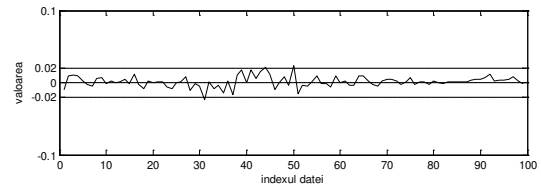
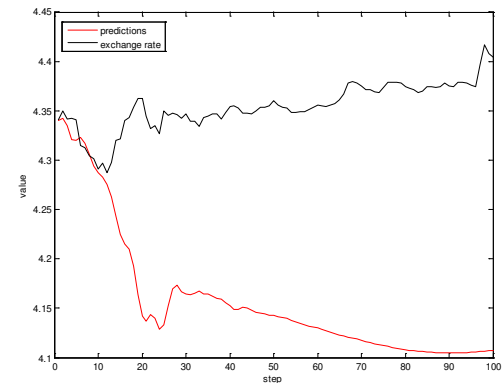


Figure 6. The errors resulted in case of prediction with 100 step ahead obtained with SVM mode



7. Conclusions

Using SVM for prediction is a good alternative for both traditional methods as well as those methods arising from computational intelligence like Neural Networks (NN). To adjust the model with data we must determine just a few parameters and this represents a major advantage of SVM over NN.

In the considered example both models have behaved well presenting the same order for prediction errors. Moreover both models have captured an external factor that have

influenced the exchange rate that is visible in Figure 2 and 4 between steps 40 and 50. The external factor was the govern resignation.

Regarding prediction horizon, the SVM model has performed better with a number of about 12 good prediction ahead (Figure 6.). For NN model the number of usable prediction ahead was about 4. From Figure 3. we can not see well the number of good prediction for NN model because the large fluctuation of prediction.

So we conclude that in this case the SVM model have performed better than NN model.

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Uncertainty and Human Action. An Economic Perspective

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Abstract

Through globalization, the world economic system acquires properties and features that its component parts or subsystems had not previously; as the economic, social and political interdependencies amplify it occurs an aggregation of national markets into a single unit, which causes an increase of degree of complexity and thus of uncertainty and risks.

The heterogeneity of economic system components (individuals, organizations) is a reality and the economists have to determine variables which describe the dynamics of their action. Under uncertainty, total knowledge of future business processes is impossible to imagine. On the methodological level, beyond rational - irrational disputes, mainstream and heterodox theories converge towards action orientation to the future, which is the point of tangency with the recent theory of complexity. The proponents of both groups agree that in formulating predictions, modeling behaviors, monetary policy and income distribution, the critical factor that dominates and influences decisions is the uncertainty.

Key words: human action, uncertainty, theory of complexity, enlightened self-interest, limited rationality.

J.E.L. classification: B30, B31, B41.

1. Introduction

In economic theory, the difficulty of validation process of assumptions lies in the subjectivity of human nature; theoretical claims are confirmed by confrontation with existential reality, a reality imbued with human presence. Economic action is essentially, a human action; evaluation and

validation process cannot be neutral as long as it involves value judgments in relation to ethics and human values [1].

2. Human action - behavioral foundations (limited rationality)

Faced with the impossibility of research of facts in their diversity and complexity, exponents of rational choice theory have proceeded to a priori judgments, relying less on empirical observations of how decision makers actually behave and sharing the conviction that economic agents are rational and their behavior is also rational. The beginnings of economic rationality are dated in the classical period, the name of Adam Smith being associated with the origin of the narrow sense of rationalism, strictly circumscribed to hedonism area, eluding to the fact that the Theory of Moral Sentiments [2], the first work of the great economist, is a reference for behavioral psychology of individual. Driven by passion and motivated by the desire for freedom, having a sense of ownership and a natural (normal) inclination to work and exchange[3], man directs all its efforts and involves all available resources towards satisfying his selfish interest[4]. Thus, the individual "often promotes the interests of society more accurately than when he intended to promote it"[5].

Fully aware of the negative ordinary connotation of selfishness, Mill efforts to stress the rational sense of smithian selfishness, using the precepts of the Bible that call for love of your neighbour as of yourself. In this light it seems reasonable and natural that the individual should first think of himself and of his own interests and, once armed with this matrix, treat the interests of the others equally, not vice versa[6].

Acknowledging rationalism as the unique analysis tool, methodological purity promoted by neoclassical economists reveals

an economic agent without the human features and characteristics. Through its quantitative side, the neoclassical school of economics makes use of a homo economicus reduced to its essence, a calculating machine capable of ranking, even cardinal, pleasures and needs, extracted from its environment and doubtful imaginative, totally separated from the ethical and the religious.[7]

To compensate for the weaknesses of homo economicus deprived of the human nature, the supporters of moderate rationalism, James G. March and Herbert A. Simon proposed the concept of limited rationality considering that when individuals are in a position to choose between several options, they are not looking optimal solution but stop at the first satisfactory solution.[8]

A perfectly rational decision claims a preference to maximize quantifiable of expected utility that reveals an order of preference and a total and constant measurement of probability of all possible values. Limited abilities of individuals due to their cognitive capabilities and incomplete information cause such a request to be unrealistic to catch the behavior of the real agents studied by the economics.

According to political scientist Herbert Simon, rational behavior is *satisficient* [9], the decision maker will not have to investigate all the alternatives which could normally produce maximum benefits but must take into account only the alternatives that will produce reasonable growth of his benefits. Alternative analysis is limited to the familiar ones or to these which differ marginally from the variant that has already lived. The decisions are being adopted incrementally, in small steps and do not follow a "great" plan, a priori settled, because every choice changes the results and determines the emergence of the new problems.

Another aspect of limited rationality understood by North [10] is the difficulty of rational anticipation of environment evolution by individuals due to filtering information with preexisting mental construction. In other words, economic agents make decisions based on environmental adaptation experiences (learning) and some moral precepts (culture, moral values). Here's how North's ideas reach the complexity theory, his explanation may

be expressed more synthetically through the sensitivity of economic process to initial conditions, which is a specific property of complex systems.

From those shown above we may draw the conclusion that there are two models of decision making: rational model which concerns how decisions should be made for them to be considered rational and incremental model that shows how real decisions are made. The first model, the rational one has a normative character and the incremental model has rather descriptive one.

In incremental model [11], individuals change goals according to available alternatives but proceed inversely – by adjusting the available variants to proposed goals, perpetually reformulating the problem according to the new information. Individual agents continuously resolve existing social problems, not solve them completely at a time, sharing responsibility of choice with multiple stakeholders [12]. This continuing adaptation through mutual influence part-whole (co-evolution) of individuals (components of the system) to the economic life and society (socio-economic system) is a new reference to complexity theory.

Rejecting narrow selfishness in its meaning that denotes rapacity, considering it irrational, pragmatic realism supports so-called "enlightened self-interest", which assumes that individuals must demonstrate empathy, altruism towards other people while cooperation and reciprocity are ultimately more profitable than the generalized conflict. Following the tradition of methodological individualism, Milton Friedman belongs to this line of thinking and claims that under a liberalized trade the transactions are completed on terms generally accepted by all parties, individual gain is possible only if the prerequisites are met to harmonize the interests of all parties.

Methodological debates for irrational versus rational and deductive versus inductive approaches consume tireless efforts of the old and the new economists. A notable intervention on this type of analysis belongs to psychologists Daniel Kahneman and Amos Tversky [13] which opened a new perspective on psychological research into economic science (economic behaviorism or behavioral economics) [14]. Through

exploring prospect theory, seen as an alternative to expected-utility theory, the authors attempt to prove the invalidity of classical and neoclassical economic assumption that people behave rationally. They fundamentally differ from classical and neoclassical economists through their assertions claiming that the value (proposed as reference rather than utility in analysis) is not a linear function of the probability of action and it is not defined in relation to the final gain but in relative terms (compared with gains and losses). The methodology which behavioral economics is based on is inference that is used to identify behavioral patterns which are followed by individuals in the market decisions, based on cognitive and psychological experiments.

3. The uncertainty

One of the factors which have a decisive influence on the economic and social life is the uncertainty. This, in turns, is determined by the unpredictability and insufficient knowledge of economic processes and phenomena. A functional system aimed to achieve future results operates in a situation of uncertainty; risk and uncertainty are not yet options but they are parts of the human condition [15].

Neoclassical economists focused on removing the degree of uncertainty as much as possible. Through approximations, simplifications and calculations, they tried to determine the coordinates of a state of "equilibrium" to which all participants in economic life to tend. For to this end also efforts have been made to develop certain linear models to represent landmarks or universal rules which can be applied at any time when a change occurs.

On the other hand, heterodox economists realized the difficulty (if not impossibility) to achieve such a state, given that each individual is allowed to act freely on the market. People make decisions being ignorant of the existence of any equilibrium point which they or their competitors "must" find. The adjustment and adaptation of the economy state when a change occurs could be achieved through state intervention, which is considered by heterodox economists most appropriate solution to avoid inconsistencies; through research and statistical studies that it

undertakes, the State is in possession of most relevant information for right decisions.

Origin of the concepts of risk and uncertainty is lost somewhere in history but their use in economics is relatively recent, being utilized for the first time by Frank Knight, who works with these concepts to clarify the meaning of economic concepts such as: profit, investment decisions, financing, size and structure of firms. The founder of the Chicago School defines risk as the possibility of obtaining or not certain results based on known probabilities, the decision maker can connect possible random events with certain mathematical probabilities. The uncertainty occurs when the probabilities are unknown, so events cannot be expressed in terms of *certain* mathematical probabilities.

Throughout his work, Von Mises dedicates large spaces to the study of human action, laying the foundations of praxeology, the methodology that will have defined Austrian apriorism. Von Mises's sense of uncertainty is very clear: the fact that the economic agent acts and that the future is under uncertainty does not stand for two themes that are not independent but two different ways to state the same.[16]

Adopting the Misesian logic, we find a syllogism here [17] with a standard structure (two premises and a conclusion): major premise (future is uncertain) - contains major term and predicate of the conclusion, the minor premise (action takes place in the future) - contains the minor term and subject of the conclusion and the conclusion (action is uncertain) - contains subject and predicate.

In the absence of uncertainty, human behavior is reduced to a mechanical reaction to stimuli; but the essence of life is to search, it represents an aspiration to discover what is more convenient for us. Looking from this perspective, uncertainty seems essential for the development, creation, action, evolution.

Concerned about the relationship between uncertainty and confidence, German sociologist Niklaus Luhmann [18] considers that the dynamics of these two variables are closely correlated. As long as uncertainty is an intrinsic characteristic of life of individuals and society, his reductant - trust - allow the functioning of society [19]. On the same line of thought, showing a special predilection for formal and informal

institutions research, North believes that these restrictions are designed to reduce the uncertainty of economic agents in their daily interactions; uncertainty is the result of incomplete information on the behavior of other individuals and of existing limits in interpreting this information. [20] Therefore, there is a special relationship between institutions, uncertainty and trust: the lack of trust in institutions makes them inoperative and when there is trust the remaining uncertainty (even residual forms) remains a problem for decision makers.

In a complex and uncertain environment, the transactions between economic agents require adjustment calculations; under asymmetric information conditions, the subjects of economic action cannot certainly forecast the future, based on their experiences. The access to information materializes into transaction costs; some agents may sustain them, others not. On the line of thinking opened by Simon, Williamson uses the limited rationality by putting an economic agent in the center of the action, facing various adapting difficulties, some limits derived from their ability and capacity, complexity of information and communication barriers: the future can be only subjectively assessed and approximately predicted [21].

4. Conclusions

Complexity paradigm polarize neoclassical and heterodox approaches in a new light, which keeps mathematical tools, but it makes it more efficient, basing on computational modeling to analyze non-linear events on different time series, developing predictions on the link between and evolution of seemingly random phenomena. New theories based on complexity vision admit that individuals have a limited amount of information to underlie the decisions but through constant interactions that take place between them, knowledge spreads in the environment and reach all participants; from these processes it is projecting the structure of social institutions that will determine the emergent behavior of the system and the adaptation to the new change.

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The Economy as a Complex System

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Abstract

Systemic approach of the economic phenomena and processes is already a tradition in the economic literature, this perception underpinning the emergence of what was to become the paradigm of complexity.

The philosophy that has governed the science in the modern period is going through a deep crisis that cannot be exceeded if the scientists are faithful to the mechanistic paradigm which has dominated history of thinking for centuries. Only through the returning to origins, to the simplicity of nature, by binding its links with deep philosophical and spiritual tradition, science can regain its status as a source of knowledge.

Key words: systemic philosophy, complex systems, holism.

J.E.L. classification: A12, B30, B41.

1. Introduction

In his book, *The Architecture of Complexity*, Nobel laureate for economics in 1978, Herbert Simon [1] states its intention to reform economic thinking by theorizing economic systems as complex systems. Even though at first his ideas were considered to be too vanguardist, his conception of complexity seen as an intrinsic characteristic of systems contributed to the foundation of the new paradigm of thinking that, it seems, will dominate the scientific research of the twenty-first century. The author believes that reductionist solutions to simplify the complexity generate inaccurate results; in order to make accurate predictions we have to operate complexity without simplifying it by using modelling.

2. On a theory of complex economic systems

Fritjof Capra, physicist and systems theorist, describes the current economy as a global metanetwork of complex technological and human interactions with multiple feedback loops that operate far from equilibrium and produce a variety of phenomena perpetually emerging [2]. Current global financial networks present a profound instability that produces random patterns of information turbulence causing destabilization of national and regional economies, regardless of their economic performance [3]. Circuits of global economy that must react to torrent of information tends to cause system instability, as a whole; without the design and implementation of stabilizing mechanisms the new economy will remain unstable.

The information technology revolution [4] based on the synergetic effects of three major domains, computers, microelectronics and telecommunications led to the rise of global capitalism. The new capitalism is much younger, extended, flexible, with the fundamental aspects [5]: globalization of economic activities, structuring around networks of financial flows, innovation, knowledge generation and information processing as the main source of productivity.

Distinctive feature for our times, the global economic system is characterized by close interaction and continuous change. Being aware of dynamic economic processes, the contemporary economists present economy as a continuous flow, a complex system that sets multiple equilibria; the neoclassical equilibrium proved to be a stale thinking approach. Based on the premise that the economy is complex, researchers mark the sunset of neoclassical economics, a new

era is coming: the complexity era in economics [6]

Janos Kornai accomplishes a highly original approach to economic system in „Anti-equilibrium. On Economic Systems Theory and the Tasks of Research”. The author establishes an isomorphism between economic reality and the concept of living economic system; this system is working based on the same regularities that are specific to all complex systems.

Combating the idea of formalizing and putting economic activities in abstract contours, Kornai rejects the hypothesis of homo oeconomicus overly rational, capable of precise mathematical calculations to substantiate his business decisions. Homo sociologicus proposed by the author behaves naturally, often cleverly, sometimes in a less intelligent way; most human beings are combining strict rationality with irrationality [7].

Conceived as a critique of the general equilibrium theory, the book reveals a whole new vision on the functioning of economic systems: by receiving inputs and release of outputs, economic systems undergo constant transformation of their internal state, informational and material items. Dualistic approaches to the actual economic systems require separation of real processes (production, circulation and consumption) and the control processes (observation, transmission and processing of information, training and decision-making). This separation between material and intellectual processes are performed only in theory, in practice these activities interwave and influence each other [8].

Information flow within the economic systems plays a central role, as system complexity increases, the informations multiply and execute the function of control. Bonds are formed in this system both vertically and horizontally, the organization is accomplished on several levels. The system consists of several subsystems, each with its own organization and as the more subsystems develop, the more the complexity of the whole system grows; intrasystemic relations are governed by institutions as a set of rules, norms and values that form patterns of behavior [9]. The relationship between the initial state, inputs, outputs and state transformations describe a reaction function.

The impulse consist of the inputs and the initial state and the reaction is influenced by impulse and random factors, thus revealing causal relationship only partially, the connection having a stochastic character.

Seen through the systemic approach, the national economy has the attributes of a cybernetic system with self-regulating properties, captured by the capacity to respond to the action of internal and external disturbances and to maintain self-control at different periods of time. [10]

3. Systemic philosophy - an integrative vision

Systemic thinking is a pre-eminence of holism, adopting a synarchical approach, embodied in a comprehensive theory able to identify and formulate all generally applicable natural laws, to decipher the secret of the universe, set it out as a general principle. This is also the great ambition of physicists to build the great unification theory [11] of all known forces in their diversity, theory that could not be developed until now although it had been made important progress in this direction.

Among the doctrines which promise a new qualitative leap in science we could remark the recurrence of *Hermeticism* [12] and *Gnosticism* [13]. We are witnessing a renaissance in new clothes of the values promoted by ancient civilizations that tend to restore the whole man, fully man and his rebirth, his metamorphosis through knowledge (Gnosis) [14]. The first principle of Hermes “What is up, it is down and what is great, it is even less” could be found illustrated in many contemporary scientific papers that are intended to be rewriting of the history of science from different context. The ambition of physicists to discover “God’s particle” [15] is nothing but a recognition of divine omnipresence, of the superposition “God is in the atom” and of biblical truth that man is created in God's image; fractal geometry of Benoit B. Mandelbrot reveals a microcosm seen as a reflection of the macrocosm. It seems that the law of conservation of information is rediscovered two millennia after the alchemists were focused on etheric body, which after the release of his material part what would become nothing but informational gain?

Quantum physics deals with atoms and particles as parts in a universal structure that is based on a cosmic harmony, in which the whole is not determined by the parties but the parties are determined by the whole and photons are quanta of energy that get information and act accordingly [16].

New holistic paradigm fills the gap that opened between science and religion, creates bridges between forms of knowledge, brings the respiritualization of science. New Gnosis language is the Word, the pre-Babel one, Gnosis is the knowledge through the love of light of faith, the recognition of the reality of God, invisibly visible in eternal mystery [17].

Considering the reality a flow and a continuous transformation, Chinese Taoist philosophy [18] focus on the cyclical nature of observable phenomena and argues that all developments in nature, both material and social follow a cyclic path. The Taoist cyclical model is based on polarity and complementarity and on the dynamic interaction between the two archetypal poles *yin* and *yang*, *feminine* and *masculine*; the natural order is the result of dynamic balance between the two extreme poles of a single whole. [19]

4. Conclusions

Ontologically, the world is seen through the events in a whole-system context and the phenomena are considered integrated modules, engaged in systemic interrelations and headed towards the achievement of objectives.

Epistemologically, systemic thinking brings into focus a reorientation of knowledge and a new vision upon the world, it is a syncretic thinking, much larger than the classical paradigm that admits that the object is the ontological ground of existence. This new paradigm of thinking basically admits that the first principle of universe is the relation and the mutual influences between elements are perceived as inherently dynamic. The world thus appears as a complicated texture of events, in which connections of different kinds substitute, intersect or combine, resulting in the texture of the whole [20]; the network is the fundamental model of organization of systemic philosophy to find the meanings of life.

5. Acknowledgements

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Financial and Accounting Information System – Central Component of Economic Information System

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Abstract

Increasingly rapid changes in the business environment, increase the amount of data they work with an organization and greater competition in the business environment have caused systems to become an essential and vital to the success of an organization. Performance of an organization is assured while conditioned by the quality of decisions made by its manager. Making the best decisions based on large amounts of information and complex process of analysis and synthesis thereof.

Information necessary for decision making can be achieved due to the existence of an efficient, with which the data should be presented quickly, synthetic and equally relevant but give the opportunity to conduct complex analysis and some predictions..

Key words: information system, integrated information systems, financial accounting information system, decision makers, information technology

JEL classification.: C80, C88

1. Introduction

Global economy is strongly marked and influenced by technological progress in the past decades progress, which can be characterized by an unprecedented exponential growth. Hardware industry development is closely interrelated with the development of software industry.

In a few decades, computer science has grown very dynamic, unprecedented, and after his division were paved emergence of strictly specialized areas. A branch which has

attached particular importance is related to the production software, focusing on programming languages, applications and systems.

According to some studies in this field in the last 20 years we are witnessing a boom in business development, development which is based on financial globalization and especially the impact of increasingly higher you have the development of information technology. Between these two phenomena are linked quite strong: on the one hand, financial globalization is based on technological innovation and on the other hand, information technology has developed dynamically since financial capital is available.

2. What is a system?

In the current economic conditions in a computerized society, any organization can survive without having the right information in real time, both inside and outside. Collection, processing, storing and transmitting information and knowledge is the task and objectives of the information system available to the organization.

The concept of system is very common and made the subject of many papers and literature [9] abounds in a lot of definitions and concepts, such as:

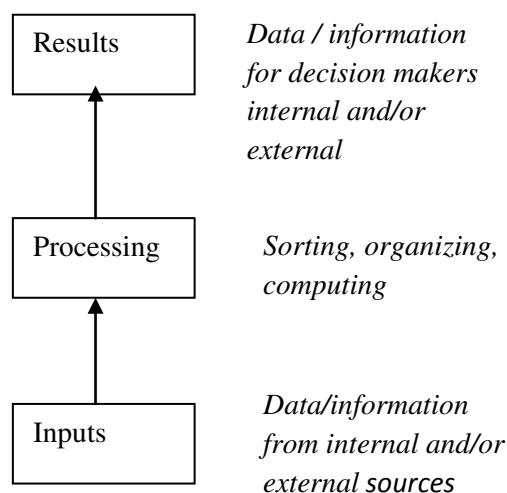
- a set of elements which interact (Ludwig von Bertalanffy);
- a lot of elements in the management of the proceedings (L. Nicolov);
- a hierarchical structure with one input and one output (RE Kalman, Falb and MA Arbib R.);
- lots of relationships (M. Mesarovic);

- a generally refers to a coordinated set of items (linked by coherent) aimed at specific targets [1].

3. Informatic systems

In any economic unit, the gathering, data processing and results is made according to organizational procedures established by law or by rules of procedure. Thus, the entries in a system consists of data or information (originating from the origin documents) that are processed obtaining information for planning, decision making and control. For a better illustration, the figure below are phases of an operation.

Figure 1: Distinct phases of system operation



Sources: Data processed by the author [6]

Information system can be defined as a technical-organizational anasamblu finding procedures, record, collection, verification, transmission, storage and processing in order to meet the requirements necessary information in the substantiation and development management decisions [2].

Computer systems can take the form of a "black box" that has information entries. These are amenable to obtain information necessary for substantiating decisions through resources, rules and procedures [10].

Information systems play a crucial role in creating competitive firms to global business management and providing useful products and services to customers. Business globalization, the emergence of the digital economy and expansion of the Internet and other global communication networks have reshaped the role of information systems in

business and management. The Internet provides the necessary IT infrastructure for new business models, new processes of doing business and new ways of disseminating knowledge [5].

Today, information systems are used at all hierarchical levels and in all essentials activities of a company, the most significant developments is to assist management decisions at both operational, tactical or strategic (identifying new products, customers and suppliers, developing and evaluating strategies market and marketing campaigns) [4].

The importance of information systems lies mainly in the effective and responsible understanding by all leaders (managers) or people in an organization need to adapt to the global information society. Computer systems today are increasingly becoming a vital component of business success for an organization or an entrepreneur [7].

Information system plays a dual role: on the one hand provide all the information necessary to make decisions on all levels of responsibility, leadership and control on the other hand provides communication paths between other subsystems, as the decisions made by management subsystem are transmitted factors execution by information subsystem (downward flow).

4. Financial and accounting information system

When referring to the information system of an organization actually talking about a set of information systems. Accounting information system Oneness is one of the five subsystems of a business, yet we can say that the accounting information system is the greatest of all information subsystems of the organization, due to the high volume of financial and accounting information (over 40%), serving as a central part of the information system. Professor Dr. Dumitru Oprea show that over 80% of circulating information within an organization's information system is economical, and from this 47% is an accounting [8].

The collection, storage and processing of financial and accounting data that is used by decision makers. An accounting information system is generally a computer-based method

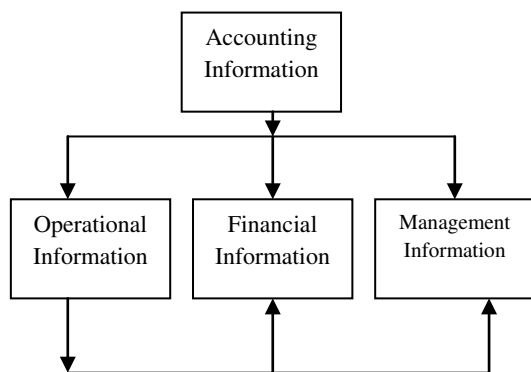
for tracking accounting activity in conjunction with information technology resources. The resulting statistical reports can be used internally by management or externally by other interested parties including investors, creditors and tax authorities [11].

In analyzing the overall efficiency of an enterprise is very important quantity and quality of financial and accounting information existing in the system at a time of economic enterprise, preferably at levels of more analytical. Quality of financial information is given and information system that uses economic organization.

Accounting information systems can provide a wealth of information and data types: financial, non-financial data, analysis results of data management, information search or anticipation, management information about shareholders, etc.

In a financial and accounting information system have three categories of information that there is a relationship between interaction as shown in the following figure.

Figure 2: Categories of accounting information



Sources: Data processed by the author

Accounting information circulating in the financial accounting information system refers to the following types of information:

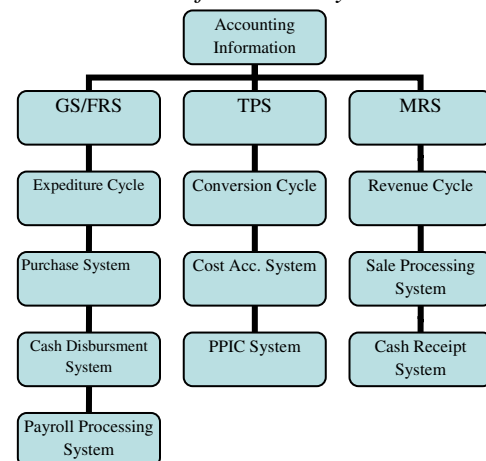
- *Operational information*: this category is represented by a large amount of data needed to manage daily activities of the organization;
- *Financial information*: they are used both managers and the organization external bodies, being derived from operational data processing or data archives;
- *Information management*: this category includes accounting information for the modspecial managers that have been derived from operational data processing as well as data from previous periods (historical data).

A traditional accounting system mainly deals with the collection, processing and obtaining financial results to be sent to external (such as investors, creditors and the Ministry of Finance) and the internal (in general management structures A modern accounting system handles both non-financial information and financial data and information.

The accounting information system is composed of three major subsystems [12]:

- *The transaction processing system (TPS)*: which supports daily business operations with numeros reports, documents and messages for users throughout the organization;
- *The general ledger/financial reporting systems (GS/FRS)*, which produces the traditional financial statement, suchas the income statement, balance sheet, statement of cash flows, tax returns and other repeorts required by law;
- *The management reporting systems (MRS)*, which provides internal management with special purpose financial reports and information needed for decison making such as budgets, variance reports and responsibility reports

Figura 2: Framework for Accounting Information System



Source:

<http://www.scribd.com/doc/14528878/Accounting-Information-System>

Sign financial information systems and provide reports of business transactions and other economic activities in the course of running the company. With these systems are highlighted accounting records in chronological order, you can achieve financial forecasting, it is envisaged credit

and liquidity management can be obtained statements of financial performance of the company.

Depending on the technology used by the form and performance offered by these systems can be stand alone, isolated software applications (multi or small functions, all but with a core of basic functions without financial activity book can not take place, which is based on hardware and software running on more or less efficient in terms of possibilities, which are easier or harder to exploit, which communicates directly with other software like it or not, as the case but only by user intervention) or can be modules of complex systems that communicate directly with one another for doing business to ensure efficiency of economic organizations (ERP modular systems that can have more or fewer modules can be more or less efficient, only communicating directly or with the help of user).

In our days we talk about integrated systems. They provide users a number of advantages such as:

- Reducing long-term costs;
- Rapid recovery of investment in IT
- Increasing operational efficiency.

ERP-system developed to date have several elements which enter into their composition: classifications, receipts, payments, payroll, human resources, production planning, project management, production tracking, scheduling and tracking consumption and costs, and financial component and accounting and general accounting. [3].

The main functionality of this component are the following: automation recording financial information taken from primary documents, achieving complete accounting, analytical and summary level. Most times, this component made only financial accounting functions, ie obtaining synthetic accounting documents required by law (balance sheet, reporting VAT taxes to the budget) and those of accounting (accounting notes, register log records, accounts, cash book, sales and purchases journals, trial balance etc.). This component can be associated analysis module, type dashboard (specific MIS system or EIS), which provides summary information and intelligence on firm performance, managers need decision-making. Based on data of accounting,

different indicators are calculated, showing the financial results of the company, such as income and expenses on products / services, financial cash situation etc.

In addition to achieving data integration and reporting on activities Hardware organization as the main benefits of implementing an ERP Financial Accounting model has the major advantage automate specific operations at a rate of up to 95%, depending on the degree of customization application. Automate operations is made possible by the high degree of repeatability of financial and accounting operations and involves the application of templates already predefined existente the application or implementation. Besides increasing operating speed, automation enables people with little accounting knowledge to yet he works with this application, and also prevents human errors in some operations.

5. Conclusions

We live in an information society and any modern organization can survive without access to real-time information, accurate and consistent. Operations task processing, storage, transmission and supply of information back information system. Thus, any organization should integrate modern information technology to its business organization to be competitive in a market increasingly competitive.

Financial and accounting information system within an organization because managing the largest volume provides information for other systems, premises operating at high efficiency levels and provides the organization in charge of management support, correct and timely information for make the best decisions.

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A Historical Perspective on Luxury

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Abstract

The word luxury recurs and recurs in contemporary advertising as an attempt by retailers to imply exclusiveness, associated with expensiveness and rarity. It is an inducement to consumption. Yet, the concept is frequently used in a loose or clichéd manner in both everyday language and promotional discourse.

Luxury goods have two formal features: they are refined and positively pleasing. Luxury goods fall under several categories: sustenance (food and drink), shelter, clothing (apparel and accessories like jewelry and perfume) and leisure (entertainment and sporting goods). The standard definition of basic needs will include food, dwelling, and clothing.

Needs, unlike wants, are objective or universal. Wants, unlike needs, are intentional. Unbalanced desires are insatiable.

Key words: luxury, wealth, need, desire.

J.E.L. classification: B00

1. Introduction

Why an attempt to look upon luxury from a historical perspective? Firstly, by looking into how different societies in different ages of our history dealt with luxury, we can get closer to what it really stands for and its connections to other concepts, such as wealth, power, and so on.

Secondly, an in-depth historical perspective will also provide us with valuable insights into democracy, patriotism, social harmony, human values, relationship to God, and other aspects of the human social and economic life.

Thirdly, such an enterprise will point out the fact that throughout history, almost all attempts to control people's propensity to

luxury failed to do so, which shows us clearly that such restrictions today are most likely to fail as well.

Throughout the history of mankind luxury has been a constant element in the lives of individuals and in the works of philosophers, poets, lawmakers, economists. Luxury has been closely examined in view of giving it a proper definition, finding its meanings and characteristics, its origins, causes and consequences. Yet none of the many attempts to do so can boast an exhaustive study of this matter. In its evolution in time, luxury has been both praised and condemned, there were times when its manifestations were encouraged or on the contrary discouraged.

A certain presence of luxury in the human spirit dated as back as the third millennium BC. But for so many centuries it has been associated with the concept of wealth, both being perceived as abundance of material things, as ability to satisfy numerous and various needs and desires.

Luxury exhibits intensive relativity. Since certain luxury goods can at any given time become so widely spread through trade and thus lose their status, many authors have found it difficult to define it. As a relational concept, luxury depends on what the „necessity” is in relation to historical time, subjective judgment, objective scale of measurement. The luxury-necessity relationship makes conceptualizing luxury a true challenge.

As it is subject to temporal mutability, luxury can change over time, and past luxuries can become needs or necessities. Socially-conditioned needs are bound to change. The boundary between basic needs and instrumental needs is historically determined. Plus, in time new needs have the tendency to appear and develop, just as Marx pointed it out.

The word itself comes from Latin – *luxus*, which apparently has Greek roots. It appears that the ancient word emerged in the time of

despotism to refer to excess, abundancy, even debauchery. It is related to the word *luxuria* meaning an abundance of pleasures, especially physical ones. Because of this meaning, many ancient and medieval writers condemned it as useless and immoral and repudiated it under all its forms. This attitude has continued to exist all through the Middle Ages.

The paradoxical nature of luxury consumption was pointed out more than 2,000 years ago by Greek philosophers.

For Plato, all needs are natural and universal. In his times, the Greek city-state comprised three basic needs: food, shelter, and clothing. Still, he identifies several other needs that go further than this absolute minimum.

Aristotle warns against excesses and stands for the mean course between extremes of human behavior. He extended Plato's reasoning stating that the struggle for luxury leads to the polis waging war in order to acquire the means to fulfill all the extra wants.

For Socrates, luxuries, still pertaining to the body, refer to fancy food (dainties), fancy clothes (embroidered) and fancy dwellings (with gold and ivory), all of them offering pleasure.

Roman moralists and legislators were preoccupied with luxury, which „played a central and distinctive role in both Roman thought and practice. For the Romans, and beyond, luxury was a political question because it signified the presence of the potentially disruptive power of human desire, a power which must be policed". (Christopher J. Berry) The very destruction of the Empire was thought to have been the result of the luxurious lifestyle of the Romans.

Christianity added a moral dimension to the luxury problem, the Church treating luxury as a sin. Luxury was synonymous with lust and vice. But let us not forget that in the Middle Ages the Church became an important consumer of luxuries employing them in the service of God.

Later on, the moral arguments were abandoned and the discussion shifted to a more social and economic way analysis. But it was still looked upon as inefficient or useless for society.

The Renaissance brought about new

conditions for the concept of luxury to be comprehended. Thomas More, Jean Bodin, Montaigne, or Sully looked into the issue of luxury as a cultural phenomenon. Luxury goods are seen as status indicators.

Monarchs and aristocrats saw luxury as a sign of personal power and try to manage the issue of luxury goods, but many times this led to social discontent and even social unrest.

Bernard Mandeville is considered the first to have produced an approach of luxury from a positive side. In his Fable of The Bees: or, Private Vices, Public Benefits, he pointed to the positive effects of luxury on the society's welfare. A rich and comfortable life asks for the fabrication and trade of luxury goods.

For Mandeville, luxury is „everything that is not immediately necessary to make Man subsist". But by this definition, very little is not luxury.

Voltaire, Condillac, Montesquieu are other names in whose writings luxury is treated as excessive behavior. Montesquieu defined luxury as living life on the expense of the work of others.

Holbach emphasized the emotional side of this concept. For him, luxury was a passionate competition driven by vanity and the desire to outdo the others. Hume gave it a psychological interpretation, luxury appealing to senses, with a fine line between vice and virtue.

It was the Physiocrats who brought luxury under economic scrutiny. Quesnay and Baudeau spoke of sterile expenditure – the available profit was spent by owners instead of being used to improve the land and the agriculture. This idea that luxury represents special expenses made only by one social class and is a form of wealth waste was embraced by Marx as well.

J. B. Say included luxury into unproductive consume and condemned it as being ostentatious.

Werner Sombart defined luxury as any expenditure that goes beyond the necessary.

He maintained that luxury is a "relational concept" that can be meaningfully defined through its relationship to necessity, even if what is necessary is not fixed.

Sombart distinguished between two senses of luxury – a quantitative sense (associated with squandering) and a

qualitative sense (meaning the use of better or more refined goods).

He suggested yet another distinction, namely that between idealistic or altruistic luxury (for public or ecclesiastical purposes) and materialistic, egoistic luxury (originating from the enjoyment of sensory pleasures).

In 1752, Hume's essay „Of Luxury" was first published but re-titled „Of Refinement in the Arts" in 1760. This essay was meant as his response addressed to Mandeville.

The essay opens with Hume's stating that luxury is a word of ‚uncertain signification'. He defines luxury as 'great refinement in the gratification of the senses'.

He has generally been seen as an applauder of luxury – which is to say commodities that exceed the scope of basic needs – and the consumer society. In his view, the availability and pursuit of material and luxurious commodities benefit both the individual members of a society and the society as a whole.

Jean-Jacques Rousseau and several other contemporaries of Hume were strongly opposed to this sort of thinking, and considered excessive material consumption to be detrimental to human beings.

The ingredients to happiness are action (being occupied), indolence or repose (as a relief from labor), and pleasure. Lethargy and ignorance are banished. Hume regards reason as inert in this issue – very often one vice can be cured by encouraging another vice.

Because of its effects, luxury is seen by Hume as an ingredient in a civilized society. It becomes pernicious when it ceases to be socially beneficial. So Hume admits that luxury can be vicious as well as innocent. For him, the fault of vicious luxury lies with the government. Given that human nature cannot be changed, the task of the government is to change the situation.

In other words, Hume did not claim that luxury is absolutely profitable. He drew the difference between good luxury (refinement of the arts) and bad luxury (vicious luxury). Since no society can be completely exempt from vicious luxury (a small part of the population will always have an opportunity to take their greed to extremes), he made an option for a happy medium between the two, a rather moderate consumption of good luxury restrained and kept under control by means of good laws, administration and

social order. Thus, it would be quite possible to maintain morals and a functioning society with the aid of luxury.

We can trace a link between commerce, luxury and liberty in his writing: a trading nation is potent, its greatness is a synonym for its military power. Power and happiness are increased by the desire for luxury goods. And the growth in commerce draws an increase in liberty. This link between commerce, luxury and liberty can also be traced in Adam Smith's writings.

For Adam Smith, the subject of needs are the need-bearers, whereas the object of needs are the needed objects. So, needed objects are instruments to serve the ends of the need-bearer.

History is the history of opulence, not of basic needs. In other words, the history of growth of opulence is the history of the expansion of needed objects. Objects that were once needed can become redundant, for instance, sharp flints are no longer used, but the need for cutting tools has not changed.

Instrumental needs are not identical. And an activity once pursued out of necessity is later in time pursued as an amusement (hunting, for example).

Smith believes that human industry was employed to procure conveniences (determined according to delicacy of taste) rather than basic necessities.

For Smith, opulence and freedom are the two greatest blessings men can possess (Lectures on Jurisprudence) and it is the modern world of commerce the only one to offer the prospect of those.

Smith assesses desire positively. Selfishness is everyone's natural desire to better their condition.

Adam Smith is the author of the four-stage theory of the history of the mode of satisfaction of needs: the age of hunters, the age of shepherds, the age of farmers or husbandmen, and the commercial age. In the first stage, every man provides everything for himself. In the last stage, it is required the joint labor of a great multitude of workmen in order to meet the need for a warm coat, for example.

The present day economic niche of luxury products exhibits three essential characteristics: scarcity, extra value, and high quality. Many authors indicate yet another characteristic – pricing. Any object is said

to have use value, exchange value, symbolic value, and sign value. Luxury products are liable to have sign value on top of their functional or economical meaning, and are bought for the additional meaning in the consumer's society. When buying such products, the consumer in fact strives for status.

2. The Origins of Luxury

Through the history of economic thought, numerous writers who looked into the concept of luxury have tried to trace its origins and have come up with many a theory.

The Arab philosopher Ibn Khaldun found the origin of luxury in the *abandonment of the nomadic life and the adoption of the sedentary life* which led to the development of crafts, of cities and of luxury goods. He spoke of luxury inside the kitchen, the home as a whole and of the luxury of the owner's cloths.

Montesquieu, Forbonnais and later on Veblen are among the authors who link the birth of luxury to the *inequity of wealth*. Luxury is proportional to the size and wealth of the city, of the country. The great number of inhabitants generates a great amount of vanity and the desire to have the things that the upper class has.

J.J. Rousseau linked luxury to *greed*, which is a form of slavery of the human instincts. He blamed luxury for the poverty of countries.

Jean Baudrillard named four fundamental sources of luxury: *vanity, sensuality, the instinct for adornments, and fashion*. For him, needs and wants are mere instruments to entice the consumer to consume. He speaks of primary needs, minimal consumption level, and normal life.

In 1899, Thorstein Veblen, in his *Theory of the Leisure Class*, described the world of the late nineteenth century American upper class and their ways to show off their wealth. He considered luxury to be a *status symbol* belonging exclusively to this class. The industrious class is to consume only what is necessary to their subsistence. And yet, being rich and having money is not a guarantee for prestige and power. Only the showing off of one's wealth can ensure a certain position in society.

Veblen presents a seminal model of conspicuous consumption, theorizing that individuals emulate the consumption patterns of those individuals at a higher point in the social hierarchy.

3. Forms of luxury

In terms of forms, ancient authors spoke of luxury in relation to food, clothing, and home. Later on, adornments were also considered as springing from the embellishment instinct.

In terms of extent, luxury can be a complete or general nation-scale phenomenon or it can be detected only among the members of the upper classes.

In terms of intensity, luxury can be moderate or excessive, which can lead to ruin.

Another distinction was made between internal or active luxury and external or passive luxury, from the point of view of the origin of luxury goods or the resources they are made of – either locally or nationally manufactured or imported from other countries. External luxury was seen as detrimental to the local or national economy and to the morale of the citizens. Internal luxury, on the other hand, could help both agriculture and industry, would entice people to increase their income and would also help art to develop and to diversify. But active luxury could very well lead to an abundance of money which would cause prices to rise and, as a result, would make less expensive imported goods extremely attractive. And not even prohibition could stop the decline of agriculture, crafts and manufactures, because economic laws are much more powerful than the various laws issued by lawmakers. Through passive luxury a country can dispose of some of the cash it possesses, and that would have positive consequences on its economy.

Luxury was also analyzed and classified in relation to people's needs and financial means. There are forms of luxury that match the fundamental needs of the individual and his income, thus being legal and moral. But there are also forms of luxury that are to be condemned on ostentation grounds.

Other distinctions have been made between private and public luxury.

Charles Gides spoke about harmful luxury

or anti-economic luxury given as an example the use of agricultural lands for hunting. An example of harmless luxury would be art collecting.

Greed and lust generate harmful luxury, whereas intellectual and artistic needs generate scientific or artistic luxury.

From a historical perspective we can speak of savage luxury as opposed to civilized luxury, religious and symbolic luxury such as the one in Ancient Egypt, corrupt and abusive luxury such as the one in Babylon, banquet luxury in Ancient Greece, public buildings luxury of the Roman Empire, church related luxury and feudal luxury in the Middle Ages, and modern luxury dating since the 17th century.

4. Conclusion

The fact is, no matter what its origins and forms may be, we simply cannot imagine a society without luxury. Widely debated in human history, the concept is wider than any definition and is constantly changing its appearance over time.

All in all, two main approaches to luxury can be discerned. Luxury is deemed to be

negative for society since it erodes the strength of that society. Also, luxury is blamed for its moral inappropriateness. Since it creates an unhealthy and weak state, there have been repeated attempts to ban it from society or institutionalize it.

The concept of luxury has had an eventful history and continues to be surrounded by controversy and to generate debate in terms of definition, forms and origins.

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The Monetary Policy's Impact on the Inflationary Process of the Romanian Economy

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Abstract

The economic growth and the research of the inflation, as objectives of the monetary policy of a country, are a major problem for all the monetary authorities of all countries and a priority for economic analyses from different times.

The fact that in the 20th century, all countries have known the inflation, most of them even the hyperinflation, proves that this type of inflationist processes, which are out of control, have recently been carried out and are still carried out in numerous countries from all continents, and the impact of this phenomenon cannot be neglected at all.

The economic history proved that no economy is insured by the unfavorable impact of the inflation.

The central bank's main purpose is the control of the amount of money available in economy, so the economy's normal functionality and balanced development can be insured.

Keywords: central bank, government, inflation, monetary policy, hyperinflation.

Clasificare J.E.L.: E50, E52, E58, E60.

Introduction

The events which were determined at the beginning of the transition from the centralized, totalitarian economy, to the market economy, led to a major monetary imbalance just as it happened to the other countries from Central and Eastern Europe, which started the same way. But even before

1989, great and profound imbalances have started to occur next to the economic downswing, and the inflation has taken the most dangerous form, the repressed one, manifested through penury generalized by merchandise and forced saving.

Our country has experienced with an inflationist process whose duration and amplitude was greater than the majority of the other transitional countries, as a consequence of multiple causes: the rigid price system inherited from the old regime, the administratively controlled prices, the major imbalances of economy's real sector, the external impacts which have determined the authorities to choose the prudent and gradually liberalization. The first caution had solid reasons of political and social decree and proved to be an acceptable short term measure, but was hardly endured on medium term. The trial of solving the effects and not the causes of the phenomena, had only amplified the inflationist pressures and increased the cost of the inflationist measures.

It can be appreciated that holding the inflation in place and reducing it to levels that can be compared to the ones registered in countries with a mature market economy represents not only a prime objective but a measurement unit of the performances of the romanian authorities' economic policy who have proposed the accomplishment of a long term economic growth, as a main objective of economic policy.

Within this context, the central bank of Romania has proceeded to change the monetary policy's strategy and to carry the inflation targeting which allows the targeting of the inflation differential predictions in

order to insure monetary stability, as well as the reduction of the inflation at a compatible level with the Economic and Monetary Union’s membership.

The monetary policy’s strategy of the Central Bank

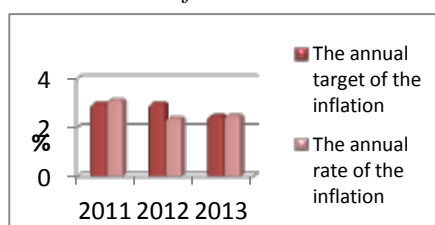
Since the adhesion to the European Union, and, as well as it’s admission to the European System of Central Banks, the National Bank of Romania is responsible to analyze the economic situation of the country, to evaluate the fundamental balances of the economy which can be endangered by an evolution or another of macroeconomic indicators, and to adopt the monetary policy’s strategies in order to guarantee the main objective which is the insurance of the monetary stability.

The prices’ stability contribute to the financial stability, because it takes away the dysfunctionalities and the uncertainties which can emerge at the market level as a consequence of the prices’ instability.

In order to consistently fulfill it’s main purpose, the National Bank of Romania has proceeded to the revision of the monetary policy. In 2005 it officially went to the strategy of direct targeting of the inflation, target which couldn’t be reached by the bank in the last four years, and which was predicted to 3 % in 2012.

The following chart shows that in 2011, the annual inflation rate outgrew the set target of 3 % with 0.14 %. In 2012 and 2013 an annual rate of inflation which keeps up with the fixed targets is estimated ^[1].

Chart no 1. Previsions on the inflationary trend of Romania

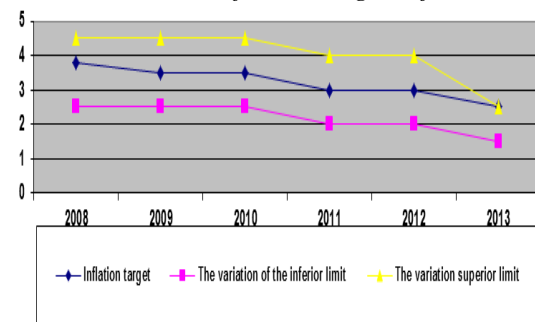


Source: NBR, Inflation Report, May 2012.

It can be observed from the figure number 2 that until 2012, the inflation targets haven’t reached the inferior limit, nor the superior one, but in 2013 it is estimated that the

inflation will reach the superior limit of 2.5 % (see chart no.1).

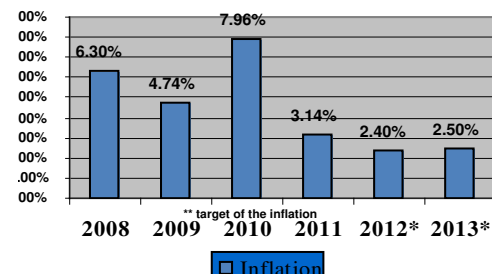
Chart no.2. The inflation targets of Romania



Source: NBR, The Inflation Report, May 2012.

The restrospective analysis on a long term period shows that, in Romania, the inflation measured through consumer prices positioned itself on a clearly descendent trend, reaching the lowest historical level, at the end of December 2011, of 3.14 %^[4].

Chart no.3. The inflationary process evolution between 2008- 2013 years



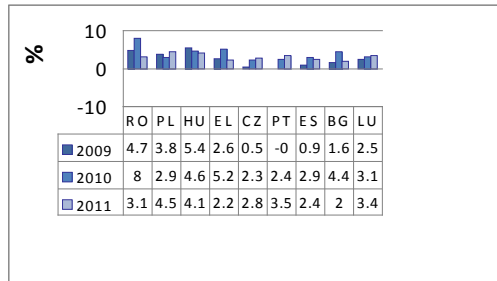
Source: NBR, Inflation Report, May 2012

The substantial decrease of the inflation rate in the second part of the year has been sustained by the relief of the food and energy commodity market (on the background of a good agricultural production on a national and international level and, as well as the petroleum’s external price’s evolution).

As it can be seen in the forth figure, if in 2010, in Romania, the highest rate of inflation was 7.96 %, being followed by Hungary and Bulgaria, with a level of 4.6 % and 4.4 %, in December 2011, the annual inflation rate was lower in countries such as Bulgaria (2 %) and Greece (2.2 %), and the highest level was registered in Poland (4.5

%) and Hungary (4.4 %). The lowest average annual rate of inflation from 2011 was registered in Czech Republic and the highest was registered in Romania (5.8 %)^[3].

Chart no.4. Inflation's rate evolution in Romania compared to the EU member states between 2009- 2011



Source: IMF, EUROSTAT.

The NBR, lately took some restrictive measures using the transmission interest rate channel, practiced some high interests intended to maintain the level of the loans given to people and companies, but those interests influenced the deceleration of the economic growth and the administration of the cash situation on the monetary market. In view of the orientation of the short term interest rates, the NBR has a set of instruments of monetary policy, such as: market operations, permanent facilities and the reserve requirements. As for the interests evolution for these operations, as it can be seen in the following table, we can affirm that their evolution is descendant, positioning itself at a 9.25 %, in case we talk about the loan facility, and at a level of 1.25 % when it comes to deposit facility. This evolution is determined by the NBR attempts to stimulate the loan and the consume.

Table no.1. The interest rates of the monetary policy and of the permanent facilities

Valid from:	Monetary policy %	Loan facility %	Deposit facility %
The 30 th of March, 2012	5,25	9,25	1,25
The 3 rd of February, 2012	5,5	9,5	1,5
The 6 th of January, 2012	5,75	9,75	1,75
The 3 rd of November, 2011	6	10	2
The 5 th of May, 2010	6,25	10,25	2,25
The 30 th of March, 2010	6,5	10,5	2,5
The 4 th of February, 2010	7	11	3

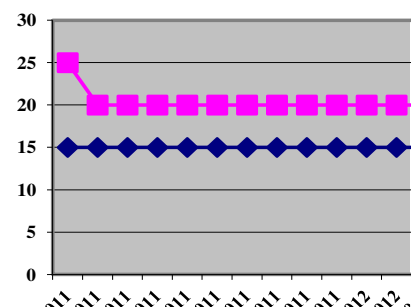
The 6 th of January, 2010	7,5	11,5	3,5
The 30 th of September, 2009	8	12	4
The 5 th of August, 2009	8,5	12,5	4,5

Source: <http://www.bnr.ro/Indicatori-de-politica-monetara-1744.aspx>

According to table no.1, the interest rates on the interbank monetary market, have a descendant evolution during this period. As for the interest rate regarding to the loan facility, this is characterized by a descendant evolution on the given period of time. If in 2009, the average level of this rate was 15 %, in 2010 it was kept up at an average high level of 13 %. Nowadays, the level of this rate is 9.25 % and it is settled for the entire analyzed period of time related to the evolution of the monetary policy interest. The interest rate in case of deposit facility was about 4.5 % in 2009, and by the end of 2011 was 2 %. This rate was situated on the same level in 2011, when by the end of that year and the beginning of 2012 a decrease was registered, being nowadays situated at a level of 1.25 % (see chart no.5)

The main functions of RON-denominated reserve requirements are the monetary control and the stabilization of interbank money market rates. The major role of foreign currency-denominated reserve requirements is to contain the expansion of foreign exchange loans.

Chart no.5. The evolution of the reserve requirements in 2011&2012



Source : NBR Inflation Report, April 2012.

During the period of March 2011 and April 2012, the reserve requirements rates were preserved on the same level for both of leu-denominated reserve requirements and of

foreign currency-denominated reserve requirements.

The leu-denominated reserve requirements rate is 15 % p.a., and the foreign currency-denominated reserve requirements is 20 % p.a.

These tendencies are the result of the monetary policy desired to be set up by the National Bank of Romania in order to relaunch the loan activity which is supposed to aid the growth of the consume and the investments.

The decrease of the reserve requirement leads to a more abounding liquidity on the interbank market and this liquidity will allow a better money circulation in the system, and finally will lead to a decrease of the interests. This means that loans in Euro will be slightly cheaper and that there will be a possibility for the banks to easily finance the great infrastructure projects.

By adopting these decisions, the preservation of the sustainable resumption of the disinflation and economic recovery process are taken into consideration.

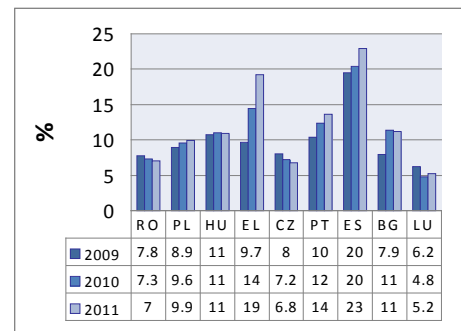
In 2009 and 2010, an attenuation of the loan activity took place in Romania, when the banks have developed a strategy which was determined by prudence. Loan institutions have adapted their strategy, territorial expansion plans, the products portfolio and passed to a detailed supervision of the operational costs.

There were several factors which led to the decrease of the reimbursement capacity of the loans: the growth of the unemployment, the decrease of the payments from the budgetary sector and the stint of some companies' activity.

The evolution of the inflation during the last decade has to be analyzed in the context of a vigorous growth of the gross domestic product until the half of 2008, which was followed by a strong downfall of the economic activity.

In figures number 6 and 7 it is revealed that, by analyzing the unemployment rate, Romania is placed on a less favorable position compared to other countries, but this circumstance is overwhelmed by the levels of the inflation rates, by the gross domestic product/citizen, and by the monthly average payment, indicators for which Romania needs stabilization policies (see chart no.6)

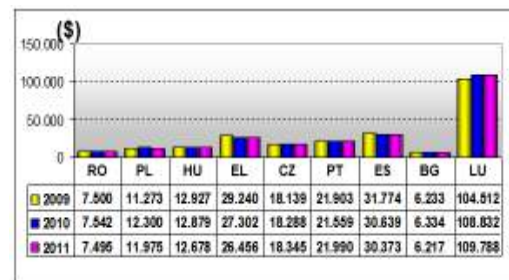
Chart no.6.The unemployment rate in December 2009 and December 2011



Source: IMF, EUROSTAT.

In the following figure, the statistics of the International Monetary Fund show that Romania is on top of the countries with the weakest economic performances between 2009 and 2011. This has also been seen on the life standard level: Romania's gross domestic product/citizen decreased in 2011, until it reached 7495 \$, with approximately 0.99 %, compared to 2010, and with 1 %, compared to 2009. Until 2011, Bulgaria was the european country with the lowest standard of living^[3].

Chart no. 7.GDPt/citizen of Romania during December 2009- December 2011



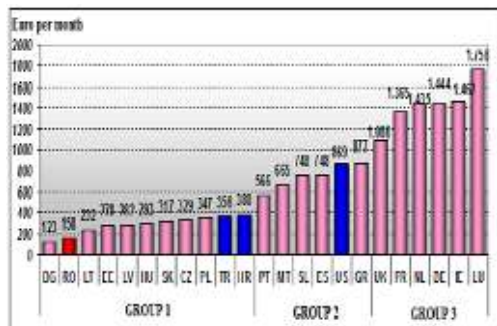
Source: IMF, EUROSTAT.

The adjustments on the labor market were continued in December 2011 as well, the unemployment rate decreased from 7.3 % to 7 % in 2010, and from 7.8 % in 2011; the most important personnel dismissals were registered in industry and buildings.

Figure number 7 shows the minimum levels of the monthly Euro payments in the member states, Croatia, Turkey and The United States in 2011. Amongst the member states, the national minimum gross wage in Euro was between 123 Euro (in Bulgaria) and 1758 Euro (in Luxembourg).

We can also notice that, on the classification of the member states of the European Union with national minimum wage, Romania is situated on the penultimate place, with 153 Euro per month, with only 30 Euro more than its neighbor, Bulgaria, both being the last on the top concerning the wages in the European Union (chart no.8).

Chart no. 8. The monthly minimum wage in Euro in 2011



Source: IMF, EUROSTAT.

This fact had consequences on the volume of the provisions which the banks had to come up with and on the profitability.

Conclusions

The option regarding the aiming of the inflation as a monetary policy strategy has been justified by the necessity of the accomplishment of a sustainable disinflation, which can allow Romania to adopt the Euro in 2015.

This achievement implies a balanced mix of economic policies, especially the fiscal and income policies, which can assure the decrease of the inflation in the same time with the sustainable maintenance of the economic growth. An evolution such as this one, about the inflationist target, is usually based on the foreign direct investments, which increase the economy's productive capacity and finance an external deficit, even a relatively amounted one.

That is why the National Bank of Romania is currently trying to increase the level of the investments, by a considerable participation of the internal component, based on the increase of the money saving.

The effectiveness of the monetary policy is appreciated by a good relationship between

the fiscal policy and the monetary one, on one side, and between the exchange rate policy and the monetary one, on the other side.

The National Bank of Romania, along with the Government, will have to add, beside the policies about aiming the inflation, those programs that will continue to lead to the economic growth, to insure an adequate functionality of the interbank market and to maintain a sustainable finance of the economy, and also to increase the saving grade and to totally and rationally use the internal financial resources.

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Gorj County and its Stage of Economic Recovery in the Current Crisis

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Abstract:

The global economy is in early stages of recovery after contraction records generated by the economic crisis, but progress is uneven. Some regions are experiencing a revival already, but others continue to struggle.

The same is true for many areas of the world economy which enjoys the financial sector recovery, although still experiencing serious problems. Euromonitor International presents the likely changes in global economic landscape in 2010. The world economy began growing again, but the recovery will be uneven.

Keywords: macroeconomic, policies mix, economic crisis, unhealthy economic growth,
JEL codes: E61, E63

1. Introduction:

Romania's economy is overheated, and growth will slow. The current account deficit will remain at alarming levels, the outlook is worsening fiscal and vulnerability to external shocks is high, especially in this time of global financial crisis.

The international financial crisis was only trigger domestic economic crisis because it has affected funding sources. New consumers in debt, and now we are borrowing more expensive or not. This situation also applies to government and business, and the population.

Vulnerabilities unbalanced economy, with many delayed structural reforms have now become evident. Lost jobs, and this is just the beginning. In 2010, the budget revenue will be lower, because we have a lower growth and will be collected more difficult due to

lack of lichidation [17]. There will be enough to stimulate the central bank lending by reducing interest and reserve requirements.

2. Free tools eliminate financial "toxic" - stop solution for crisis

We have a crisis of overconsumption. It comes from eliminating waste by investing in infrastructure based on multi-programming budget by fiscal reform is not neutral and structural reforms. Lack of local financial instruments "toxic" derivatives such loans subprime – mortgage loans with high risk – has caused many to hope that Romania will not be affected by the crisis that began in the U.S, in summer 2007 [10].

But as the credit crisis has spread to all the world's strongest financial centers, financial institutions lost confidence between banks is knowing which accounts to competitors and, fearing that if they give money to loan, could not them more able to recover.

Thus, it created a financial jam and waves propagated in the Romanian financial institutions. Most affected areas promises to be the automotive, textile manufacturing and construction sector industries, according to Tuesday

Many redundancies were announced, surrendered temporary employment contracts, references to technical unemployment, number of people affected will be between 100,000 and 400,000, according to analysts [15].

It is important that the next period, the lion to maintain as stable against the euro. Probably a variation of less magnitude around the current rate RON / euro will reduce the appetite for further imports, will retain some competitive advantage for Romanian exporters (which however must

take real measures to ensure competitiveness and medium term at least Romanian products), leading eventually to further reduce the current account deficit (especially considering that direct capital investments and remittances from Romanians abroad are no longer at levels from previous periods).

If we look at financial stabilization measures taken by some EU countries, we conclude that they have been and are targeted to players of national interest (of the banking and industrial), with majority being local or controlled by such capital. The restrictions imposed by these states, we find the obligation supported by state banks to finance the local economy a priority country, local SMEs and to reduce, while cross-border exposures. About the same direction and is heading the EU's decisions, whatever they are presented in official documents. I think that the Romanian government and other institutions authorized by adopting a realistic attitude, to focus priority attention and support to banks and Romanian-owned companies (public or private) [7].

3. Conclusions:

Reality shows however that the economy is now Gorj extremely exposed to the crisis.

This is one of the reasons why its effects were felt in the economy so fast Local. Blow to the local economic environment will come in two parts:

- The looming crisis stronger in the construction / real estate (now perhaps May joined the local economic engine), following the developments in international financial markets and restricting lending;

If we look at the local economy in terms of a hierarchy of performance companies, it's quite evident that an important driver of local economic growth is Internal consumption:

- county and local level, the percentage of SMEs relatively competitive in terms of growth in turnover and profit is approx. 5%. A majority of them are We focus on innovative sectors, heavily exposed to changes in circumstances economic (real estate, construction equipment, building materials, distribution and trade) and a strong focus on the local market.

- Approximately two thirds of the Top 10 companies (by turnover) from the sectors building materials, construction, trade,

distribution. Domestic consumption is the engine these industries and the crisis in financial markets, financing and expensiveness restricting lending is expected a significant reduction of economic performance their direct impact on employment and investments for the plan Local. In total there are approx. Gorj 10 companies in those sectors exposed, which can be affected, with a possible negative impact of population and income levels consumption;

- The share of exporting companies in the local economy is very low. Thus in ranking by turnover, Top 10 Gorj, the first export position is only 18. Less than 15% of companies present in the top export activities performed. Home exporting company with Romanian capital, is only ranked 36;

- Also, a statistical relevance of the Regional Directorate of Statistics show that the ratio of Gorj exports and imports in the county's economy is about. 1-3, in favor of imports, a relevant imbalance. Export production value came in the first nine months of the year 2009 is 33.7% of the total delivered, while the foreign trade activity Gorj county, in the first seven months of 2009, is reflected in the achievement of volume export value of EUR 425.1 million and imports totaling 1130.2 million;

- In the city of Gorj and the area of influence Periurban, announced investments in sectors estate and trade, exceeding by a factor of at least four, investing in sectors "tradeable" such as manufacturing or activities with high added value sector services.

Also the share of innovative and emerging sectors that have the potential of an outflow Faster crisis is extremely low. Despite academic potential, number entrepreneurial initiatives in innovative fields is very low, most being focused towards local market, instead of exploring global opportunities in emerging sectors. This represents medium and long term structural growth a boon for both local companies and area economy as a whole. In light of statistics, the vision of the center of Gorj innovation, there is now nothing more than a slogan:

- In highly innovative fields such as research and development, pharmacy, chemistry, equipment industrial computer, the reference number of companies, the

champions is reduced. Thus, in the software development of the approx. 700 active companies, more Less than 20 recorded an annual profit of 10,000 EUR, which is mainly subsidiaries of foreign companies which concentrate manpower and turnover locally. Unlike local entrepreneurs, they did not function or repaired interest to capitalize on local research into new products, transferring value which stems from intellectual property added to the parent company;

- A relevant comparison for the share of innovative sectors in the local economy, shows that of the 7 companies in the software industry, none appears in the Top 10 Gorj (Ranking by turnover), compared with at least 15 of the construction sector. No foreign investment prospect at the moment seems not too pink.

Small and Medium Business provides most jobs and contributes a large proportion of the welfare population and villages from Gorj county budgets. Surely, however, the local entrepreneurship childhood days are over. The local market is more more mature, competition is sharpened, and currently has a need not only the initiative and willingness to risk, but in one measure of competence. Thus, despite recent spectacular economic developments Romania, in recent years, doing business locally in Gorj County, is becoming a reality problematic, especially for SMEs.

High mortality companies (25% canceled the registrations of companies reported under Gorj ORC) is a sign of the increasingly sharp competition in the local economy. A relevant example is aggressive penetration of large commercial operators (briefly became an oligopoly) or international brands at the expense of local economic agents in the field, among whom was registered a significant increase in output from this business. Local entrepreneurs were totally unprepared for the consequences just as they are still unprepared for announced the arrival of other giants such as IKEA.

The competition takes place but also for local resources, especially human resource quality, become more expensive and more rare. In the software sector, for example, costs of salaries employers have registered a growth of over 50% in the last two years, as the advent of foreign companies in Gorj.

Both in Gorj and in South-West, small and medium enterprises, especially young entrepreneurs, face barriers to development and growth, poor access to skills and resources represent an important cause for lack of business development innovative high added value, allowing their sustainability.

Data published by the Ministry of Finance for 2007, reveals a performance relatively low local entrepreneurial initiatives, as well as serious problems of competitiveness, accentuated by Romania's EU accession.

- In Gorj County, approx. 85% of registered companies do not exceed a threshold profit € 10,000 annually, and among SMEs active only 25% exceeding this amount. Only 5% of SMEs active in county Gorj annual turnover of more than 1 million EUR.

- In Gorj, is shaping an economic fault line, between a small number companies with high turnover (about 50) a small platoon of pursuers (approx. 500) and an overwhelming majority of companies that barely survive in an environment increasingly competitive (approximately 15,000 active companies).

And in the future competitive position of small businesses will be increasingly threatened, the context crisis, increasing their vulnerability to foreign capital and large companies in trouble and attracting and retaining qualified staff or the quality and competitiveness of products and services.

If we add into the equation the fact that a majority of SMEs based their growth Gorj or live from local consumption (the activity of market services rendered to the population period January to July 2009 recorded an impressive growth of turnover, 29.5% under DRS Gorj), we get a worrisome prospect for the local economy.

Outlook Crisis is a lasting phenomenon. Most analysts estimate its consequences as at least as serious as that of 1929-1933, some arguing that the extent and impact it will be even higher. In the U.S., paradoxically represent a solution to crisis unsustainable development bases in the U.S. economy (credit risk policy and unsustainable domestic consumption), assuming a restructuring of the foundations of the economy.

Return U.S. economy in crisis, in a shorter period of 5 years is unlikely. The crisis by the U.S. administration inflationary

measures (packages of intervention government) will not only serve to mitigate the short term and to delay its effects. Although the banking sector in Romania has not encountered difficulties in the current context major economic crisis spreads quickly in the real economy, following the entry into recession of the largest Western economies.

Last but not least, at present, Romania is the only EU member country which has recently been relegated to a rating of "non-investment grade, appearance that weighs heavily in the investment policy of companies. The next few years will mean a much tougher screening, between business and built on a sustainable basis those grown in a speculative context. There are no recipes to avoid the crisis, but rather principles that will be applied more widely than in the past:

- Cost and risk management will become vital in managerial decision making. Competitive advantage based on cost will rely more and more.

- In terms of extraordinary volatility in international markets, macro-environmental analysis, understanding the macroeconomic context, especially the European and global level and tracking constant evolution of the markets will become mandatory.

- Following the government's anti-crisis interventions with inflation data, managers need to consider possible measures to protect against devaluations of currencies.

- More voices have warned that the crisis marks the beginning and end of economic development based lending. Due to the shortage of liquidity, lending and restricting growth cost financing, local entrepreneurs will have to focus, at least in the short term and environment, for alternative business models, less dependent on credit.

- Local entrepreneurs inevitably be forced to seek opportunities beyond the local market, and in recession conditions in the euro area economies, the challenge to gain access to new markets emerging will be assumed.

- Competition for local resources and local market will alleviate the short term. Term medium and long but it will intensify, and local firms will need to prepare to compete in the face of foreign competition and determine with greater experience.

Solutions will be sought and the local economy, yet still providing a Gorj important potential resource capable of sustaining strong economic development more than mediocre situation today.

Gorj will be putting his best coaches and excitement in the potential of university. Especially the local economy needs a generation of entrepreneurs who have courage to explore unique and even global market opportunities and business ambition to raise high added value.

Squandering the capital and creativity on a local market even national modest, with predictable limits, there is definitely a solution for the future of the area. Of course, this requires competence and to develop sustainable business and innovation generating high added value. From the perspective of government intervention to support the development of local SMEs, requires a holistic perspective on the promotion of entrepreneurship, which is based on provision of integrated training and assistance in the support structures entrepreneurship, supported by public funds and assets related to economic development policies Local. They should focus on building and integrating in the competitive economic clusters.

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Evolution of Romanian Companies and Global Economic Recession

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Abstract:

The economic crisis that Romania is starting to cross, especially, an internal crisis, caused by the wrong mix of macroeconomic policies taken in recent years. Economic growth is proving such an unhealthy, and that because I was in these years based on increased consumption financed by debt.

Keywords: global economics, evolution companies, economic crisis, economic growth, recession

JEL codes: E61, E63

1. Introduction:

Maintain control of macroeconomic indicators, in terms of a poorly defined budget deficit, a sustainable policy of inflation targeting and ensuring economic growth are the most difficult challenges to the authorities. It is important to follow the leu / euro pursue interest and foreign currency balance (savings and inducing still maintaining adequate liquidity in the economy), and reducing interest rates on loans (banks are willing to work with smaller margins to pass the current period?). Combining national effort (priority) with leverage provided by the international institutions, we will avoid recession in Romania [9].

Private consumption has been excessive, but do not blame people: all macroeconomic measures have been pro-cyclical, stimulating consumption, and most damaging of all, the flat is still defended by its initiators, who will not admit that they erred. Flat stimulate consumption, and today we have the first crisis of overconsumption of Romania [5].

The main cause is the excessive debt. Population can not be blamed, but the future

can be better informed and certainly more cautious on their expectations on revenue. The government may be criticized for having made a monumental strategic error: a period of economic growth, consumption growth and all this was in May and further indebted. The budget deficit increased from 1.3% of GDP in 2008 to 2.6% last year and probably more than 3% this year.

How come the government to borrow hundreds of millions of euro's with a maturity of one week, the only logical conclusion is that either there is no money for current expenses or for those already budgeted for the current year. It is absolutely inadmissible for a period of high growth and increasing budget deficit to grow, therefore, its funding costs in the short term.

2. Economic balance of the year is a disaster

Global economic recession has affected all Romanian companies from largest to stall and block the corner. Moreover, access to funds that banks boast that they make available to the business environment is blocked by the state. Basically, through the Ministry of Finance to borrow from private banks almost all the money market in order to pay public sector salaries and pensions, the government blocks, indirectly, the national economy [4].

According to sources in the financial environment, thousands of businesses around the country expected too hard VAT refunds to which they are entitled and which the IRS late to make, deadlines being exceeded for months. Instead, for every invoice issued, but not received, the state requires businesses to pay VAT decapitalization them and pushing them into bankruptcy. Establish flat tax to be paid even firms that do not record profit this year determined that 120,509 companies to suspend

operations. In this context, there are fewer voices to announce the return of Romanian economy in 2010 [12].

Solution emerging from a crisis of overconsumption is not indiscriminate stimulating consumption. In the best case, so only the tip of the crisis is delayed by several quarters. The crisis in Romania is not the same case with the crisis in U.S. and UE, it can not be treated equally. It is primarily an internal crisis, a crisis of a development model. Naturally, should supported poorest in those moments. But first impulse should not be more money from the budget and more consumers where there is no money in the budget and yet when consumed excessively. No solution to consume goods is not entirely viable Romanian - who are ultimately in Romanian goods? Dacia is a French brand, and a plan for saving the auto industry must think about Europe, because the car market has Community dimension.

Solution emerging from a crisis of overconsumption is more complex than a state aid package that may throw us back in time to high deficits and double-digit inflation. Should start with eliminating waste by reducing administrative expenditures. Cheapest money are those they already have and you can save them. So the savings made, one can think of infrastructure investment plan, because they bring jobs and training have a significant effect on the economy. But infrastructure investments must be made within a multiannual budgetary programming, the only solution to further reduce costs and eliminate erroneous allocation of public funds. Of course, fiscal policy must be directed and mistakes - not necessarily to raise revenue, which is difficult in times of crisis, but to more equitably distribute the tax burden and allow those with access to credit more difficult to safely overcome period crisis.

Also be made public a plan for euro adoption, with a targeted, such a plan will increase our external credibility (and thus will decrease the cost of external financing) and, especially, will require reforms to do so necessary budgetary and fiscal and structural reforms which they kept postponing (ie increasing competition, more flexible labor market, agricultural modernization, reducing bureaucracy).

3. Conclusions:

Four years after the onset of the economic crisis (recorded in the fourth quarter of 2008 for Romania), the Romanian foreign trade structure has changed considerably over the imports. If the first three quarters of 2008 has started with a balance of about 70% on the EU and 30% in the non-European Union during the same period in 2012, the ratio has returned to the same values in the first case, but was changed four percent on the imports to the EU.

The largest share of exports to the EU was reached in 2009, when increased significantly and reached 74.1%, easing supply about one-seventh of the Member States. Later, return to higher levels of exports was made lower rate for EU destinations and their share dropped to 70.4% starting point.

Fig.1: The evolution of Romania's trade in the first nine months of the year, from 2008 to 2012

Anul	Exporturi				Importuri			
	Intra UE 27 (mil.euro)	% tot.	Extra UE 27 (mil.euro)	% tot.	Intra UE 27 (mil.euro)	% tot.	Extra UE 27 (mil.euro)	% tot.
2008	18 247,8	70,4	7 686,4	29,6	30 423,8	69,3	13 490,1	30,7
2009	15 733,1	74,1	5 484,2	25,9	20 737,2	73,1	7 636,4	26,9
2010	19 514,3	72,5	7 117,9	27,5	21 513,8	72,3	8 199,7	27,7
2011	23 961,0	71,2	9 715,7	28,8	29 126,8	71,7	11 448,3	28,2
2012	23 578,7	70,4	9 927,4	29,6	29 785,3	73,3	10 836,5	26,7

Source: <http://cursdeguvernare.ro/cum-au-modificat-cei-4-ani-de-criza-comertul-exterior-al-romaniei-tendinte-si-cauze.html>

Although the last three years, exports to the EU increased by about 50% but those to non-EU countries by about 100%, I did nothing but go back to the 2008 structure. By contrast, imports moved by four percentage points from the non-EU related to the EU and differed in structure relative to exports. While exports in 2012 on non-euro area increased by 30%, imports from non-euro area remained about 20% lower in comparison with those of 2008, which contributed to the trade balance. If the deficit with the EU has halved, from about 12 billion to 6 billion, one non-EU relationship has fallen dramatically, almost six times (see table).

Fig.2: Modification deficit between 2008 - 2012

Modificarea deficitului comercial între 2008 și 2012				
Anul	Deficit comercial			
	Intra UE 27 (mil.euro)	% tot.	Extra UE 27 (mil.euro)	% tot.
9 luni din 2008	12.176,0	67,7	5.803,7	32,3
9 luni din 2012	6.206,6	87,2	909,1	12,8

Source: <http://cursdeguvernare.ro/cum-au-modificat-cei-4-ani-de-criza-comertul-exterior-al-romaniei-tendinte-si-cauze.html>

Note that trade adjustment without foreign investment was brutal, with the deficit falling from almost 18 billion euros (9 months of 2008) to about 7 billion euros (9 months of 2009, the value that is found in 2012).

On one hand, this has contributed to macroeconomic balance and stabilize the exchange rate on a reasonable landing on the other side of the brake resulted in a strong rate of economic development and access to financial resources imposed the IMF and World Bank, and and support from the EU.

45% decrease in imports from non-euro area between 2008 and 2009 was quite exceptional and has not been recovered as the dollar rose from £ 2.52 in 2008 to an average of 3.46 USD for the first three quarters of 2012 (almost 40%, which reduced) while the euro has gained much less land, from £ 3.68 to £ 4.43.

The fact is that in the international trade, net devaluation different leu against the euro and dollar (given that the dollar has appreciated significantly against the euro in the last four years) and distinct evolution of demand from partner countries have resulted in movement of goods inputs to the supplies to the EU and non-EU, the relative change of the weights on the two streams with stabilized (values are similar for both exports and imports in 2011 and 2012).

Last but not least, by building partnerships between academics, business and local administration, future initiatives should ensure coherence of policies and initiatives to support local businesses and regional development and policy local economy.

Standard of living has improved this year compared to 2010, but still far from living standards we got used during the year preceding the crisis, as statistics show.

In 2011, the first year of Romania's economic growth since the beginning of the

crisis, we can say that Romanians have felt in his pockets a little refreshment. Low inflation and slightly higher wages created preconditions for improving living standards.

Thus, the statistics show that from October 2010 to October 2011 (the latest month for which the National Statistics Institute presented data on the evolution of earnings) net wages increased slightly above inflation. "It seems that 2012 was a relatively better year than last year, in terms of living standards," said Ionut Dumitru, President of the Council Tax. Advertisement [17]

At the end of October, average net nominal wage increased by 8.9% compared with same month last year, while the annual inflation was at the end of October, 3.55%. The National Institute of Statistics, real earnings increased over the same period last year by 5%. 2011 seems to be marked as a reversal of the first years of crisis, the standard of living has eroded continuously [14].

Progress this year appears to have been, therefore, somewhat better than previous years, but not much. In late October last year, annual inflation was 7.88%. That same month, the average net wage fell relative to the same month in 2009 to 2.5% and real earning index over the same period last year show a 10% decline in living standards. No Romanian situation late last year was no pink in the last month of 2010 real earnings decreasing by 6.2% over the same period last year. Romanians have experienced a decline in purchasing power in 2009 compared to 2008, real earnings calculated by the Institute of Statistics is lower by 5.3%[17].

Despite relatively good living standards in the first months of 2010, Romanians are far from living standards in 2008, the year preceding the crisis.

We have not yet reached 2008 levels.

Thus, in October 2011, net average earning was 1457 lei, with only 9.4% higher than the same month of 2008. Erosion due to inflation is, however, that the purchasing power of Romanians is now lower than it was three years ago. In the last three years, consumer price index increased by 16.51%. Most in the last three years non-food prices went up by about 22%, and the less food, which occurred in the three years of a price increase slightly over 8%. At the same time, services have increased by over 19% [16].

"We are still far from its 2008 level, but we must not forget that the standards of living have been achieved from a combination of illusion and reality, more data on loans by banks, shopping chain, an economic boom that was just partially sustainable," said Adrian Vasilescu, adviser to the Governor of BNR Governor Mugur Isarescu [17].

Some areas of the economy such as IT and some industrial companies, especially those that export activity, and allowed to grant salary increases in recent years even in crisis, given that their businesses were less affected. The trend of wage growth in these segments could continue next year, although the economy may not grow as well in 2012 compared to 2011. If this year many analysts believe that we have an increase of over 2% in 2012, estimates indicate a level between 0.5 and 2% [12].

Fig.3: Evolution of wages and prices in the last four years



Source: <http://www.evz.ro/article/detalils-article/829426/>
President of the World Bank

"The public sector does not think it will be but instead of wage increases," commented, for EVZ, Ionut Dumitru, tele Presidents Council Tax. Public sector wage increase would put pressure on the state budget. Government has negotiated with foreign donors a budget deficit not exceeding 3% of GDP in ESA terms. When can we go with purchasing power at the level recorded in 2008? According to Ionut Dumitru, in two-three years, Romanians could recover what they lost in the crisis. In late October 2011, the highest wages in the economy were the sectors: IT services, where net income was 3688 lei, financial intermediation, except insurance and pension

funds, where there was a salary net average of 3,493 lei, lei air transport by 3378 net per month. The lowest net average salaries were recorded to the end of October in hotels and restaurants - 872 lei clothing - 912 lei, administrative services - 953 lei [17].

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The Effects of International and Financial Crisis on Insurances Company in Romania

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Abstract

Economic and financial crisis has had many effects and created many distortions on the insurance market, although insurers were more witnesses to the crisis than participants whereas the nature of this business can not generate systemic risk they have suffered as a result of the fall in financial markets, reduce economic growth, reduce interest rates, credit quality, and as a result of direct and indirect exposure to financial institutions that had dramatic share price declines or went bankrupt.

Key words: crisis, effects, insurance company, economic development:

Jel classification: A1, A10;

Introduction

Economic developments in recent years have led to increase international cooperation between supervisory authorities. Collaboration between regulators, coordinate cross-border surveillance and the need for consolidated supervision of groups are current topics of crisis. Currently, the insurance industry faces the combined effects of deteriorating market conditions and the impact of financial crisis. Losses in insurance are lower than those in the banking sector, being mainly due to the involvement of insurers in the domain nonspecific activities. Change regulations to strengthen protection of policyholders may create prerequisites to maintain confidence that obligations issued by insurers will be honored. Financial crisis on the market could be minimized by focusing on preventing further adverse reactions and especially acting in a timely manner.

In just a few years ago, Romania's economic context was totally different from now. Economy recorded strong growth rates, as financial markets, including insurance, were booming car sales knew highs, while the real estate market is developing strongly. Today, the economic context looks different. Romania, like other countries of the world must face an unprecedented economic and financial crisis.

The volatility of the macroeconomic environment and the socio-political resulted in a rapidly changing needs and expectations of consumers of financial products and risk characteristics taken from the insurance industry. These considerable changes coupled with slow economic recovery prospects should motivate insurers to rethink internal processes and operational strategies and development, adapting them to current market conditions.

Today the insurance companies are confronted with challenges arising from increased frequency of risks taken, something that will require analytical discipline existing portfolio and risk management practiced at a good level. Another big challenge that the insurance market in Romania will have to deal with them is to find a balance between risks assumed and actual costs of the prices at which they are sold to consumers, because they have an important influence on the quality of services, and not only. Insurance market imperfections appear due to selling prices of the products do not always reflect the real economic costs of insurers. These include, in addition to the cost of risk, all other expenses related to products applied

insurers. A price is established without a strategic vision, but only on the interest of the moment, to increase market share, not reflecting the actual total costs of a product will adversely affect the profitability especially their ability to meet obligations to policyholders.

In preparation for the transition to the new solvency regime, insurers will be forced to rethink their business models and product mix, depending on anticipated capital requirements determined either on the basis of a standard formula, as is the use of internal models, full or partial.

And with that, insurance had a stabilizing effect due to long-term investment and cautious and even conservative investment policy, dictated largely solvency requirements

But noteworthy is that the international financial crisis were extended to the Romanian economy. However, in terms of direct impact, the banking system was less affected by not being exposed to toxic assets and because prudential and administrative measures adopted over time by the National Bank of Romania. Indirectly, however, the international financial crisis and especially its obvious consequence - the recession in developed countries - Romanian economy extends across multiple channels.

We are still in the midst of next year seems to be better than the one we conclude soon. So far, the crisis triggered in previous years has created many distortions on the insurance market, but not as much as those manifested in banking. Globally, insurers did not generate systemic risk is present as witnesses and not generators of crisis, they suffered directly or indirectly as a result of the fall in financial markets, reducing economic growth, reduce interest rates, credit quality and as a result of direct and indirect exposure to financial institutions that had dramatic share price declines or went bankrupt. Despite these elements, security had a stabilizing effect on the economy due

to long-term investments and prudent investment policy, even conservative.

We can noted that sales have decreased dramatically due to existing insurance crisis. Another consequence is competition for insurance replacement financial products, such as short-term bank deposits. Short-term positive effects of the crisis on the insurance business, from the need to survive and continue business were channeled in two directions: efficient communication with customers and impacting business processes to reduce costs. Product offerings continued to grow, expanding to capitalize on opportunities, offsetting reduced demand for traditional insurance products with the rapid development of flexible and lower costs for customers. Diversification of distribution channels, with more emphasis on online sales, communication and better service and quality to customers, lower costs and greater flexibility are therefore effects of the crisis and led to more flexibility in behavior insurers. Possible continuation of the crisis will reduce dividends, sales of parts of companies considered non-core business or partnership to find solutions, mergers or acquisitions. Investors' appetite for the financial sector is low due to volatile financial environment, low interest rates indefinitely and the difficulty of obtaining a high profit.

The level of profitability of insurance decreased due to the crisis prevailing in life insurance by poor performance due to falling investment indices and financial market volatility. Solvency margin of the insurance generally remained very good.

The management assets and liabilities of insurance companies faced difficulties in crisis context. The Euro area countries, Japan and the U.S., levels of interest on government bonds issued for a period of 10 years reached record low by levels. The infusion of cash made by governments of various countries in the financial system to save the banking system had an adverse effect on insurance due to reduced interest rates, especially on

life insurance in which liabilities are affected by interest rate.

It is evident that indirect effects, mainly related to lower indices, changes in interest rate and ratings of financial instruments, reduced profit margins and income from risk investment instruments "zero" was much stronger for insurance life than general ones.

Some direct effects of the crisis on companies were influenced by the financial situation of clients. Decreased income, disposable income implicitly Insurance and financial priorities change contributed to a significant reduction in sales. In life insurance, terminations and redemptions increased insurance contracts, affecting insurance available liquidity, which is accompanied by increased reputational risk. [4]

The insurance has been affected as a result of its own and customer funds investing in shares. Exposure to "counterparty risk" (the risk in return) led to an increase in reputational risk, the most resounding and sad example is that of investment in Madoff's funds - circumstances that led to a drop in consumer confidence in the financial sector. [4]

However, there were short-term positive effects of the crisis on the insurance business from the need to survive and continue business. Product offerings continued to develop products that have been launched to capitalize on expansion opportunities, offsetting reduced demand for traditional insurance products with the rapid development of flexible and lower costs for customers. [4]

The diversification of distribution channels, with more emphasis on online sales, communication and better service and quality to customers, lower costs and greater flexibility are therefore effects of the crisis and led to more flexibility in the behavior of insurers.

The possible continuation of the crisis will reduce dividends, sales of parts of the business companies considered "non-core" or

finding solutions partnership, mergers or acquisitions. It is possible that investors' appetite for the financial sector to reduce the volatility of the financial environment, low interest rates indefinitely and the difficulty of obtaining a high profit..

The Romanian insurance market also saw some effects of the crisis, not very different from those in other countries, but of course, weighted by market size: reduced sales, termination of a greater number of life insurance policies, insurers shift to alternatives for new products, new features for existing insurance, new distribution channels, another way of communicating with customers, began a period of mergers and acquisitions, which is likely to continue, leading to greater market concentration. [4]

The insurance will support and long-term effects of the crisis, by affecting consumer behavior, a temporary reduction in sales of unit-linked insurance and annuity products for sales growth with a focus on security and protection.

As you can see, has not yet emerged from the crisis and many of its details are not yet understood, therefore can not accurately determine the consequences. However, some lack of understanding does not prevent policy makers to propose new legislative changes. Therefore, we considered that the potential consequences can be seen from the crisis is important to note, even if we do not, in some cases, no empirical evidence to support our reasoning clearly. Careful monitoring measures are taken now, should be done in order to teach us to be prepared in case of future crises. A critical review of surveillance based on principles that is currently implemented in some countries, is necessary because it could lead to problems such as abuse of freedom from some market participants.

Conclusions:

No doubt, the insurance industry operates In a demanding environment, not only at the

moment of crisis, but in general. Risk insurance in a modern economy is a complex, interacting with many aspects of people's lives.

The importance of insurance industry an economy can be measured in part by the sheer size of its business, number of employees, assets under management, or contribution to national GDP. It actually plays a fundamental role in the functioning of a modern society, is a prerequisite for many activities that would not occur if there were no insurance. Ensure that this strategic industry is ready to challenge not only the task of insurance companies. Governments and public institutions have an interest in developing a framework for efficient insurance markets, sustainable and equitable. The industry has a lot to offer and experience in risk management insurance should be extended to other elements of the financial services industry, with particular emphasis on stress testing and scenario technique, thus completing integrated risk modeling.

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The Economics of Hybrid Organisations

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Abstract

Although there is an abundant empirical literature describing the many different forms that the organisation of transactions can take, from strategic alliances involving several partners to network of firms tightly coordinated to franchise systems, the terminology fluctuates, making it difficult to capture exactly what is at stake. These variations in the vocabulary reflect the richness of arrangements to be considered as well as the lack of a unifying theory that could properly identify the nature of these arrangements and the logic underlying their diversity.

Keywords: hybrids organisations; transaction cost economics; agency theory.

JEL Classification: G32, D23

1. Introduction

Hybrids can be defined as arrangements in which two or more partners pool strategic decision rights as well as some property rights, while simultaneously keeping distinct ownership over key assets, so that they require specific devices to coordinate their joint activities and arbitrate the allocation of payoffs (Ménard, 1997, 2004).

Efforts for capturing the specificity of these arrangements within a coherent analytical framework remain underdeveloped. In economics, initial insights came from a Coasian perspective, with hybrids viewed as challenging the 'boundaries of the firm'. Richardson (1972) already emphasized the importance of modes of organization which mix cooperation and competition.

Williamson also pointed out early the significance of these 'non-standard' agreements, although he initially considered them as unstable and transitory, before fully

integrating hybrids into his model (Williamson, 1975, 1991; Ménard, 2009). Meanwhile, a significant literature has developed in sociology and managerial sciences, mostly about networks and alliances.

2. The main characteristics of hybrids organisations

Given the above characterisation, why do parties delegate or even abandon part of their rights? From a certain point of view, this question has similarities with that of why employees transfer their decision rights to employers (Coase, 1937; Cheung, 1983). However, there is an important difference: in hybrid arrangements legally distinct entities also share some specific assets and property rights.

Three leading factors seem to be at work:

1) Parties may accept to share rights in order to face complexity. Complexity has two dimensions: it may result from the need to coordinate multiple interwoven transactions or it may be due to a changing environment. In both cases, cooperation that involves the abandonment or delegation of some rights may prevail in order to overcome the resulting uncertainties or to develop an adequate buffer.

2) Parties may view mutual dependence as a source of value, notwithstanding the fact that they often remain competitors, as strategic alliances in the airline industry illustrates. Several factors can motivate firms to endorse mutual dependence in holding pooled assets:

-the size of investments required may exceed their individual capacity, and/or economies of scale may be expected;

-complementarity may offer strategic responses to resource dependence, securing access to existing resources or facilitating access to new ones;

-learning effects might also be anticipated, each firm becoming a portfolio of skills that networking allows to transfer and recombine more efficiently;

-joint investments may help building a reputation with an expected snowball effect on revenues.

3) Payoff expected from interaction among parties may not be contractible ex ante, with specific contributions difficult to assess, so that partners look for organisational solutions that facilitate ex post negotiations to share rents with the lowest possible transaction costs. Indeed, because standard incentive contracts would perform poorly and measurement problems may be at stake, defining rules that allows a satisfactory split of the gains is not trivial. Some hybrid forms seem to have found relatively standardised solutions to the implementation of adequate sharing rules, as in franchise systems.

3. The variety of hybrids organisations

I focus on situations in which firms hand over decision rights and even property rights across boundaries, so that some rights are no longer controlled by a single party. I illustrate the variety of solutions implemented by several different institutional structures dealing with shared control. This review does not intend to be exhaustive, but rather points out properties analyzed thereafter.

Subcontracting goes side by side with standard market relationships, with parties sharing some decision rights, while keeping assets and property rights distinct. They all share at least two characteristics: key assets and decision rights remain distinct, as in the case of the millers, while one firm operates as the strategic center, which is distinct from that of the millers.

Supplier parks, "a cluster of suppliers located adjacent to, or close to, a final assembly point" (Sako, 2005), share properties with subcontractors although site interdependence usually imposes tighter coordination. Whether physically located or virtual, supplier parks mostly operate under the control of one firm. However there are cases in which shared activities are monitored through different forms of joint agreements, with partners in a more or less symmetrical position.

Strategic alliances have attracted a lot of attention in managerial sciences. They can be characterized as "relatively enduring inter-firm cooperative arrangements, involving flows and linkages that utilize resources and/or governance structures from autonomous organizations, for the joint accomplishment of individual goals linked to the corporate mission of each sponsoring firm" (Parkhe, 1993: 795). Partners maintain core assets distinct and keep control over related property rights, thus departing from mergers and acquisitions. However they jointly plan and monitor substantial activities, as in the airline industry, using contracts to coordinate and build relational trust, which particularly matters when duration imposes continuing adjustments, making spot or short term agreements of the market type inappropriate (Gulati, 1995; Jorde & Teece, 1989).

Supply chain systems also rely on contracts, but differ from strategic alliances with respect to the density and extension of shared rights. Based on complementary activities and/or competences among autonomous partners, they require tight coordination across stages, usually from production to distribution. Supply chain systems benefit from powerful market incentives while providing tight control over key transactions, without the burden of integration.

Supply chains almost always involve production, while *franchises* concern primarily distribution. However, the boundaries between these forms are blurred, with many franchisors having developed tight vertical coordination to control inputs as well as output. What differentiates franchising from most supply chains is the large number of partners giving up part of their decision rights while pooling property rights to benefit from brand names and joint actions. Franchise systems also share characteristics of subcontracting because of the central role of the franchisor, whether it is a unique entity or a group.

Joint Ventures exhibit important characteristics of hybrids in a relatively pure form. JVs "are simultaneously contractual agreements between two or more organizations and a separate legal (and usually organizational) entity with its own purpose" (Borys & Jemison, 1989). 'Parent'

companies transfer some assets and property rights as well as some decision rights to a 'child' company monitored by a specific governing body, while 'parents' remain autonomous and often compete in other activities. This mix of global sovereignty and 'local' cooperation involves forms of hierarchy that complement contracts.

There are many other ways to organize interfaces among partners. **Partnership** is another non-standard mode of organization, taking various forms, from law firms to the collective organization of salmon fishermen of the Pacific Northwest (Farrell & Scotchmer, 1988). These arrangements often develop to deal with common pool resources. **Cooperatives** define another important category, almost a class of its own. The variety of their forms makes their characterization difficult, since they are spread over a wide spectrum, from quasiintegrated firms to market-like arrangements. However, numerous cooperatives share characteristics of hybrids with respect to the joint allocation of rights and their mode of governance, dominated by the "one person, one vote" principle (Ménard, 2007).

4. Theoretical explanations about reasons for going hybrid

Economic theory has paid attention to hybrids only recently, with transaction cost economics playing a pioneering role. Agency theory and relational contract theory have also taken into account some hybrid forms, while less developed approaches such as the resourcebased views have provided useful insights.

Transaction cost economics (TCE) deserves priority. The idea that there are alternative ways to organize transactions goes back to Coase (1937), followed by Williamson (1975). Both focused on the trade-off between markets and firms. However, in *Markets and Hierarchies* Williamson noted the existence of "intermediate forms of contracting" (1975), but expressed doubts about their stability and considered them as transitory. It is only in *The Economic Institutions of Capitalism* that he endorsed a more positive approach to arrangements later coined 'hybrids', going as far as considering them potentially

'dominant' (1985). In 1991, he explicitly modeled them as a governance structure that could be an efficient alternative to 'markets' and 'hierarchies', from which they differ with respect to: (a) contract law, (b) adaptability, and (c) incentives and control. Hybrids would fit transactions requiring assets of intermediate specificity and facing moderate uncertainty, providing a 'middle-of-the-road' solution. The resulting concept remained a bit fuzzy, with its reference to 'semi-strong' governance captured essentially through 'contract law'.

The literature on **relational contracts**, which partially follows on from TCE, has shown a growing interest in hybrids. The initial inspiration comes from Macaulay (1963) and MacNeil (1974) who introduced the expression "relational" to emphasize the mix of contractible and non-contractible elements and the importance of the latter. According to Goldberg (1980), parties establish tightly meshed relations to limit the impact of: (a) imperfect and costly information, (b) opportunistic behavior, and (c) difficulties for outsiders to enforce agreements plagued with non-verifiable elements. Hence "(t)he parties will be willing to absorb a lot of apparent static inefficiency in pursuit of their relational goals" (Goldberg, 1980).

Formalizing this approach in a model initially developed to account for labor relations within firms, Baker, Gibbons & Murphy combined TCE and the 'new property rights theory' to explain what forces push firms towards solutions such as joint ventures or strategic alliances (Baker *et al.*, 2008). In this version, they differentiate governance structures according to how rights over assets and 'spillover' payoffs are allocated. If relational contracts might help dealing with non-contractibilities, they can also generate tensions and conflicts, the magnitude of the resulting transaction costs depending on whether the coordinated use of assets complement or compete with the core activities of parties involved. The problem then becomes that of choosing a "governance structure" that allows parties to maximize their payoffs while facilitating adjustments. Hybrids provide alternative solutions, possibly optimal ones, when there are significant non-contractibilities.

A major characteristic and a limit of this explanation is that rights remain ultimately in the hands of separate entities while non-contractibilities make agreements unenforceable by courts, so that the outcome depends on (relational) reputation.

There are alternative explanations to the existence of hybrids. **Agency theory** has inspired much research into franchising, with incentives and financial motivation viewed as the main issues. Maness (1996) and Holmstrom & Roberts (1998) suggest that franchising dominates fast food but not supermarkets because it provides better incentives to local managers having to monitor multiple inputs simultaneously, while costs in supermarkets mostly come from inventories and warehousing, which can be handled through specialized functions within an integrated structure. However, Lafontaine and Slade (2007) demonstrated that franchise contracts do not deliver tailored incentives, and that financial motivation has a weak explanatory power, contrary to what the theory predicts. More generally, Lafontaine & Slade (2007) show that TCE prevails over agency theory when it comes to predictability, and that the latter hardly explains the existence and variety of franchise systems.

The **resource-based view** is another influential approach, particularly in organization studies and management sciences. Boiled down to its core, it explains networks and other hybrids as ways to deal with uncertainties and change by sharing essential inputs, particularly competencies (Wernerfelt, 1984). A positive contribution of this 'view' is to have attracted attention to the key role of learning and capabilities. However, it hardly explains why integration is not preferred to hybrids and why there are so many ways of facing uncertainty.

To sum up, we still need a convincing theory telling us why hybrids exist and prosper and how they differ from alternative modes of organization.

5. Conclusions

Hybrids are 'institutional structures of production' with characteristics of their own. They resort to specific governing devices developed to deal with:

- property rights that ultimately remain distinct, although significant assets are pooled;

- decision rights that keep partners independent, although shared rights restrict their autonomy; and

- the need to design adequate incentives in a context in which frontiers among residual claimants are blurred.

Hybrids proliferate because advantages of coordination and cooperation overcome gains associated with market competition, while remaining autonomous provides more flexibility and better incentives than an integrated structure can offer.

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Market Failures and Their Implications for the Consumer

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Abstract

The present paper underlines that the internal functioning logic of the free market, approached from the perspective of the interests and motivations of the participants in economic activity, places even the rational consumer in an objectively unbalanced relation in favor of the producer/trader, although the first, with his needs and necessities, should be the origin and, at the same time, the final point of the production activity.

Key words: consumer, producer, rationality, market failure

J.E.L. Classification: D11

1. Introduction

The reality of daily life gives us sufficient examples of situations in which individual decisions within free market do not automatically and warranted lead to a global economic optimum; on the contrary, not infrequently, they can determine imbalances, when the benefits or costs of a decision or a choice at the individual level differs from the benefits or costs at the level of society. Such a situation is denominated as *market failure*, both understood as “the failure of a more or less idealized system of price-market institutions to sustain “desirable” activities or to estop “undesirable” activities” – according to the definition given by Francis M. Bator half a century ago [1], but also as any performance of the market which is considered less better than the best performance possible - in Richard G. Lipsey and Alec K. Chrystal’s updated version.[2]

Specialized economic literature generally distinguishes four categories of market failures, namely: *externalities*, *public goods*,

natural monopoly and *information asymmetries*, around which our entire analysis will focus hereinafter, both from the point of view of generating causes and the effects involved on the consumers, and from the point of view of the possible solutions for rectifying them.

2. Market failures – pre-requisite of the intervention within market economy in favor of the consumer

Rational decision theory produced, in time, decisive demonstrations of individual rationality insufficiencies, the best known being *prisoner’s dilemma*, constructed by starting from a simple mental experiment, based on the idea of a game in which two prisoners under suspicion of committing a crime together participate and who are separately investigated by police authorities, without being offered the possibility of communicating with each other. Under these conditions, the two suspects will adopt the most rational decision from the individual point of view, but which finally proves not to contribute at all to getting the most rational, respectively the most advantageous result for none of the prisoners, following the aggregation of the two decisions.

This mental experiment can be very well translated into free market perimeter, within which rational economic agents may influence by their actions the activity of the other participants in the market by following their own interests for maximizing the benefits, without desiring to do that intentionally. Within this context, we deal with the so-called *externalities* or *external effects*, which designate the consequences which consumption activity or that of producing a good by an economic agent can have on other economic agents, without reflecting these interdependences in the

market price system.

Such situations in which consumers can also be enlisted may appear when a consumer's individual satisfaction depends not only on the quantities of products and services they consume, but also on other consumers' satisfaction (for example, the complaints formulated by dissatisfied consumers with regard to a specific product or service may attract the supplier's reaction of improving the offer or provided services, by which other consumers will also profit, who have not confronted such a dissatisfaction yet) or when a consumer's satisfaction may be influenced by producers' activities not only through offered products or services which he consumes effectively, but also through other modalities (for example, third persons may suffer prejudices as a result of vicious products offered by a specific supplier and effectively consumed by other consumers) – situations denominated by Tibor Scitovsky "the interdependence of consumers' satisfaction", the first case, or "producer's indirect influence on personal satisfaction", the second case.[3] But in both situations, the issuing agent of such an external effect will not take into consideration in his calculations the relation cost-advantage and the beneficial effects (in case of a *positive externality*) or the damaging ones (in case of a *negative externality*) his behavior can have upon the other participants in the market, so that the social value of the undertaken activity will differ from its particular.

The restorative action in the situation of putting forth the externalities consists in their internalization, by assuming by the initiator the costs or marginal benefits generated by it. The way in which the initiator of a negative externality can be made responsible, depends on the number of affected parties, as a rule. Thus, if their number is small, the most accessible solution is found within the market itself, by the agency of the negotiations that can be developed, in a particular plan, between the involved parties in order to establish a voluntary agreement of compensation or of "bribery" for the damaging external effects produced by the developed activity.[4] For example, consumers may address with complaints to the producers in order to find an amiable solution to such a disagreement, which

becomes possible through bilateral negotiations or by appealing to a third independent party, a mediator, who offers a solution to this effect.

In case of failure concerning the reaching to a reciprocally advantageous agreement, a different alternative that looms is represented by the legal system, that is constituted in an institutional mechanism of correcting externality problems, by dictating and applying some clear regulatory laws of civil and penal responsibility by law courts, if need be, for the committed crimes (negative externalities are especially considered). For example, strict norms can be adopted by which producer's responsibility in relation to the prejudices caused by defective products offered to third persons, others than the so-called consumers for whom those products were destined, should be provided.

When all these solutions fail and especially in the situation in which the number of affected parties is big, "the salvation" comes from outside the market, and public intervention is justified – either by direct regulation of the activities which cause externalities, or by tax assessment or subsidy of that activity.

Direct regulation supposes in this case the establishment of some standards that must be fulfilled by the activities inclined to generate negative or positive externalities, on purpose to prevent the production of eventual imbalances within the market, starting from the principle "it is better to prevent than to repair". Such an example would be safety conditions in consumption that a specific product must fulfill in order to receive marketing authorization.

This approach, also known by the name of *demand and control*, however involves certain deficiencies, such as: the impossibility of taking into consideration the entire variety of situations with which economic agents directly involved may confront, and especially those who can be indirectly involved; excessively high costs generated by the political process which intervenes in the establishment of the respective regulations; low adjustment rhythm of regulation process to the rapidity of the innovation one which determines the permanent occurrence of new technologies. Consequently, it is estimated that a much better technology of encouraging the

behaviors society wants is represented by the adjustment of particular costs in order to take into account social costs, too, by levying taxes in the case of negative externalities and subsidizing in the case of positive externalities. Even this alternative is not without problems, a clear identification being difficult and especially the exact measurability of externalities in order to establish correctly the tax level, respectively the subsidy level which must not generate a new imbalance within the market by levying it.

A particular case of a positive externality which generates an imbalance within the market is represented by *public goods*.

In Paul A. Samuelson's classic approach [5] and Richard A. Musgrave's [6], *public goods* diverge from the particular ones by being *non-rival*, in the sense that they can not be distributed to each one of them, being communal, and *non-excludable*, because if they are assured to some of them, they are assured to all and no one can be excluded from using them.

However, these concepts involve a profoundly theoretical characteristic and, as James M. Buchanan also observed [7], while in daily life the characterization of some goods as purely private is obvious, the identification of some goods as purely public is difficult, if not impossible to fulfill. More exactly, in practice we find only the situation of some public goods so-called "impure" or „mixed", these satisfying only one of the pure public goods, to which effect there can be made a distinction between *club goods* - which, although non-rival, their access can be reserved only to certain categories of consumers (the case of television or radio broadcasting available only by means of a decoder for the decryption of TV and radio signals and without which anyone can be excluded from providing those broadcasts) and *common goods* - which, although characterized by non-excludability, may be divided to a certain extent (the case of communal natural resources, the most frequent examples to this effect being sea and ocean water, fishy resources etc.).

Coming back to the idea that the problem raised by public goods can be assimilated to the one which is characteristic to externalities from the theoretical point of view, economists also applied in this situation

game theory, a different *paradox* unfolding to them, that of the "*free riders*", which appears as a consequence of non-excludability characteristic of public goods. Thus, there will always be individuals who will prefer to profit by the respective goods freely, without contributing proportionally to social effort (tax payment, the compliance with certain limitations, the abstention from certain actions) necessary to assure them. Although morally (and sometimes even legally) condemnable, the "free rider" alternative is the most rational, from the individual point of view, because it maximizes the initiator's advantages. Paradoxically, if it is adopted by several or each one of the members of a community, this alternative leads to a non-rational solution (disadvantageous) for all.

Starting from this paradox of clandestine passenger, the bases of the theory advanced by Mancur Olson with regard to *the logic collective action* were laid, which comes to refute the presumption according to which persons with collective interests would voluntarily act together, so that to promote this type of interests. What Olson puts forth is the fact that, on the contrary, "unless the number of individuals in a group is quite small, or unless there is coercion on some other special device to make individuals act in their common interest, rational, *self-interested individuals will not act to achieve their common or group interests*" [author's underline].[8] In the argumentation of this point of view, Olson starts from the prerequisite that the person who can not be divested of the benefits supplied by a collective good, once it was produced, is divested of the motivation of willingly involving in the production of the respective good.

An eloquent example to this effect is represented by the collective action of a group of consumers, as it is the case of consumers' independent associations, as a response to certain incorrect practices a producer commits, an initiative in which certain consumers may decide not to participate in, for example by means of some annual contributions paid to the respective associations and by the agency of which these can finance such actions, but by whose results they can profit without being excluded.

Maybe the most important concern with regard to public goods is connected to who should be in charge with their production and provision, a debate on which no unanimously accepted point of view has been reached either in academic environments or in the political ones. For example, in the situation in which rational consumers, in search of maximizing their own interests, come to degrade the used commons, a situation defined by the collocation "the tragedy of the commons"[9], there are opinions which indicate public authority as the best control alternative on the majority of natural resources, in order to impede their destruction.[10] At the counter pole we find opinions which underline the necessity of ending the joint ownership system, by starting a privatization process of resource exploitation[11], although, many times, the production and provision of public goods by private sector becomes if not disarmingly ineffective, being very expensive, even impossible.

Practical experience pointed out that, worldwide, neither the state nor the market managed always to allow individuals the maintenance of a long term productive use of public goods.[12] The solutions which functioned best were different from case to case, for the most part even the institutions in charge with such categories of goods represented complex mixtures of institutions analogous to the private and public ones.

Bound up with the discussion with regard to public goods is the one concerning *natural monopoly*, respectively that situation in which a producer can realize a specific series of goods and services to the lowest cost, in comparison with any other economic agent, as a result of some scale economies. The producer who lies in this situation has the "natural", innate power to eliminate the competition and control sale price within the market, which he will try to raise in order to scale up profit. It is easy to understand that, under these conditions, those who suffer most are the consumers, whose choices are fundamentally affected, the alternative at their disposal being an expensive one and, in most cases, even a dissatisfactory one from the qualitative point of view.

Therefore, another market failure is produced, which, in order to be rectified, the strict supervision by governmental authorities

of economic operators' activity who lie in such a situation and the exercise of a specific control on their price policy were invoked towards protecting consumers' interests. On the contrary, when the best modality for recovering the allotment inefficiency lost by monopoly prices is represented by the competition, governmental intervention is required by deregulating the activities which are characteristic to such natural monopolies, in the sense of guaranteeing market access for other competitors, which meet consumers' demands with more diversified offers, and also better, both as to price, and as to quality.

A particular discussion on these lines covers the so-called public services or the services of general economic interest – respectively those services provided under market conditions and in whose provision certain required obligations must be complied with in order to guarantee the indiscriminating access of all consumers to certain essential services, by a specific quality and to accessible prices – whose representative business segments are naturally monopolized because they constitute the infrastructure of national economy, and regard activities as: gas and electricity input, post, telecommunication and transport services. These segments, initially situated exclusively in public property and having monopolist dimension, were progressively subordinated, in market economy, to an ample liberalization process, a generator of beneficial effects in terms of productivity amelioration, exploitation cost reduction and price fall on the benefit of the consumers.

3. Conclusions

The liberal apology of free market operation assigns to the rational consumer absolute sovereignty on the producer, the economic success of the latter being conditioned by the best possible satisfaction of "master's" interests – the consumer.

This hypothesis, as attractive as it may appear theoretically, its practical validity seems to be rather menaced following the failure of the "magical power" of free market to exploit always the positive influences and to counteract the negative ones, assuring the equilibrium and economic progress. In such

situations, the regulatory or “curative” intervention of public power in economy, although not inerrable, often becomes socially unjustified and really eligible, especially when the problem of rehabilitating consumer’s sovereignty within the market by promoting some efficient measures designed to his protection, is raised.

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A Characterization of the Migration Phenomenon among Young Romanian Specialists

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Abstract

After the political revolution in 1989, Romania was confronted with a phenomenon that has increased in magnitude throughout the following period: external migration. It became a permanent presence of the labor market in Romania. Unfortunately, this phenomenon manifests incisively among young people and among higher educated workforce.

The author has studied the external migration of Romanian young specialists in economic domain using a survey, developed during the implementation of SPIN project. The target group consisted of third-year students of the Academy of Economic Studies in Bucharest – Faculty of Cybernetics, Statistics and Economic Informatics. The study revealed the future graduates' opinion on emigration phenomenon among higher educated specialists.

Keywords: migration, labor market, survey, target-group.

J.E.L. classification: I20, J21, J61.

1. About SPIN project.

SPIN project is entitled "*Modern practice to facilitate access to the labor market for specialists in Statistics and Economic Forecasting or Economic Informatics*" (ID POSDRU/90/2.1/S/63784). It started in 2010 and it is co-funded by European Social Fund through the Sectoral Operational Programme <<Human Resources Development 2007-2013>>.

The main objective of the project is to help the future graduates in economic field to adapt to the labor market conditions. They have the chance - through participation in this project - to interact with the real business environment and to test their ability to solve

real problems of firms-activity, based on theoretical knowledge acquired during the study years.

2. Emigration phenomenon among Romanian specialists – addressed through the economic future graduates' point of view.

2.1. Survey on characteristics of Romanian labor-market

One of the tools used in the project for a quantitative assessment of the labor market is an investigation conducted in the second year of the project. The survey questionnaire was projected by several experts with responsibilities in this area.

Investigation surprised - through the questions in the questionnaire - several aspects of the labor market in our country: illegal labor, migration, labor market experience of students during the years of study, labor market inequalities.

One of the issues addressed by the questions in the survey questionnaire was the emigration phenomenon. The students in the target group presented their opinions about the existence of this phenomenon on the Romanian labor market. The sample was not representative and it consisted of 73 students who developed their practice-internship through SPIN project.

2.2. Presentation of survey results

Being asked whether they would emigrate abroad - to the proposal of an employer or an acquaintance - in order to take a job according to their training level, almost half of respondents said they would accept the offer immediately, and would temporarily emigrate (49.31%); 28, 77% of the respondents said that they would accept the offer immediately, and would permanently emigrate. Only 9.59% of the respondents said

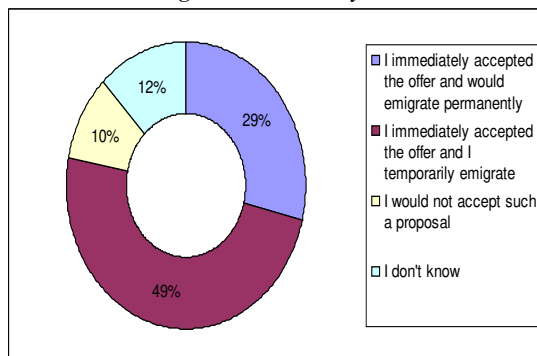
they would not accept such an offer. It is worth mentioning that a fairly large percentage of people (12.33%) said they did not know what they would do if they are in this situation.

Table 1. If an employer or acquaintance would propose to you to emigrate to work abroad, in a job consistent with your training, what would you do?

	No. of persons	Share (%)
I immediately accepted the offer and would emigrate permanently	21	28.77
I immediately accepted the offer and I temporarily emigrate	36	49.31
I would not accept such a proposal	7	9.59
I don't know	9	12.33
TOTAL	73	100.00

Source: Survey, SPIN project.

Figure 1. If an employer or acquaintance would propose to you to emigrate to work abroad, in a job consistent with your training, what would you do?



Source: made by the author based on SPIN data

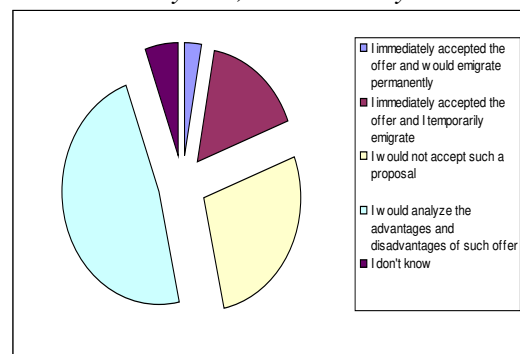
Table 2. If an employer or acquaintance would propose to you to emigrate to work abroad, in a job requiring a lower training level than yours, what would you do?

	No. of persons	Share (%)
I immediately accepted the offer and would emigrate permanently	21	28.77

I immediately accepted the offer and I temporarily emigrate	36	49.31
I would not accept such a proposal	7	9.59
I would analyze the advantages and disadvantages of such offer	9	12.33
TOTAL	73	100.00

Source: Survey, SPIN project.

Figure 2. If an employer or acquaintance would propose to you to emigrate to work abroad, in a job requiring a lower training level than yours, what would you do?



Source: made by the author based on SPIN data

Students show a greater caution if they would receive a job offer abroad, which requires a lower training level. Thus, most respondents – nearly half (47.94%) would analyze the advantages and disadvantages of such an offer; 27.4% would not accept such a proposal, and 16.44% would accept the offer, but would emigrate temporarily, for a limited period.

The following sequence of questions deals with the problem of migration phenomenon among young Romanian specialists, and the need to stimulate them to continue to work in the country and contribute to the sustainable development of Romanian society and economy.

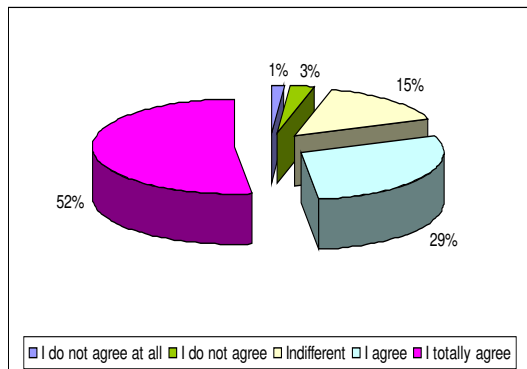
First statement of this sequence is: "Young graduates should be encouraged to remain in Romania in order to contribute to the developing of the Romanian society". More than half of those surveyed said they fully agree (52.05%), while 28.77% of them said they agree with the statement. 15.07% of respondents are indifferent to this problem.

Table 3. Young graduates should be encouraged to remain in Romania in order to contribute to the developing of the Romanian society

	No. of respondents	%
I do not agree at all	1	1.37
I do not agree	2	2.74
Indifferent	11	15.07
I agree	21	28.77
I totally agree	38	52.5
TOTAL	73	100.00

Source: Survey, SPIN project.

Figure 3. Young graduates should be encouraged to remain in Romania in order to contribute to the developing of the Romanian society



Source: made by the author, based on SPIN data.

The responses of those interviewed are similar to the above for the statement: "Romanian specialists should be encouraged to remain in Romania to achieve a sustainable development of the Romanian economy." Almost half of the people are perfectly agree with this statement (49.31%); 34.25% - agree and 12.33% are indifferent to this problem.

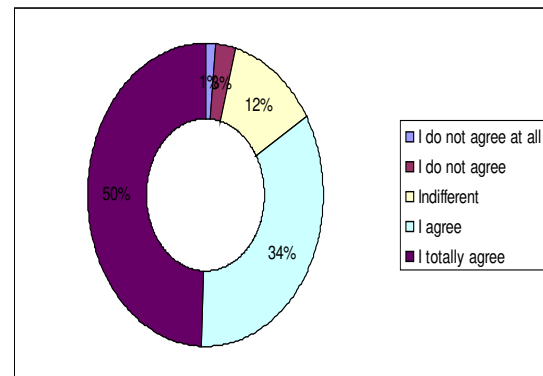
Table 4. Romanian specialists should be encouraged to remain in Romania to achieve a sustainable development of the Romanian economy

	No. of respondents	%
I do not agree at all	1	1.37
I do not agree	2	2.74
Indifferent	9	12.33

I agree	25	34.25
I totally agree	36	49.31
TOTAL	73	100.0

Source: Survey, SPIN project

Figure 4. Romanian specialists should be encouraged to remain in Romania to achieve a sustainable development of the Romanian economy



Source: made by the author based on SPIN data

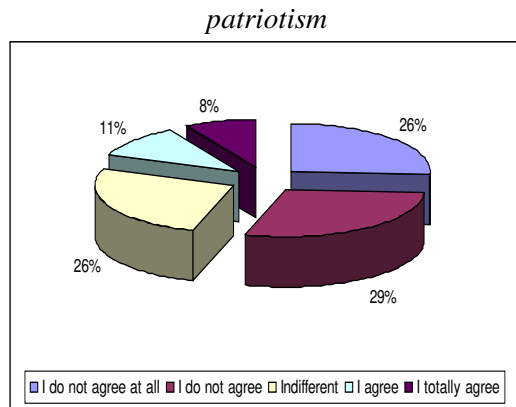
The questionnaire responses reveal that if young Romanian specialists give up to emigrate abroad, this should be based on their stimulation and not on pure patriotism. More than half of respondents (54.8%) do not agree at all or disagree with the statement: "Romanian specialists should not migrate to other countries based on patriotism". We noticed a high proportion (a quarter of the respondents) of those who show indifference to this problem.

Table 5. Romanian specialists should not emigrate to other countries based on patriotism

	No. of respondents	%
I do not agree at all	19	26.03
I do not agree	21	28.77
Indifferent	19	26.03
I agree	8	10.95
I totally agree	6	8.22
TOTAL	73	100

Source: Survey, SPIN project

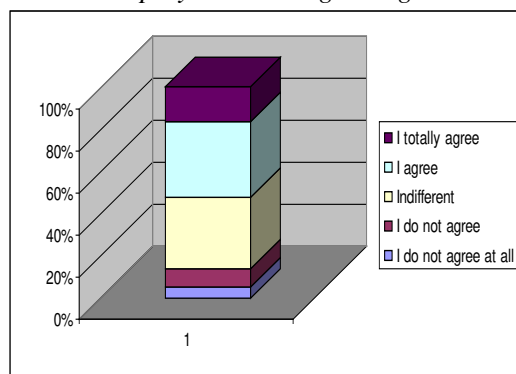
Figure 5. Romanian specialists should not emigrate to other countries based on



Source: made by the author based on SPIN data.

The problem of having a job during college - as a feature of the concept of "modern student" is subject to the following question in the questionnaire. Half of the respondents agree or totally agree with the statement "Modern student concept implies employment during college." But there are a high percentage of people for which this issue is indifferent (34.24%). Approximately 13% of students disagree or totally disagree with this statement.

Figure 6. Modern student concept implies employment during college



Source: made by the author based on SPIN data.

Sequence of the following two questions of the questionnaire addresses the emigration-problem among Romanian graduates and Romanian specialists in general. Most of the respondents believe that the Romanian emigration among professionals is high (57.53%), while 20.55% of respondents believe that the Romanian emigration among professionals is average. Quite many, however, are those who believe that emigration among Romanian specialists is

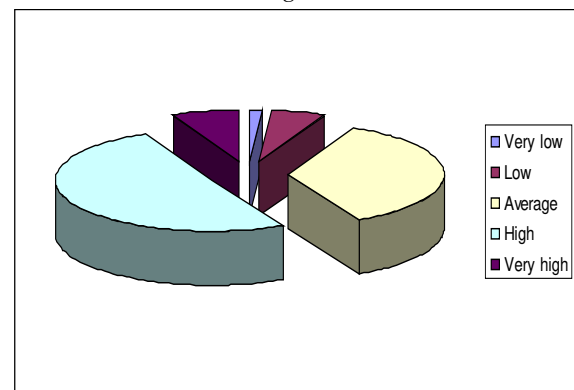
very high (17.81%). Regarding migration of Romanian graduates, 57.53% of the target group who participated in the survey believes that the phenomenon-level is high or very high, while 35.62% think that the Romanian emigration-level among young graduates is average. On a comparative analysis of the responses to the two questions, it is found out that the percentage of those who believe that the Romanian emigration among professionals is high - is higher than that of people who say that the Romanian emigration among young graduates is high (57.53% compared of 50.68%).

Table 6. Emigration level among young Romanian graduates

	%
Very low	1.37
Low	5.48
Average	35.62
High	50.68
Very high	6.85
TOTAL	100.00

Source: Survey, SPIN project

Figure 7. Emigration level among young Romanian graduates



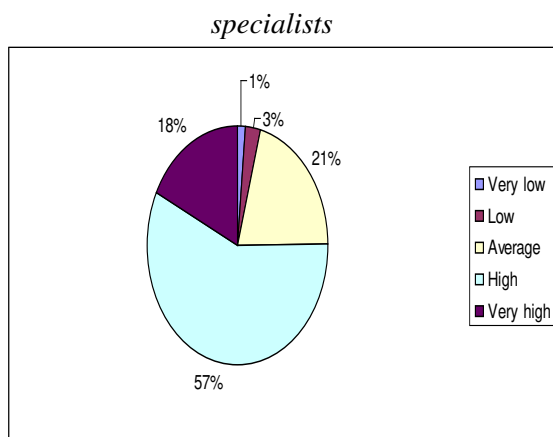
Source: made by the author based on SPIN data.

Table 7. Emigration level among Romanian specialists

	%
Very low	1.37
Low	2.74
Average	20.55
High	57.53
Very high	17.81
TOTAL	100.00

Source: Survey, SPIN project

Figure 8. Emigration level among Romanian



Source: made by the author based on SPIN data.

3. Conclusions

Responses from the students in target group - who participated in the Romanian labor market survey - revealed the existence of the migration phenomenon on the labor market in our country. This problem affects Romanian specialists in general, but especially young graduates with high level of education.

There is a high level of migration phenomenon both among Romanian young graduates and among Romanian specialists, (specialists who are moving to other countries, where they find more jobs corresponding to their professional and wage desires). This conclusion is reinforced by the very high availability of the young future specialists, participating in the investigation, to migrate to another country, to take up a job that helps them to create a good professional and financial situation. Almost 80% of young respondents said they would emigrate abroad to work on a job suitable for their training. Also, 80% of respondents agree or totally agree that Romanian graduates should be encouraged to continue to work in Romania, thereby contributing to the development of Romanian economy and society.

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Derivative Securities and Financial Crisis in Romania

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Abstract

This paper aims to investigate the impact of the global financial crisis on the young Romanian market of derivative securities. It also describes the recent developments within Romanian capital market, in general, with focus on innovation in the field of derivative products.

Key words: derivatives, investments, risk management, financial crises

J.E.L. Classification: G23

1. Introduction

Derivative securities represent relative new financial instruments and, as the Romanian capital market developed in the years of high economic growth, the usage of much more sophisticated instruments such as derivatives, gradually increased in Romania. However, even at the pick of economic growth the derivative securities were traded at low volumes in Romania. The main traders of such products in our local market are banks and the financial investments services companies. For the private investors, companies and public, those instruments are regarded with reticent and the advantages brought in area of risk management are yet to be fully employed.

The recession that began in December 2007 and continued until 2012 affected the entire world economy. Looking back to the causes, it is believed that one of the triggers was a specific type of derivatives, namely the mortgage-backed securities. The lack of regulation at that time for those products conducted to overtrade and once the bubble busted, the effect of domino conducted the crises to entire world.

In Romania, the volume of derivatives trading was not significant, therefore could not have influenced the financial crises.

However, as will be presented in the study later, the effect of the crises on the derivative market was significant.

2. Romanian Capital Market

The Capital Market in Romania is regulated by no. 297/2004 law, which regulates the setting up and the functioning of the financial instruments markets, with their specific institutions and operations, as well as of collective investment undertakings in order to provide a framework for investments in financial instruments. The first legal framework was initiated in 1994 and conducted to establishment of National Securities Commission, known as CNVM, the Romanian capital markets authority.

The investors can access the Romanian capital market through intermediaries, financial investment services companies, named SSIF, and the credit institutions – Banks – which are allowed to carry out for themselves or on behalf of their customers, financial transactions on the capital market. In Romania exist and function two regulated market operators: the Bucharest Stock Exchange (BSE) together with the RASDAQ market and the Monetary-Financial and Commodities Stock Exchange Sibiu BMFMS (SIBEX). For transactions concluded on the BSE, the clearing and settlement are performed by the Romanian Central Securities Depository, while for transactions performed on SIBEX market, by the Romanian Clearing House [1]. This type of organization is similar to the one existing in other European markets.

The Bucharest Stock Exchange was first established in 18th century; however its role in economy was visible after the privatization of central owned companies in the '90s. In the first stage after 1995, there were only 6 listed companies at BSE, the majority of Romanian companies included in

Privatization process have been quoted on RASDAQ – the OTC electronic market established after NASDAQ model – because the listing conditions were less strict.

The Sibiu Monetary-Financial and Commodities Stock Exchange Sibiu is a regulated market for derivative securities transactions, established as a commercial company since 1994. In the early stage, the Stock Exchange had commodities intermediation as the main activity. Starting with 1997 the company focused on the development and the administration of securities and financial derivatives markets.

3. Derivative securities on Romanian market

The futures contracts were registered with the State Office for Inventions and Trademarks, patents BMFMS, in December 1997, fact that constitute the evidence of Sibian establishment in this area of financial services. Thus, SIBEX became the first stock exchange for derivative contracts in Romania through implementation of the first currency and stock index futures (futures contract was launched with the active support own index - BMS1). The introduction of futures contracts was a crucial step in transforming the stock exchange into a national center that stock market participants are able to cover their risks or to speculate on price changes using derivative securities. In November 1998 were launched futures options contracts traded on the Sibiu market, operators thus had full range of derivatives needed to hedge operations. The expansion continued by introduction for trading the first derivative with shares as underlying asset, in December 2000, and the pioneer was BMFMS again. The contracts for difference CFS's were launched in 2009, shares in 2010 and binary options in 2011. As a response to market demand, on March 2011, Sibex started to trade futures contract on oil with the underlying asset the Light Sweet Crude Oil. On April 2011, Sibex started to trade two derivatives contracts with gold as underlying asset: futures contract on gold with SIBGOLD symbol and Options on SIBGOLD futures contract with OPSIGOLD symbol. Sibex also launched for trading futures contract on Euro/Dollar, denominated in RON.

The BSE diversified its range of offered financial instruments and in September 2007 launched the derivatives market. The first derivatives available for the market participants were futures on BET and BET-FI indices. In the following year, the diversification continued, BSE introducing for trading the single stock futures and currency futures. Since 2009 BSE offers market-making services for EUR/RON futures contracts through RBS Bank Romania. However, the presence of BSE on the derivative market in Romania is still only marginal, the main market were those instruments are being traded was and continues to be the Sibex Stock Exchange. In order to increase the popularity of derivatives among the traders at BSE introduced the futures contracts with the most demanded underlying assets, such as: Fondul Proprietatea, BVB, EBS, SIFs, Banca Transilvania shares, and Commodities Futures such as Brent crude oil, milling wheat, gold and silver.

4. Capital market evolution before and after crises

The evolution of the Romanian capital market was slow, but steady, with increasing turnovers and market capitalization until 2007. The financial crises strike in 2008, and the ascending trend was stopped.

The evolution of BSE can be assessed based on the main indicators of the market, presented in the table below. It is observed a gradually increase between 1995 and 2007, with sharp increase in 2004-2006, the period of economic boom and significant drop in 2008. At the end of 2008, the capitalization of BSE was at a level similar to mid year 2005, losing almost half from the value it had at the end of 2007. Market capitalization is the key indicator of a stock market, since it represents market value of listed companies, measured as the sum of products of the number of shares of each company listed and their corresponding market price.

Table 1 – Capital Market Indicators

Year	Avg. Daily Turnover mln. RON	Capitalization mln. RON	No. of Companies with Listed Shares	No. of New Companies
1995	0	26	9	9
1996	0	23	17	8
1997	1	506	76	59
1998	1	392	126	50
1999	1	573	127	15
2000	1	1.073	114	1
2001	2	3.857	65	3
2002	3	9.158	65	1
2003	4	12.187	62	-
2004	10	34.147	60	3
2005	32	56.066	64	5
2006	40	73.342	58	2
2007	55	85.962	59	3
2008	28	45.701	68	10
2009	20	80.074	69	3
2010	22	102.443	74	5
2011	39	70.782	79	6
2012	30	90.696	81	2

Source: www.bvb.ro

In 2008, when the global financial crises stroked, the value of the listed shares drooped, the prices were going down since there were no buyers on the market willing to invest.

An important element in the analysis of capital market developments consists in number of transactions concluded on BSE. The value of transactions on the BSE increased significantly during 2002-2007. However, the stock market incurred a reduction in transaction volume growth. Thus, in 2007 the value of this indicator has increased by approximately 48% compared to the previous periods when it had three digits increasing percents 147.6% and 257.2% in 2004 and 2005 respectively.

After the downturn in 2008, the market start to recover, however the risks and uncertainty still existed, as the RON continued to depreciate, local

macroeconomic indicators had an unfavorable evolution, facts that sustained the aversion of the foreign investors towards emerging markets such as Romania.

The derivative market has a similar evolution as the spot presented above.

Table 2 – SIBEX market indicators

Year	Volume RON	Monthly average
2005	707.738	58.978
2006	4.268.710	355.725
2007	3.490.293	290.857
2008	3.618.766	301.563
2009	2.483.287	206.940
2010	1.637.794	136.482
2011	1.626.574	135.547

Source: www.sibex.ro

The official information presented by BMFMS shows that in the years of economic growth the volume of transactions with derivative securities reached its peak. The main purpose for existing of derivative securities is that they are addressing to the investors both in order to take advantage of the favorable development in the market, as well as for covering the risk in case of unfavorable evolution of the underlying asset prices. It might be that arbitrage operations may take place between the spot market and the future market.

Starting with 2006, after the introduction of derivatives having as underlying asset the new index of the BMFMS market, namely SIBEX 9 and SIBX 18, calculated based on the prices of important blue chips companies listed on the BSE, the derivatives securities market developed year after year. That year SIBEX had the historical maximum liquidity [2]. The year 2007 brought a new type of stock futures and options for shares listed on Bucharest Stock Exchange. In the following year, on SIBEX was launched the first foreign equity future contract, the underlying asset being the shares of Erste Bank.

However, after 2008 the number of transactions performed is decreasing year after year, fact that sustain the affirmation that Romanian derivative market is a young one, not liquid, and the investors are

interested in obtain speculative income and not in covering the risks on which are exposed.

Table 3 – Evolution of number of derivative contracts concluded on SIBEX

Year	Futures	Options	Total
1997	77.877	-	77.877
1998	193.203	133	193.336
1999	159.927	15.215	175.142
2000	158.536	46.752	205.288
2001	135.242	53.731	188.973
2002	225.069	67.300	292.369
2003	168.545	19.369	187.914
2004	72.901	2.273	75.174
2005	696.109	11.629	707.738
2006	4.232.059	36.651	4.268.710
2007	3.456.023	34.900	3.490.923
2008	3.578.582	40.184	3.618.766
2009	2.430.849	52.438	2.483.287
2010	1.620.078	17.716	1.637.794
2011	1.613.469	13.105	1.626.574

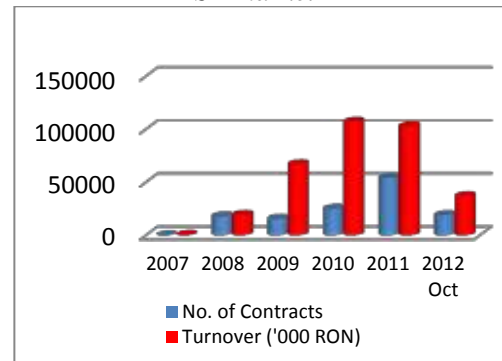
Source: www.sibex.ro

As showed in table above, the Romanian investors are interested mainly in futures, in contrast with behavior on mature markets. The reason probably resides in the fact that a future contract is the most straightforward out of those sophisticated instruments. On the other hand, option contracts are difficult to be applied, most of the times are used in hedging strategies which can be misleading if not thoroughly understood.

The derivative market in Bucharest is a small one, however with possibilities and prospects of increases. The diversification process commenced in 2007 conducted to yearly increases in number of contracts concluded. It must be mentioned that on BSE

are traded only futures, as the options contracts are not traded even on the market established in Sibiu for precisely this purpose.

Figure 1- Evolution of futures contracts on BSE market



Source data: www.bvb.ro

On BSE, the most traded derivatives are the Gold futures. The commodities derivative segment even if is at an incipient stage it appears that is the most attractive for investors. It appears that on both markets, Sibex and BSE the gold derivatives which are cash settled could be used by investors in order to better manage their portfolios. The assumption is that the gold price is rising on the international markets.

Apart of the gold futures, other successful products of the derivatives market in Romania are the futures on Fondul Proprietatea shares, the futures on EUR/RON exchange rate and the futures contract with the underlying asset Dow Jones Industrial Average. The later mentioned product is the star of Sibex in last two years. In 2012 more then half of the entire number of future contracts concluded had as underlying asset the Dow Jones index.

Table 4 - Futures structure for year 2012, dated 31 Oct 2012

Type	%	Volume
DEDJIA_ROM	51%	714.606
SIBGOLD	22%	309.505
EUR/USD_ROM	17%	238.980

Source: www.sibex.ro

The futures contract with the underlying asset Dow Jones Industrial Average permits to obtain profits whether the American index

grows or falls, permits to take advantage of important movements from Wall Street.

5. Conclusions

The Romanian derivative market is a relatively small market, it is young, however, appears to have the possibility to grow. The fact that was established later in comparison with other countries, after the long privatization process took place and the legal framework was set, did not allow the market to develop. Of course, the development of the derivative market is in a strong interdependency of the development of the spot market. In other words, we can expect to have a strong derivative securities market only when the spot one will be liquid and trustful.

The derivative instruments traded on the Romanian market, before and after the crises are mainly speculative ones. Due to the lack of liquidity, the specialists do not take advantage of the derivatives contracts in order to hedge their positions. Usually, for those type of activity they trade on foreign markets. The companies which are part of multinational companies are transferring the positions and risks related to their parent companies in order to be hedge against the unfavorable evolutions.

The effect of the financial crises on the Romanian capital market was extremely strong, the prices dropped significantly, consequently the turnover and the capitalization decreased. The foreign investors were less and less attracted by our local market and preferred to invest in countries with a more stable economic environment.

The measures taken by local management of BSE and Sibex were beneficial. The diversification of the products, the decrease in commissions for traders which deals derivative securities, the support and encouragement for the companies in IPO processes are example of measures that insure the development of local capital market.

In conclusion, the infrastructure for a strong capital market is already set-up, potential for development exists – taken into consideration that Romanians were only marginal involved in capital market transactions, therefore it is expected that

local market will be able to reach the level of others European markets.

Even if there are specialists who consider derivative securities as being “financial weapons”, the truth is that as long as the market is transparent and strictly regulated by authorities, controls in real time are in place then the derivatives may be a safe investment for both residents and non-residents.

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Group Decision Support – How to Design a Group Decision Simulation and Presentation Environment (UAIC Iasi Case Study)

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Abstract

In order to practice on decision making with students in simulation rooms we did some tests and we have implemented a working scenario considering some conditions imposed by the space, software particularities and so on. The bottom line is that starting both from existing theory and pragmatic examples we have solved some problems and limitations and determined new requirements when trying to proper implement and use a decision software solution based on simulations and developed for group requirements.

Key Words: DSS, GDSS, Simulation, Specificity, Implementation, Scenario Limitations

J.E.L. Classification: D8: Information, Knowledge, and Uncertainty; D89: Other.

1. Introduction to DSS

In the 1970s the concept of Decision Support Systems (DSS) began to develop in the Information Systems (IS) community. Notable were the researches made at the Massachusetts Institute of Technology (MIT) by Gorry, Scott-Morton and Little. Additionally, by the early 1980s there were many books and papers published in the DSS field as those of Alter, Bonczek, Holsapple and Winston or Sprague. So DSS had become a recognized part of IS.

DSS are now considered Information Systems traditionally intended to improve the efficiency of the decision-making process, ensuring a better administrative control and facilitating communication.

While DSS are meant to optimize and

refine the existing information and data in order to get better results, the newest (term, methodology and technology) Business Intelligence can be seen [1] as something used to explore for new information and new hidden relationships. Many of nowadays BI solutions come with comprehensive report-building tools, but the trend in this field is:

- To create web-based reports easily accessible using enterprise portals;
- To develop tools able to drill down, slice and dice into data in various ways also offering the possibility to look at a number of variables at the same time;
- To include performance management tools as dashboards, scorecards, KPIs (key performance indicators), alert message boxes and exception indicators.

DSS have been organized into five [2] categories: Groupware (Communication driven DSS), Data driven (simple file systems accessed by queries, retrieval tools, OLAP, Data Warehouse Systems, Executive Information Systems), Docs driven, Artificial Intelligence based DSS (Knowledge driven), and Model driven (applications based on quantitative, financial, optimization or simulation models also including spreadsheet oriented and solver-oriented applications).

2. Group Decisions and GDSS

GDSS or Group DSS are traditionally interactive, computer-based systems helping teams of decision-makers to solve problems and make choices. They usually use an elaborate communications infrastructure and heuristic and quantitative models to support decision-making. Its main advantage is the collaboration, especially in flat organizations with a hierarchical structure [3] which resembles to a broader and flatter pyramid.

When speaking of Group DSS and collaboration, the decision room is a key term [4]. It actually refers to the physical arrangement for using a GDSS. For example, in a single room, workstations are made available to participants by placing them inside a continuous desk following the U shape (e.g. Execucom planning laboratory back in 1981 – see fig.1). The objective in using a decision room is to enhance and improve the group's decision-making process.



Fig.1 Execucom planning lab-1981 [5]

Below there are two additional references [6] to well-known decision rooms. Winston Churchill's War Room (set of rooms - see fig.2) is the first one and could also be considered an example of an early, completely manual DSS.



Fig.2 Winston Churchill's War Room [7]

The cabinet ministers who went to this complex of rooms when it was a working facility were doing more than hiding from bombs. Their job was to make decisions about how to fight the war. The main item in the room was simply a rectangular table with pads in front of the seated individual.



Fig.3 Engelbart's decision room-'60s [8]

The first implemented computer-based decision room (Engelbart's decision room – see fig.3) was created at Stanford Research Institute in Menlo Park, California during the 1960s. The room provided displays for a group of people who sat at computer-driven display screens being able to retrieve pictures and text from the central computer so that everyone would see them on their screen.

The main characteristics of a computer-based decision room now include: 1) participants each having a computer workstation; 2) a leader (facilitator) that coordinates the meeting; 3) a room with at least one display screen all participants can view; 4) networked computers based on client/server architecture; 5) specialized software available to participants.

3. Simulations in DSS

Many advances made in management science and all improvements now available in information technology are allowing users (decision makers) to proper use simulation techniques [9] that were previously unavailable or limited to special conditions (use of mainframes).

From a general perspective, simulation [10] is a broad term that refers to an approach for imitating the behavior of an actual or anticipated human or physical system. It is related to another one - that of model which shows the relationships and the attributes of interest in the system under study.

A quantitative or behavioral model is by design a simplified view of some of the objects in a system. A model used in a simulation can capture much detail about a specific system, but its complexity depends on the purpose of the simulation based on that model.

With a simulation study and when simulation provides the functionality for a DSS, multiple tests and experiments of the simulation are conducted, their results are recorded and then their aggregate results are analyzed to try to answer specific questions. In a simulation, the decision variables in the model are the inputs that are manipulated in the tests.

4. Special Conditions of our Simulation and Presentation Environment (SPE)

At “Alexandru Ioan Cuza” University (UAIC) from Iasi we have tested using a simulation room - rectangular shape, with twenty operating places disposed in 6 rows (first 4 rows x 3 operating paces and last 2 rows x 4 operating places), in front of an additional one meant for the instructor (supervisor). These places have desks with desktops using a wire-based network. The room is also equipped with two video projectors and two corresponding projecting surfaces on front and right-front intersecting walls in order to support video-conferences with simultaneous but separate projection of both the local presentation and the visual feed-back from distance (see fig.4).



Fig.4 UAIC simulation and videoconference room with double projection (on front and right-front walls)

The group decision scenario of our tested SPE is also conditioned by the following:

- The students (80 in every semester) play the role of employs with decision power in virtual firms (grouped in 4 banks, 5 hotels and 4 commerce firms);
- The master's students (8) play the role of tutors (they evaluate and coordinate the groups);
- The whole scenario is based on supervised decisions simultaneously and concurrently taken by students as subjects;
- Three simulation applications provide by Tata Interactive (TOPSIM-Destination Management – for students that study

Tourism, TOPSIM-Universal Banking – Banking, TOPSIM-General Management – for students studying Commerce);

- Two different types of all three simulation applications (for instructor and for participant/student);
- Two ways of communication using the network: from supervisor to decision actors at scenario initialization moment and vice versa when collecting results;
- Two levels of security in order to protect concurrent communication channels between student teams (firms) and instructor (physical: locked room and closet for the instructor's laptop; operating system: password protected accounts with particular user rights);
- The student teams as decision group actors can communicate only after a session of decision-making;
- Many periods of time (with specific conditioning parameters) set to transit from on to another ascending at a predetermined moment, almost as in the real world, after sending results considering a dead line during the simulation class.

5. SPE Implementation Details

The pragmatic example that we have started from is a laboratory that uses twenty desktop stations (for student groups/firms) and a laptop (instructor's) using Windows 7. The laptop is mainly used to initialize simulations and collect and interpret results. All computers are part of a conventional wire based network connected to the Internet using a switch. All three TOPSIM simulation software products provided by Tata Interactive Systems, that we have tested comes with two versions (for instructor's laptop and for participant's / student group's stations). The instructor version has two option of communication with the student applications: a network-based option and a disk-based one. The network option is very dependent by the network architecture, so we didn't spent any time in adapting the network to that. The disk-based option uses a simple rule of association between every network shared folder on the instructor's laptop and every student group's / participant's/firm's simulation station which sees it as a Z drive after mapping. This option was initially

intended for using peripheral storage units/pen-drives and for switching them between instructor and students at the start/end of each simulation, but we have adapted it by using the network advantages - communication between nodes via shared folders converted into network drives.

We chose not to assign the stations to a domain so we have used at least two accounts on any simulation station: Admin and Student (different passwords). But the key was to design 21 shared folders on the instructor's laptop that were meant not to be moved and renamed. 20 of them were mapped as different Z drives (network virtual read-write partitions storing configuration files of the simulation application specific to a firm/student group) with Map Network Drive facility of Windows. They were intended to ensure the traffic of application configuration files in 2 different ways: from instructor to student at scenario initialization and vice versa at collecting results from simulations.

The 21th shared folder (on the instructor's laptop) was intended as a source for documentation (.doc files, presentations, video tutorials) and that's why it was defined as the R partition (read-only), considering only read rights for students. The Network Discovery option, the access to Control Panel and the Option to Disconnect the Network Drive were disabled on the Student account of all 20 stations, in order to ensure the minimum security and discretion of the decision simulation. Thus most of the communication requirements were provided using the operation system and not the software application of decision simulation.

The scenario that we have tested was implemented considering first of all an initialization of the simulation and different periods of time that conducted to different moments with different conditions of using the simulation application. For example, one big difference between two different reference periods could be the average rate of interest and that can affect essentially the parameters of decision that is taken. [11]

6. Advantages and limitations

This entire solution offers above all the plus of defining a dedicated environment for decision making with various conditions for

simulations, interactions and presentation sessions. Actually the participants of the simulation take up decision-making roles of their units to compete as teams against other units in a virtual environment (with different modules) that helps them plan, strategize, and decide, taking into account several variables that influence it [12]. It is obvious that by the decisions they make the participants influence the success of their unit.

An issue that can be interpreted as a minus is related to the need of the physical presence of the decision team (instructor/coordinator and deciders/student groups) in the simulation lab that is not always possible. Some disadvantages (mostly technical) are:

- Difficult maintenance of the lab (network cables and electric sockets) because of the format of the physical room that hosts the simulations (resistance structure based on frames and poles, right side wall of glass);
- Simulation application designed needing un-installation, remaining files remove, Windows registry deletion and reinstallation in order to prepare the lab for a new simulation with another team.

7. Conclusions

This article resumes some valuable ideas about group decision-making, simulation rooms and some relations between models and simulations in order to conclude about particular conditions of a tested environment.

The paper also presents some advantages and the disadvantages of this SPE for group decisions also defining a sort of a guided model in that direction.

The collaboration aspect, all technical conditions mentioned and the maintenance issue are key factors of success when implementing such a solution for group decisions.

8. Acknowledgment

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Quality of Employment in the Context of Crisis: a Comparative Analysis of Romania and EU 27

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Abstract

The paper aims to identify and analyze the changes in quality of employment in Romania in the context of crisis. The assessment of quality of employment is based on the analysis of dynamics of a range of indicators describing various aspects of the phenomenon. Data show that, in Romania, women are the most affected by unemployment in the context of crisis, although their unemployment rates are lower than those of their male counterparts. If compared with EU 27 average, the level of trust regarding the possibility of finding a job of similar pay if losing or quitting their current job is significantly lower for Romanian workers regardless of the category to which they belong. The main policy tools adopted by Romanian government in response to crisis effects on quality of work and employment aimed to maintain labour demand, to make the unemployed more employable, and to support disadvantaged groups.

Key words: quality of employment, crisis effects on labour market, anti-crisis policies.

J.E.L. Classification: J21, J08.

1. Introduction

Negative impact of crisis on labour market has affected individual, family and community well-being. Analysis of dynamics of the quality of work and employment is essential to identify crisis effects on labour market and the appropriate policies to counteract them, as improving job quality has positive consequences in increasing productivity and employment levels and, hence, in improving well-being of employees and in supporting social inclusion and poverty reduction.

As regards the focus on quality of work and employment among European Union member states, the issue has been officially put in the agenda of European policies since the European Council in March 2000 when the so-called Lisbon Strategy was launched. As the Social Policy Agenda states, "quality of work includes better jobs and more balanced ways of combining working life with personal life. [...] Good employment and social policies are needed to underpin productivity and to facilitate the adaptation to change." [1]. The quality dimension was also underlined by the Stockholm European Council [2] conclusions: "re-gaining full employment not only involves focusing on more jobs, but also on better jobs ... including equal opportunities for the disabled, gender equality, good and flexible work organisation permitting better reconciliation of working and personal life, lifelong learning, health and safety at work, employee involvement and diversity in working life" [1].

In June 2001, the European Commission issued its first Communication on quality of work and employment and a set of various indicators to monitor this phenomenon have been adopted at the Laeken European Council in December, the same year. This period could be described as the "golden age" of quality of work and employment in European policy arena, determined by the succession of four supportive presidencies of the EU (Portugal, France, Sweden and Belgium), in a period of sustained economic and employment growths combined with the political context of a majority of left wing and social-democrats governments among the Member States [3].

In the following years, the emphasis on quality of work and employment has been supported by the work of various international institutions such as the Directorate General for Employment and Social Affairs of EU Commission, the

Foundation for the Improvement of Living and Working Conditions, and International Labour Organisation.

Following the broad interest manifested in European policy arena for supporting and enhancing quality of work and employment, the paper aims to identify and analyze the changes that occurred in quality of employment in Romania in the context of crisis. The choice is motivated by the fact that the security of employment can be the most important criterion of quality in a period of economic crisis while others criteria may seem more important in more clement times [4] [5]. Due to the downturn, the attention from quality of jobs has shifted to sustaining the employment levels. Thus, as a prerequisite to the quality of work, inclusion and access to the labour market are obviously essential in this respect.

The research has been organized as follows: the first section presents the indicators used to describe the quality of employment and the method of analysis; within the second section, the paper analyzes the dynamics of quality of employment in Romania, in the context of crisis; the third section provides a discussion of the policy tools adopted in Romania and in other EU member states in response to crisis effects on quality of work and employment, while last section presents the concluding remarks.

2. Material and method

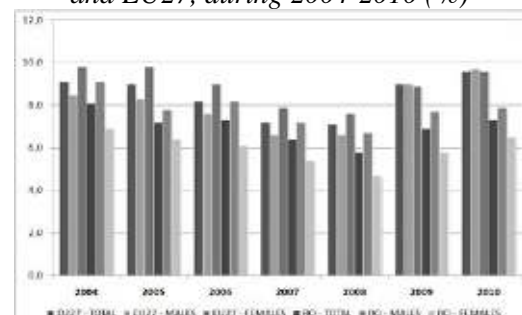
The quality of employment is assessed using a range of indicators that describe various aspects of the phenomenon, such as: the structure of unemployment with respect to age and gender, involuntary part-time employment, human capital development as a way of increasing future employability, and workers' attitudes toward their chances in finding another job. The analysis is focused on Romania, but comparisons with EU27 average and with other EU member states are also made. Data sources used in the study are *EUROSTAT* and *European Working Conditions Survey* (EWCS) databases. Selected indicators of quality of employment are analyzed in dynamics, during the period 2004-2010, in order to observe the trend of indicators in the years before the crisis and the changes that occurred in their evolution after the crisis started.

3. Dynamics of quality of employment in Romania, in the context of crisis

Labour markets in the EU started to weaken in the second half of 2008 and deteriorated further in the course of 2009, when the unemployment rate had increased by 1.9 percentage points from its 7.1% low a year earlier. If at EU27 level the increasing was about 26.8%, in Romania the labour market had reacted slower, the increasing being of only 19%, from 5.8% in 2008 to 6.9% in 2009.

At EU27 level, women were less affected than men, as men's unemployment increasing was two times more pronounced than for women. That might be explained by the fact that the crisis hit first and foremost sectors where male employment is relatively high (car industry, construction). Even so, a decline in female employment was registered in 2009 for the first time since 2005. In Romania, the situation is different, as women are by far the most affected by unemployment in the context of crisis. If male unemployment rising was about 15% in 2009 and 2.6% in 2010 comparing to previous year, female unemployment registered an increasing of 23% in 2009 and 12% in 2010. One also may note that after crisis broke up, both unemployment rates on total and by gender and unemployment intensification have been maintained in Romania significantly under the EU27 average (figure 1).

Figure 1. Unemployment rate in Romania and EU27, during 2004-2010 (%)

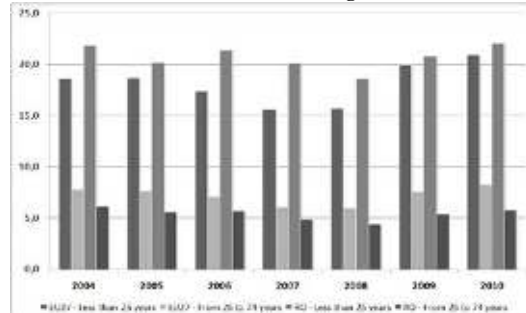


Source: Based on data extracted from Eurostat database

Unemployment rate for the workforce aged less than 25 is about 4 times higher than for 25 to 74 years age group in Romania. In the context of crisis, unemployment rates for both age groups increased in 2008 and 2009. At EU27 level, youth unemployment has

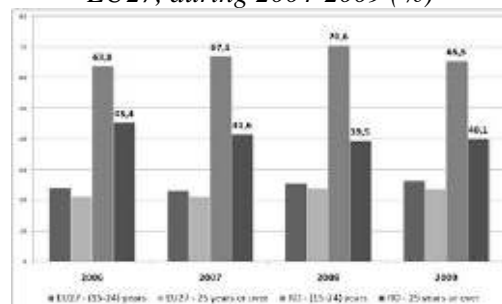
raised in a greater extent than in Romania (figure 2). Although unemployment rates for young people in Romania are higher than the EU27 average, those corresponding to the age group 25 to 74 years are about 40% lower than the EU27 average.

Figure 2. Unemployment rate by age group in Romania and EU27, during 2004-2010, %



Source: Based on data extracted from Eurostat database

Figure 3. Involuntary part-time employment as percentage of the total part-time employment by age group, in Romania and EU27, during 2004-2009 (%)



Source: Based on data extracted from Eurostat database

Involuntary part-time employment is about two times more spread in Romania than at EU27 level and affects particularly young workers. While for employed persons aged 25 years or over the values are about 40%, for youth (15-24 years), this rate is higher than 65%. In 2008, it raised with 3.5 points comparing with the value registered in 2008, and returned in 2009 to the values specific to before crisis period (figure 3).

In many Member States the participation in lifelong learning is relatively low and is still decreasing. This is also the case of Romania, where the participation rate in formal and non-formal education and training of the active persons aged 25-64 years is about 8-9 times lower than the EU average (1-1.5% in Romania, compared to 9.8-10.9% at EU27 level). Investing in skills remains an important long-term challenge, also with a

view to a sustainable exit from the economic crisis and reducing poverty. Countries aim to promote lifelong learning in order to update and increase workers skills, thus increasing productivity and employability in the future, as well as to improve the mobility in the labour market. A positive aspect for Romanian labour market is the fact that there is a continuous increasing in the proportion of persons with tertiary education (from 13.3% in 2004 to 16.9% in 2009), which ensures, on long term, skills-upgrading and a higher competitiveness of the workforce.

If they were to lose or quit their job, less than 20% of the employed persons in Romania would find it easy to find a job of similar salary. While 27.2% of those aged under 30 would agree with the statement, only 10.5% of older workers (50+) feel the same (figure 4a). Almost 69% of the workers think it would be hard to find a job of similar salary, in case they lose or quit their current jobs. Across other EU27 member states, people are more optimistic about their chances on the labour market, as, in average, less than 50% (48.3%) of workers consider that they would be in difficulty if they have to search for a job of similar pay. The EU27 average percentages are around two times higher than for Romania for those agreeing they wouldn't have problems in finding this kind of job.

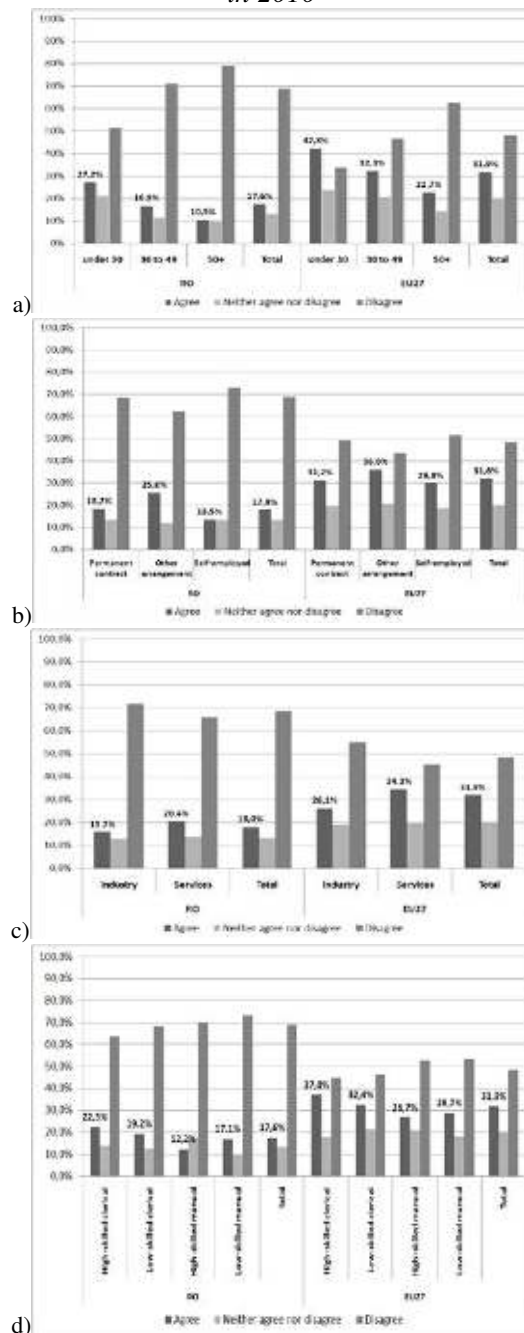
As regards the type of the employment contract, the employees with other arrangement than a permanent contract or than self-employed ones are the most optimistic (figure 4b), possibly because of the much flexible nature of these kind of jobs (25.6% of *other arrangement* group, comparing to 18.2% and 13.5%, of *permanent contract* and, respectively, of *self-employed* groups).

According to workers' perception, the hardest to find a new job is in industry sector, as 71.5% of the workers in industry in Romania and 54.9% at EU27 level disagree with the fact that it would be easier for them to find a job of similar salary if they were to lose or quit their current jobs (figure 4c).

The most skilled the workers are the easiest they seem to find a new job correspondingly paid in case of losing or quitting their current place of work (figure 4d), while the less skilled workers are the more pessimistic they feel about finding a job

of similar pay.

Figure 4. Distribution of employees by the level of trust regarding the possibility of finding a job of similar pay if losing or quitting their current job and by: a) age, b) employment status, c) sector of activity, d) type of occupation, in Romania and in EU27, in 2010



Source: Based on data extracted from EWCS database

4. Labour market policies response to the economic and financial crisis in Romania and in other EU member states

An overview [6] of the different types of

stimuli included in the policy actions to combat the crisis on labour markets in the EU shows that in financial terms the focus is on general economic support measures including tax cuts, wage subsidies e.g. in the form of reductions of social security rates, state guarantees for vulnerable companies, or financial support to SMEs.

A second focus is on infrastructure spending and sector-specific support measures for the automobile sector (DE, Y, FR, IT, AU, ES, PT), construction industries (CY, ES, LT), for transport and tourism (CY, GR, NL, PT), and steel industry (LU). In many cases, this is combined with EU Structural Funds resources. European Structural Funds (ESF) is a widely used instrument among Member States to promote quality of work and it plays a crucial role in funding the active employment policy measures. In Romania, the first signs of the crisis on labour markets occurred almost simultaneously with the opportunity to access European funding under the ESF, limiting the negative impact of the decreased public budget during the crisis. These funds were used in our country for training of the employees and enhancing the employability of disadvantaged groups and to improve working conditions by informing and training workers in the field of health and safety at work [7].

As regards adequate earnings, while LU has taken action to reinforce support for people's income by increasing the guaranteed minimum income and by providing a life allowance for people whose monthly income is below a certain threshold, during the crisis in BG and PT the public sector wages are frozen, while in LT and RO there was a major wage moderation in the public sector [7].

While most of the countries included some sort of improved unemployment benefits and flexible work contracts in their programmes, only very few concentrated their resources on such measures (RO, AU, FI, DE, IT). This includes in particular short-time work schemes and flexible working hours.

Training measures and placement activities are also applied by many countries, but none of the EU Member States put this area into the centre of the policy programme. Only one third of the Member States

emphasise this measure. This includes the creation of apprenticeship training (AU, UK), training of redundant workers (FR, CY, FI, NL, PT) or the expansion of adult training in general (DE, SE, HU). Some countries include the education and training sector into their infrastructure programmes.

Although the great majority of instruments are applied in various combinations there can be identified three sets of national approaches (table 1) that describe different logic underlying the strategies to combat the crisis [6].

a) The *state-oriented approach* counts on the strength of public and private spending which is expected to re-direct the economy to the former growth path. It depends on high multiplier effects of expenditures, being able to compensate the loss of demand in the economy. It is the case of CY, ES, FR, LU, and MT.

b) The *stability-oriented approach* assumes a short crisis. It is expected that a strong upswing will soon bring the economy back to former activity levels. Only transitional public support is required in order to stabilise employment. This approach is adopted by most of the EU countries (BG, CZ, DE, GR, IT, LV, LT, NL, PO, SE, SI). Redistributive measures play a minor role compared to general tax cuts or wage subsidies.

The *liberal approach* and least frequently (BE, DK, FI, HU, PL, SK, UK) counts on the dynamics of the economy. Restoring profit rates and supporting consumption will be sufficient to recover from the slump. In a long-term perspective, restructuring of the economy towards growth sectors will help restoring economic dynamics.

AU has strong elements of both, a state-oriented and liberal approach. EE, IR, and RO were not classified [6].

According to the study *Labour market policies in times of crisis* [8], the types of policies adopted by Romanian government, in order to tackle the labour market impact of the financial crisis are:

I. *Subsidized and unsubsidized reduction in working hours*. It has the following advantages: allows employers to reduce hours worked to avoid layoffs; helps retain skilled workers; reduce labour costs for the employers; enhances job security for workers; protects incomes of workers;

promotes skills development of workers (if combined with training); no direct financial cost for employer. Its main disadvantage is that it imposes administrative costs and changes to company's management practices. Subsidized reduction in working hours requires financial support from government and income replacement may not be perfect leading to loss of earnings for workers. Non-subsidized reduction in working hours involves income reduction for employees.

II. *Job search assistance and improved capacity of public employment services*. This type of measure improves the job search abilities of unemployed at a relatively low cost. The disadvantages refer to: ineffective in times of low labour demand; can entail deadweight costs because beneficiaries who find work through job search assistance are often more qualified and perhaps could have found jobs in the absence of assistance.

III. *Training (including on-the job training), work experience and apprenticeship programmes* build the skills of those out of employment to increase their chances of finding a job. It constitutes a costly measure and training is often not linked to the demands of employers (skills mismatch).

IV. *Entrepreneurship incentives* (training and microcredit) represent a policy not only used to improve employability but also to create SMEs. This kind of measure provides capital and skills training to potential entrepreneurs. It is costly and not always effective because training does not focus on the correct skills and because the financing is too restrictive. Another disadvantage is that poorest, women and other vulnerable groups are unable to access such programmes.

V. *Change to unemployment benefits schemes*.

In 2009 the total expenditure for labour market policy interventions raised in Romania by about 43%, to 534.52 millions of euro, up from 373.76 millions of euro in 2008. The structure of funding has changed as there has been an increase in the proportion of the expenditure with out-of-work income maintenance and support in total expenditure for LPM interventions, from 64.9% in 2008 to 84.1% in 2009.

The number of beneficiaries of LMP support increased too, to 324667 persons in 2009, up from 127579 persons in 2008, that

meant a raise of about 2.5 times, although the amount spent per person was significantly smaller: 1384.84 euro per beneficiary in 2009 comparing to 1900.86 euro in 2008.

5. Concluding remarks

The analysis of several indicators of quality of employment and the findings of a range of reports of some European institutions have demonstrated that national labour markets have responded in various ways to the economic shocks induced by the global financial crisis.

In Romania, rising unemployment has been important as it went up from 5.8% in 2008 to 6.9% in 2009 and to 7.3 % in 2010. However, both unemployment rates on total and by gender and unemployment intensification have been maintained in Romania significantly under the EU27 average. Women are by far the most affected by unemployment in the context of crisis, as female unemployment registered an increasing of 23% in 2009 and of 12% in 2010. If they were to lose or quit their job, less than 20% of the employed persons in Romania would find it easy to find a job of similar salary. Older workers (50+) and less skilled workers are less confident with their chances, being more pessimistic when it comes for finding another job.

The main policy tools adopted by Romanian government in order to prevent or to combat crisis effects on quality of employment aimed *to maintain labour demand, that is keeping people in jobs* (through subsidized and unsubsidized reduction in working hours); *to improve the match between labour demand and supply by making the unemployed more employable* (through job search assistance, training, and entrepreneurship incentives), and *to support disadvantaged groups* through change to unemployment benefits schemes.

Progress has been made in mitigating the impacts of the crisis through policy interventions, but there is still a need for much stronger linkages between investment, growth and productivity on the one hand, and employment, labour market and social policies on the other.

6. Acknowledgements

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Competitive Strategies of Economic Enterprises

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Abstract

As a result of the presented material, we concluded that the firm competition strategy of economic enterprises, it's a way of action who permits the description of a mission and the perimeter of development of global activities organization, but also the modalities of creation or increase, which compose the diverse values of activities.

Key words: firm, strategy, relations, business, competitors

JEL Classification: M31

Conceptual basis of the strategy

The most interesting definitions are:

- "the strategy groups together the determination of the objectives for a long period of a company (firm), the definition of the steps and the necessary resources in order to achieve them" [1] (Chandler, 1962);

- "the strategy is the essential way of the using and predicting the resources, as well as the way of the interaction between the firm and its environment, showing the manner in which it will achieve the established objectives" [3] (Hofer and Schendel, 1978);

- the definition of the Porter which reduces the concept to the business strategy is "the establishment of a favorable position in a field, a position at the same time which is advantageous and can be shielded by the forces which determine the competition in that field. The strategy is the way in which this competition advantage can be achieved" [6] (Porter, 1982);

- it is necessary to use the term strategy for those actions which consolidate the position of

the firm in comparison with its competitors. It is necessary to be made a difference between these actions and those which have the purpose to realize the operational improvements, such as the profitability increasing, the improvement of the organization or a superior qualification of the staff [...] this while the weaknesses or the internal inefficiency can be tolerated for a period, the deterioration of the firm position, in comparison with its competitors, can put in danger the firm" [5] (Ohmae, 1998);

- "the strategy is the art of hiring, for a long time, the firm to realize some advantages as a result of the competition game and evolution of its external medium" [2] (Gervais, 1995);

- "to elaborate a strategy suppose to choose those fields in which the firm wants to advance and to allocate the necessary resources in order to succeed in maintaining and developing the activities in those fields" [8] (Stratégor, Politique Générale de l'Entreprise, 1997).

This last definition groups together two different strategy levels:

- *Corporate strategy* which determines the fields of the firm, leading it to start or to withdraw from a specific field, with the purpose to realize a balanced portfolio of activities.

- *Business strategy* which refers to each field above-mentioned, showing the actions that the firm takes to get a favorable position in comparison with its competitors in the specific field.

The essential difference between these two strategy levels is the fact that while the corporate strategy, called too *primary strategy*, appoints the fields where the firm will start to develop, the business strategy, called too *secondary strategy*, identifies the actions and the objectives for the field appointed before.

The business environment is defined in comparison with some precisely points (customers, suppliers, competitors), and for that reason is necessary to realize an internal and external plan before planning a new strategy.

- *Operational strategy* which determines the ways in which the different elements that form the organization, such as resources or competences or personal motivations combine to implement the strategies from the other two levels above-mentioned.

In this way it is formed a strategic behavior which makes possible the operative using of the firm resources, having in view the opportunities and the menaces from the business environment, the technological changes, anticipating and preparing the possible entering and withdrawals from the competitors field. In fact at this level of secondary strategy appears the competition game.

The essence of the business strategy groups two essential concepts: objective (strategic planning-mission) and competition arm.

The strategic planning-mission includes the general objectives of the firm and represents the directions of its efforts in order to get a position in that field.

The analysis models of the activities portfolio which organize the strategic decisions depending on the competition position of the firm and the evolution of the field (quantified with the help of some indicators such as increasing rate or attraction rate of the sector) propose a series of strategic alternatives by confrontation between two criteria: build (market quotation increasing) and harvest (immediately profitability), under the following forms:

- Development conception, which aims at the obtaining of profits for a long period by accumulation of new market parts until it is obtained the leader [4] (Kotler, 1980) position. This implies some commercial and technological competences which permit to the firm to dominate its competitors and to develop.

- Stabilization conception which aims at the maintaining its competition position by means

of cost or brand strategies that will be developed in another chapter.

- Re-launching concept which aims at the stopping of an incipient decline and finding a "healthy" position for a long time. This suppose a financial improvement and than the fixation of the prices, the rationalization of the product lines and if is necessary the direction towards other fields.

- Profitability concept which aims at the maximum exploitation of an activity before to renounce to it or to exclude it from the portfolio. In this case a market quotation is preferred than immediately profits.

Volume-Cost strategies

The essential objective of the business strategies is to realize and to give to the firm a lasting competitive advantage in front of its competitors. Business strategies have an decisive role in the determination of the performance level of the respective activity, knowing that this concept is judged by the analysts, starting from a series of criteria such as: increasing, profitability, productivity etc.

The cost strategy represents the strategic decisions which direct the firm efforts to reduce its fabrication costs, including here the unitary costs of the manufacturing, as well as the conception, design, distribution and promoting costs.

These strategies underline the fact that a firm is more competitive if has the lowest costs from the field, in other words the competitive advantage of the firm is direct proportional to its capacity to reduce its costs to the minimum in comparison with its direct competitors that will permit to it to obtain a higher profit.

To reduce the costs means to realize some resources savings for the manufacturing of a product unit, this fact is encouraged by the using of concepts such as experience effect and its strategic implications.

The theory [7] (Boston Consulting Group, 1980) of the experience effect connects two coordinates of the activity: the *cumulative production* (Q_{ex}) which is a measure of the activity volume of the firm and the *unitary cost of a product* (C_u); in this way the total unitary cost of a product decreases with a constant

percentage each time when the cumulative production of the firm for that product doubles, with the specification that this unitary cost is measured in constant monetary units, canceling the inflation effect.

The constant decreasing of the cost with the doubling of the cumulative production varies depending on the field, being in the interval of 10%-30%, that in the conditions of an increasing of the quantitative factor allow the obtaining of an decreasing curve of the unitary cost, called in the economic theory experience curve.

This curve do not belong only to one firm, it belongs to the entire field, depending on the efficiencies of that field, being here a constant indicator (but not with automatic applicability) for all the competitive firms.

The unitary costs of a firm wanders from the experience curve, making the cost derive. The experience effect is an empiric phenomenon which has three causes:

1) economies of scale and volume effect:

2) learning effect

3) the effect of the progressive implementation of some innovative elements.

4) the unitary costs of an activity level decreases when the production capacities and the sales volume increase.

Economies of scale come from the repartition of the fixed expenses to a superior volume of the goods produced and from the reduction of the investments in the capacity unit when the total capacity of the production increases. Besides the economies of scale, it is observed too the existence of a volume effect which means the improvement of the negotiation capacity of the firm in comparison with its partners (customers and suppliers) with the increasing of its volume that allows to establish an important place in the relationships with the suppliers .

So appear:

1) the learning effect (identified wrongly with the experience) is the improvement of the work productivity owing to the increasing of the proficiency and the execution speed of an operation or of the product with the realization of it in a repetitive manner.

2) Experience gaining allows to the firm to bring some modifications of the products manufactured by eliminating the unnecessary elements, or by the endowment with improved or innovative components (esthetic, functional, security of using etc), in a progressive manner when the conception and the manufacturing improve.

Conclusions

In conclusion, specialization types are different, depending on the two criteria presented above and which can be made up in the coordinates of a matrix which has: the segments which the company focuses on can refer to: customers, type of products, geographical area or distribution network. This strategic aim chosen by the company estimates that it is competent because it offers either products at a low price or differentiated products towards those existent on the market, answering in a better way to the specific needs of that aimed segment.

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Research Concerning the Implementation Level of CRM Information Systems in Banking Sector in Romania

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Abstract

Without claiming to be a complete study, due to the aimed objectives and research variables we focused upon, the purpose of this research is to highlight the impact of information technologies implementation used in CRM and banking strategies and to identify some directions which will serve to design, organize and develop similar researches of a wider range.

Keywords: CRM, Cloud Computing, Information System,
Jel classification: D80

1. Introduction

The research concerning the implementation level of CRM type information systems in the Romanian bank sector aimed to provide general input regarding the manner in which the analyzed banks managed to increase performances as a result of exploiting the advantages of IT solutions for customer care management.

2. Contents

The first question of the questionnaire (the filter question) aimed to validate the sample of the banks which implemented CRM information systems, resulting in 83.33% of affirmative responses, of the total number of the banks which received the questionnaires.

The second question from the questionnaire aimed to identify the main objectives of CRM information systems implementation within the banks included in

the research sample. The objectives were predefined, assuming that a CRM information system implementation cannot be performed without being adequately integrated in a relational customer orientation strategy.

We observe that the majority of the respondents consider as a foreground objective of implementing a CRM system the fidelity enhancement of existing clients throughout loyalty programs operated by CRM system (85%).

Integrating the information about clients in order to perform multidimensional analysis on their behavior facilitates the development of predictive patterns regarding the profitability of attracting customers and developing their fidelity, which ensure the support for banking institution managers to take the decisions of assigning financial resources to these two strategic axis of customer care management.

Optimizing the assigning of financial resources to profitable customers segments is fully justified from the profitability point of view, but the risk that emerges is losing some customer segments that might become profitable in time throughout customized CRM campaigns.

Information gathered after getting in contact with the customers represent the "raw material" for the CRM bank information systems. The main procedure of acquiring information about the customers is direct interactions with Front-Office personnel (45%) followed by the interactions with Call-Center operators (35%), using some amenities provided by online banking (15%) and filling out some questionnaires during marketing researches (5%).

Sales representatives of the banks registering performances frequently participate to training programs designated to create and promote a proactive attitude towards customers, create awareness regarding the link between customer care behavior and company's profitability, identify the need of each customer in order to embrace communication style and implement efficient communication instruments during interactions with the customers to obtain relevant information to be exploited in the CRM information system.

In what concerns the question regarding specific competencies, know-how and technologies used in CRM sector, the representatives of the banks which participated to this research underlined the following important aspects: the occurrence of an information system designated for CRM activities, which operates as an interface between bank and customers and offers instruments to enhance the relation (100%), the employment of multiple communication channels utilized for communicating with each customer segment (60%), training programs intended for front-office employees designated to create a proactive attitude towards customers (70%), the customization of product range and bank services in order to increase customers satisfaction (65%). The aforementioned question represents the second filter used in the questionnaire and the percentages associated with the received answers embody the result of a multiple choice carried out by the respondents.

Following the evaluation of the results, we observe that all the banks included in the research sample consider that the implementation of CRM information systems acts as a support for customer care relational strategies and brings up long-lasting competitive advantages.

Considering the frequency of the CRM campaigns, the customer care development programs, focused on seconding additional and cross selling occupy the first place (85%), followed by rewarding loyal customers through customized offers (60%), facilitated by the implementation of

multidimensional data analysis techniques within CRM information systems analytics procedures. The respondents assigned a lower running frequency to the other types of CRM campaigns listed in the questionnaire: preventing customer migration to competitors throughout actions based on satisfying individual needs (45%), offering products or services in order to create a new range of needs for the customers (40%).

CRM banking information systems ensure close monitoring of customers needs in order to make the most of the cross-selling and up-selling opportunities and to adapt to fast-changing customer needs. In our opinion customer loyalty, based on additional selling and recommendations, represents the base for a company market share increasing and fast achieving selling goals, and the profit resulting from profitable customer relationship grows with the period they remain active.

Regarding the CRM campaigns developed by Romanian banks, it is our believe that customers migration to competitors should be strongly observed, since customers have more and more alternatives in choosing the offers that maximize the advisability in banking products and services acquisitions.

The activities carried on by the competitors of the analyzed banks in the CRM sector are being counteracted, according to their representatives answers, by the increased frequency and variety of promotions and programs for developing customer fidelity (70%), launching cutting-edge financial services and products (65%), exploiting information provided by early warning systems (45%) and integrating a Competitive Intelligence module in CRM system (25%).

Although all these actions have the goal to support a defensive CRM strategy, focused on customer retention and decreasing the rate of migration to competitor banks, our opinion is that assigning an increased budget for monitoring the competition using Competitive Intelligence techniques will simplify the aforementioned counteraction activities.

Integrating Competitive Intelligence modules in CRM banking systems becomes a priority, even if they are not included in the standard packages offered by CRM suppliers, since it enables the automation of information gathering actions from different internal and external sources about competitors activity, indexing and automatic rating using a taxonomy based on complex classification rules.

In our opinion, Romanian banks should insist on using customized offers techniques, which determine a long-lasting competitive advantage, especially under the conditions imposed by e-business. For this purpose, we recommend Romanian banks managers to increase the importance of CRM campaigns on websites and contact centers based on web technologies level, in order to facilitate customized interactions with the clients.

The rapid development of information technologies facilitated the spreading of information solutions designated for customer care management, rendering possible the integration, in an integrative information system, of all the data regarding customers. The main advantages offered by the new information and communication technologies have been ranked by the participants at the research as follows: the possibility to permanently update the information about customers (95%), the rapidity of exchanging information with customers (85%), the ability to contact and manage a great number of customers (80%), the ability to customize marketing messages (75%), the optimization of selling potential during every contact with the customers (65%) and the ability to adjust customer behavior using data mining (55%).

The low rate acquired by CRM information systems components acting on a strategic level demonstrates that CRM banking systems analytical dimension, based on adjusting customer care predictability, is not exploited at its maximum potential.

A successful CRM information system offers a global view of all factors which conduce to customer profitability increasing and standardizes a process, from generating potential customers' attention, until closing a

transaction. According to analyzed banks representatives, multidimensional analysis designated to predict customer profitability is facilitated by the occurrence of the following types of information, stored in CRM information system databases: information regarding banking operations carried out by the customer, additional products and banking services offered to customers, information concerning the risk of not paying an outstanding debt, customer identification information and suggestions for services improvement.

CRM information programs used by bank institutions regard three different aspects: **operational** (marketing and sales activities automation), **co-operational** (interactions between Front Office and Call Center representatives and customers) and **analytical** (implementing specific information analyzing techniques stored in CRM databases). The evaluation of the answers received from banks representatives confirm that CRM information systems have an operational dimension orientation, by following customer care management campaigns on different customer segments (85%), CRM reports fast delivery using groupware technologies (65%), ensuring support for multiple channel communication process (60%), while analytical abilities have lower rates: the possibility to perform online analytical processing (OLAP) - 55%, exploiting information about customers using data mining - 40%, confirming therefore previous results.(fig. no. 3.10)

Our research highlights that most CRM information systems implementation takes a period of 12 to 24 months (30%), followed by implementation in shorter periods, less than 6 months (25%); worldwide studies carried out by Gartner Consulting underlined that the implementation periods of CRM systems is in direct ratio with the size of the banks. In two of the banks from our sample (10%), the CRM system implementation is still ongoing.

3. Conclusions

Successful CRM information systems implementation within Romanian banks is conditioned by implementing organizational cultures based on an excellent customer approach, promoting a co-operational and competitive working environment. CRM solutions exploiting degree within Romanian bank sector will greatly depend on reorienting the business strategies towards personalized customer care, in order to increase their satisfaction and loyalty degree.

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Research for the Costs and Benefits of the Implementation of the IT Systems of CRM Type in the Romanian Banking System

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Abstract

Without claiming to be a complete study, due to the aimed objectives and research variables we focused upon, the purpose of this research is to highlight the impact of information technologies implementation used in CRM and banking strategies and to identify some directions which will serve to design, organize and develop similar researches of a wider range.

Keywords: CRM, Cloud Computing, Information System,

Jel classification: D80

1. Introduction

The research for the costs and benefits of the implementation of the IT systems of CRM type in the Romanian banking system had in view getting some information with a general character about the way the analyzed banks succeeded in increasing their performances by turning to account the IT solutions destined to the customs relations management.

2. Contents

In the opinion of the representatives of the banks which took part in the research, the costs of purchasing, implementation and maintenance of the CRM systems and the personalizing possibilities of the CRM systems modules represent the most utilized selection criteria of the suppliers of CRM IT systems. The other analyzed criteria, the easy integration with other IT systems existing in the bank and the operation facility of the CRM system had more reduced answering rates.

We consider that validation of the selection criteria of the suppliers of CRM IT

systems from the financial-banking sector must include in an equilibrated manner the aspects of the functional requirements, the technical requirements, the commercial criteria and the financial criteria, the last one being a fundamental guiding mark in the cost-benefit analysis.

The implementation of a CRM system represent a new model of approaching the customers relations by a bank, having major implications on human resources, processes and technologies. In this context, we had in view, by using a question, the identification of the main successful critical factors taken into account by the managers of the banks implied in the research regarding the implementation of CRM IT system. The results showed us the following hierarchy of these factors: the capacity of customizing CRM system (90%), the adaptability at the changes occurred within the departments implied in the CRM projects (85%), the support of the external consultants by training programmes offered to the users of the system within the bank (80%) and the communication of the advantages of the CRM system implementation in all departments of the banks (70%).

We notice that all the four considered successful critical factors had very high answering rates (between 70 % and 90%), showing the importance which the managers of the analyzed banks gave them in the process of implementation of CRM system.

As purchasing a CRM IT system in a bank implies a great investment, we consider opportune the identification of the cost category which had the greatest percentage in the analyzed banks. The answers make evident the placement of the costs generated by purchasing software and hardware equipments (45%) on the first position , followed, in order, by the maintenance costs of the CRM system (30%), the costs with the training of the system users form the bank

(15%) and the costs generated by the integration of the applications and the CRM system customizing (10%).

In two situations, we noticed the outrunning of the general costs of purchasing software and hardware equipment by the maintenance costs of a CRM system and the costs generated by the integration of the applications and CRM system customizing.

The adoption of a solution of SaaS type (Software as a Service) may contribute considerably at the reduction of the costs with the purchase of a CRM system.

The sales automation modulus represents an important functionality of a CRM banking system, as it manages and consolidates the operations of the sales team from a bank. The main advantages given by the components dedicated to the sales automation as a part of CRM IT system of the banks investigated are the following: the prevision of the products sales and banking services on each clients segment (75%), monitoring the sales indices (65%), the identification of the opportunities of additional and crossed sales (65%) and the reduction of the administrative effort and the concentration on the sales processes (60%).

The performance of the sales automation modulus is conditioned by its integration in the management system for following and registering each stage of the sale process for each prospect in part, from the initial contact realized by the employees of Front – Office and Call Center, to the decision of drawing the offers of products and banking services.

CRM modulus of marketing automation takes into account the totality of the stages afferent to a marketing campaign, beginning with the conception, the performance and the measuring of the results, by the means of some software applications which facilitate the selection and the segmentation of the clients portfolio, monitoring the contacts with them and interprets the results. In the opinion of the representatives of the banks which take part in researching, the main advantages of the component dedicated to the marketing automation within the framework of CRM IT systems are: the analysis of the efficiency of the marketing campaigns by quantifiable results (85%) and the efficient management of the planning information and the performance of the marketing campaigns (75%). More reduced percentages have been allocated to the other two advantages

predefined as answering alternatives, namely: the identification of the tendencies of manifesting the clients behaviour (60 %), respectively the facilitation of performing direct marketing campaigns, based on e-mail marketing and SMS marketing (55%).

By the means of the modulus of marketing automation, it is performed a personalized management of the clients of the level of operative unit and a unique administration of the clients at the bank level.

The automation of the support processes offered to the clients in CRM IT systems makes efficient the interaction mode of the banks representatives with the clients, supporting in an interactive mode the developed business processes, reducing the costs and generating the performance increase. The most important advantage of the automation component of the support processes offered to the clients, in the opinion of the respondents, is represented by quick solving of the clients' solicitations by automatic allocation towards specialized human resources (75%); the other predefined advantages obtained the following answering rates: the planning and personalization of the services offered to the clients (70%), the increase of the client's satisfaction and the creation of new sales opportunities (70%) and the possibility of rendering a self-service banking service (55%).

We suggest to the banks managers to give a great importance to the self-service banking services, which have the role of offering a knowledge basis with a multitude of answering the potential questions of the customers, to have in view the costs of the client service and the satisfaction degree of the client, to assure that the self-help type services have a positive impact on the development of the customers relations.

Cloud Computing is a globalizing form of IT services and it is situated in the worldwide economic tendencies, which aims at the reduction of the operational costs and the concentration of IT services in some global conglomerations. According to a study published in Market Watch Review in 2011, the Romanian banking system is ready to migrate towards the Cloud Computing type technology, mainly due to the high speed connection at Internet, the investments made for retechnologizing, and the competent personnel, trained to implement

and to use the services based on Cloud Computing. Testing the Cloud Computing technologies has begun in the Romanian banking system since 2009. In this context, a specific objective of the research performed was represented by the identification of the reasons for which the banks managers from Romania would choose a supplier of Cloud Computing solutions for CRM IT system. The answers received made evident a precarious attitude of the majority of the respondents, who said that they wouldn't use Cloud Computing in near future, because of the risks it implies (55%); on the other hand, the benefits appreciated by the respondents who consider the migration towards Cloud a priority, are: the considerable reduction of the IT budget (25%), its extended capacity and flexibility at new business requirements (15%) and standardization of business processes oriented towards the client (5%).

We consider that the banks managers should assess the opportunities offered by software applications based on Cloud Computing model, by the means of which they can get useful information in a real time from the data volume available on the new communication channels with the customers, especially through social network.

The factors which contributed to the success of the implementation of the CRM IT systems in the banks analyzed, were put by their representatives in a hierarchical order: the existence of a business philosophy centred on client, partitioned at the level of all departments (80%), efficient training of the personnel, on competence levels, for using CRM system (75%), simplification of the IT flows in the communication with clients (55%), as well as the identification of the risk factors and finding some measures to reduce them (45%).

These results confirm the fact that any implementation of CRM system initiated in a bank needs a managerial culture centred on the adaptability at the changes of the clients' preferences, which must support the activities and their specific processes. The success key in a CRM banking approach is represented by the increase of the notoriety of a banking brand, which quantifies the results of the all employees' efforts from the departments implied in the interactions with the clients.

The last question of the questionnaire had in view the identification of the main benefits

resulted as a consequence of the implementation of CRM IT systems in the banks included in the research, which have been put in a hierarchical order, as follows: the efficiency increase of the personnel of Front Office and Call Center (80%), the increase of the conversion rates in sales (75%), the quick management of the clients' solicitations and discontents (70%) and the better knowledge of the clients' behaviour (65%).

These benefits identified at the level of the banks analyzed, support the components of a culture orientated towards the total satisfaction of the clients are: the operational excellency, the innovations in the field of products and services offered to the clients and the deep knowledge of the clients.

3. Conclusions

We consider that the best way of quantifying the benefits resulted from the implementation of the CRM IT systems in banks is represented by using some measuring systems of the performances based on the Balanced Scorecard methodology which has key indicators of performance from four different perspectives: financial, clients, internal processes and organizational learning.

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Modern Trends in the Use of Information Systems in Trade Organizations

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Abstract

This article covers aspects of implementation and use of information technology in the activities of retail trade organizations.

Key words: information technology, information systems, implementation, necessity, trading company

J.E.L. classification: M15

At present, the small and medium-sized retail networks are under more and more intense pressure of large Belarusian enterprises. To plan the further development is possible only by providing increased business efficiency what is impossible without implementation of multifunctional and reliable information systems that enable to control the retail structure, logistics, variety of goods, prices. Modern information systems provide the ability to treat a large volume of information, to cooperate with enterprises branches, to increase speed and quality of client service.

The purpose of this article is to identify the critical factors required to implement information systems in the management of commercial activities, as well as to analyze the complexity of this process and its privileges relative to facilitation and improvement of operational control of the company.

The predominant focus at this moment is to implement widely the information and analytical systems for demand forecasting, planning of purchases, inventory management, effective merchandising, etc. [1].

The implementation of information technology (IT) in our view is connected with:

- the technological necessity – when IT using is dictated by the need to ensure complex manufacturing operations (e.g. treatment of barcode). The same technological needs force the wholesale trade organizations to implement computer programs to print shipping documentation, which volume is significant for wholesale trade and without automation is almost unrealized;
- demand for the performance analysis tools – if you have a large number of homogenous "production sites" (branches, sales managers, etc.), the results of which can and should be constantly compared. Thanks to the implementation of information systems, the assessment of enterprises state, rapid orientation in trade and financial flows, covering all stages of the movement of goods cycle become possible.

There are five main causes of difficulty of information systems implementation and use at the Belarusian enterprises of retail trade:

- surface understanding of the company management's concept;
- insufficient development of the IT-infrastructure of the enterprise;
- low qualification of consultants of the company;
- errors while selecting an automated system;
- resistance of the staff of the same trade enterprise [2].

Today the clients' self-service software tools are actively developed (self-service terminals, information kiosks, using price-checkers, etc.); IT-support of the clients' loyalty programs, collection and processing of personal data, as well as functionality expansion of POS-terminals through program

support of their functions. For example, viewing the status of inventory balances, visual identification of the product - ID Imaging, RFID- technologies support during carrying out payments, etc. They allow to offer products that meet in optimal way the needs of customers, to process quickly, to distribute orders and to monitor their execution, to schedule deliveries, to forecast the demand for optimal control of stock resources. For example, using IBS Trade House program and IBS Retail Analytic program.

The enterprises of retail trade show interest in the following areas of informatization:

- BI - data analysis systems to process more quickly large quantities of information that allow to obtain quickly the summary data on the performance of the whole enterprise (for example, SAP, Microsoft Dynamics AX, Oracle BI systems), to analyze all information available in the trade organization regardless of the kind of information system it accumulates. This decision is based on a data warehouse that accumulates information from various sources and, thanks to its special structure, allows to generate reports more quickly than ERP-systems. There is no more need to contact programmers to generate reports with the required data from different systems, to unload the data in Excel, what greatly improves the speed of the analysis and quality of taken decisions based on it[3];
- customers relationship management – CRM. In the conditions of increasing competition, a growing number of commercial enterprises are interested to know better their customers and to implement effectively policies in the field of assortment, marketing and discounts management. In addition to the various CRM- systems, these are IT-products to interact with clients via SMS and specialized programs using bonus cards;
- Stores Commerce Management (SCM) that is in demand within trading companies (for example, Visual Pos Manager (VPM) which allows from a single center to manage all the cash and discounts of retail chain, and which integrates with SAP Retail, Microsoft Dynamics AX, 1 c, Oracle Retail, etc). Among the evaluation criteria we can mention a record keeping of the needs in specific segment of the retail market, an easy scalability if the organization grows, a use of modern IT development tools, a proven technology of implementation and operation. The competitive advantages: functionality, reliability and proven technology of the implementation, assistance and training of the users;
- working places of cashiers – PosX, equipped with a cash program, because besides standard operations of money acceptance and change giving, it needs to organize the non-cash payments, the discount and bonus cards service;
- program "1 C: Retail 8" on the platform "1C: Enterprise 8" supports geographically distributed information bases (DIB). This provides clear separation of documents circulation within shops, and in the central node of the DIB the information on all shopping network is consolidated. As a result, all processes requiring information exchange are made not only with minimal effort, but also under the standing orders, and the centre gets promptly information necessary for taking management decisions on sales and movement of goods. At the same time, the "1C: Retail 8" already includes the ready plans of exchange. The "1C: Retail 8" automates the entire range of necessary operations within the retail store, new business processes, it generates accounting reports for operational management. A wide range of commercial equipment connection of various types is supported– barcode scanners, data collection terminals, fiscal recorders, magnetic cards readers, cash registers, electronic scales, etc.;
- using Pocket PCs or communicators (PDA), i.e. mobile commerce, RFID system. These devices are as a information repository on customers, products, accounts and are used to record information about sales. Data are regularly synchronized with the main accounting system of the enterprise. The possibilities: making applications for sale of goods; merchandising; the calculation

of the recommended quantity for an order; accounting of cash refunds, mutual settlements of accounts with clients; management of several firms; individual system of discounts; reminders of promotions, new products and discounts; catalogue of goods photos; planned visits to sales agents, control agents route, GPS support, control of the date and time of visit, etc. The system increases the efficiency of the sales agents and saves their time for direct communication with customers. Collection, processing and analysis of information on time close to real-time allow to adjust quickly the work of the company, as well as to take into account the change of external factors earlier than their competitors [3].

Thus, the application of information technology in retail trade largely determines the success of the development of a trade organization.

The information products are designed to simplify and to improve the monitoring system of operational activities of the company (finance and costs, stocks and warehouse, purchasing and sales, accounts receivable and pricing policy), to manage relationship with customers and suppliers, to control the sales process. If earlier the market offered solutions, affordable only by larger companies, in recent years the full-fledged mobile trade automation systems, available

even for small enterprises have appeared [4, p. 56-57].

On the modern market, competitive positions cannot be kept only by those who constantly develop and use new information technologies what results in a reduction of operation costs, obtaining additional revenue due to increased turnover and/or investment attraction of the company.

Business Economy and Administration

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The Role of Direct Monetary Instruments in Providing Economic Liquidity

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Abstract

Money is important in the economic mechanism, defining the engine through which the Central Bank can interfere on the economy's liquidity, and also in satisfying its needs.

Monetary policy achieves its objectives through different instruments.

Along with goals and methods of transmission of monetary impulses, monetary instruments are considered the fundamentals, the basics of monetary policy. Their study is essential to highlight the interdependencies between them and their induced effects over the market economy's mechanisms.

The most important are the direct intervention tools that have an impact on the economic liquidity. In this process, the Central Bank plays the main character role.

In this article we will discover which are the main tools of direct action used by the Central Bank and how they affect economic liquidity.

What tool can be controlled more easily? When a tool is efficient? These are some questions that we will try to answer below.

Key words: money, monetary instruments, liquidity, monetary policy.

J.E.L. classification: E50, E52, E58.

1. Introduction

Considered by far one of the most important components of economical policy, the **monetary policy** can be defined as being „the interventions as a whole of Central Bank or monetary authorities over the economic liquidity, in order to contribute, by using monetary instruments and techniques, to realising economical policy” [5] or, in other words, „the action exerted by the monetary authorities (Central Bank and sometimes

treasury) over the money supply and some financial assets in order to guide the economy in short or medium term” [7].

Lots of instruments or policies that are interdependent are used in achieving the monetary policy objectives: monetary policy, commercial policy, fiscal policy, revenues policy, and last, but not least, exchange rate policy.

These instruments are helping central banks or monetary authorities to reach the general and intermediary monetary policy objectives.

„Monetary instruments consist of monetary authorities actions over money supply for obtaining macroeconomic stability” believed Coralia Angelescu and Ileana Stănescu (2004) [1]. They also stated, that monetary policy instruments are a great help in obtaining not only the durable growth objective, but the increase of production, exports and global demand, too.

So, there are **instruments through it can be achieved banking liquidity** and are called **direct intervention instruments**, and there are others, that **limitate or cap bank loans** and are named **indirect monetary policy instruments**, because it control the money supply, without having a direct action in the banking liquidity (along these, there are also exchange intervention instruments, designed to protect the national currency on the exchange market).

The most known monetary policy direct instruments are:

- open market operations;
- discount window or discount rate (refinancing fee);
- reserve requirements.

The importance of credit for the development of any economy, and the involvement in money supply process – or in the creation of currency process, make the Central Bank to be an unreplaceable actor in insuring banking liquidity.

Banking liquidity is related to the quantity of money in circulation and comes from deposits of population and companies, from Central Bank loans and from the sale of debentures that commercial banks hold.

Central Bank influences the quantity of money and especially the money supply *in diminishing it*, reducing the banking liquidity during recession periods, or *in increasing it*, rising the liquidity too, anticipating the economical revival. Central Bank's actions mainly are targeting banks borrowings through rescount or on the interbank market – indirectly – and, the intervention on financial market, as any other company through *open market operations*.

2. Open market operations

Lead to an increase in banking liquidity. Through this monetary tool, central banks sell (reducing liquidity) or purchase (rising economic liquidity) government securities on financial market.

It is the most used tool of monetary policy in USA; it is used in Romania through repo and reverse repo operations especially, although government securities are rare and short-term issued.

Open market operations used in Romania fulfill three functions: *guidance of the interest rates, control of the liquidity on the monetary market and finally, offer information about monetary policy orientation.*

The National Bank of Romania (NBR) can do the following types of open market operations [11]:

- **repo** operations – reversed transactions for increasing liquidity, through which NBR purchases assets from banks with the commitment of repurchasing them later and at a fixed price established at the moment of transaction;
- **reverse repo** operations – reversed transactions through which the liquidity is reduced (in comparison with *repos*, now NBR sells assets to banks);
- **deposits** – NBR wants through this process to reduce liquidity;
- **certificates of deposit** – NBR sells certificates of deposit to banks in order to absorb liquidity;

- **loans collateralized by eligible collateral assets** – loans given to banks by NBR for an increase of liquidity;
- **sales/purchases of eligible assets** – NBR sells/purchases eligible assets, in order to absorb or to increase liquidity; the transfer of assets ownership from seller to buyer is through the „delivery versus payment” mechanism;
- **swap currency operations** – are simultaneous operations, through which NBR *injects liquidity* (by purchasing convertible currency against lei and sell at a later date the same amount in convertible currency against lei) and also *absorbs liquidity* (by selling convertible currency against lei and purchase at a later date the same amount in convertible currency against lei).

Through these operations, the Central Bank influences – positive or negative – the companies liquidities by lending and creating bank money (scriptural money), initiating in this way the liquidity supply of the money market [5].

Open market operations are well spread in USA, where the Central Bank purchases or sells debt securities, which are easy negotiable debentures; the transactions are conducted at market price to or from all economic agents.

Government securities market interventions are effective when there is a large public debt and the Central Bank has a large number of government bonds.

By purchasing/selling of debentures, a control is exercised over bank reserves, monetary aggregates, monetary base and over the price of bonds and interest rate [9].

3. The discount rate

Is an instrument with important implications in the market economy.

The Central Bank lends directly through rescount and indirectly through interbank market.

The discount rate is the interest a bank gives to the holder of a commercial bill for selling it before maturity, for the period between the sale and the maturity of the commercial bill. The **rediscounting** is the process through which the Central Bank purchases the discounted commercial bills from the commercial banks. The fee paid to

the banks is called the rediscount fee. So, through rediscounting, the Central Bank lends the commercial banks in exchange of a refinancing fee/rediscount fee.

The Central Bank can choose which bank to lend by handling the discount or rediscount fee. *The rediscount fee will influence the discount rate and will always be smaller than this.* The discount rate is established below short term market rates.

To summarize, if the Central Bank wants to increase the quantity of money lent to banks, *it will reduce the discount rate*, allowing full access to loans. If, otherwise, it wants to limit the quantity of money, *it will rise the discount rate*. This is the **price effect** of rediscounting mechanism.

In addition there is a **quantitative effect** that shows how much money was issued by the commercial banks. If the discount rate increases, the commercial banks will borrow money more difficult, more expensive and, therefore, *monetary emission volume is lower*. Conversely, the monetary emission volume will increase [10].

The lack of liquidity will cause the Central Bank to reduce the discount rate, lending the money at a lower discount fee and increasing the commercial banks monetary emission, ensuring also liquidity in the banking system.

Bank reserves, money supply, bond yields are also influenced by handling the discount rate. Last, but not least, *the discount rate has an impact over the foreign capitals and over the equilibrium of the payments balance* [5]. Thus, an increase of the discount rate means a rise in the interest rates, that will lead to an increase in foreign capitals and to a momentary equilibrium of the payments balance. Although lending is reduced, we can say that these foreign capitals attracted, cover, in part, the lack of credit.

The Central Bank can also lend money, indirectly, on the interbank market. On this market, the Central Bank appears as a mediator between the commercial banks that have surplus of money and the ones that have deficit. This means that banks with surplus of money lend the banks with deficit. The transactions are made at an interest rate different than the discount rate.

The interbank market is open to all economic agents that have money and want to place them on short term to other economic agents. For instance, on the

interbank market in France, in addition to commercial banks have also appeared insurance companies, state enterprises that have cash and want to place it properly.

The main **limits** of using the discount rate as a direct tool of monetary policy are [7]:

- *Excessive stiffness*: the interest rate can not be changed overnight due to changes in the discount rate;
- *Limited use*: only if commercial banks need money we can take into consideration the rediscount.

4. Reserve requirements rate (RR)

Commercial banks are required to maintain at the Central Bank a percentage of the deposits from households and economic agents.

RR first appeared in USA, in 1913, extending later in all the countries. In Romania, RR policy was introduced in 1992, aiming to control the economic liquidity and to limit the capacity of commercial banks to create money through loans. The percentage of RR has suffered many changes over the years, according to NBR desire to increase or reduce liquidity. Currently, in Romania, RR is 15% to lei (since 2009) and 20% to foreign currency (since 2011).

RR are poorly remunerated, but that is because the reason of their existence is not obtaining a bonus or an interest. Their main purpose is to maintain a certain level of liquidity in the commercial banks.

RR variations can influence the growth or the reduction of economic activity. RR growth impacts in reducing lending in commercial banks, which will see reduced their sources and simultaneously the banking liquidity. At the same time, the economic activity will be affected negatively too. In order to relaunch lending, the reserves will be reduced.

RR is the only instrument, that, although strictly governed by the Central Bank rules, is directly affecting the economy, the supply and demand for money. That is why we can say that besides being an instrument of indirect intervention in the economy, is equally an instrument of direct action!

Any RR reduction or increase is **neutralizing the effect of foreign exchange inflows and outflows** [5]. A reduction of RR may be used to prevent an outflow of foreign

currency. This will lead to a decrease of credits cost while the interest rate remains higher.

RR usually are not only used for ensuring banking liquidity, but to highlight the importance that Central Bank has on the money market.

The results obtained from using this tool are not important as a number as a whole, but especially as an effect that these actions had on the market.

In conclusion, we can say that RR is a tool for monetary and credit policy which can control the volume of loans released by commercial banks. This rate does not favor or disadvantage any bank, because its level depends on the volume of deposits from households and economic agents.

The existence of RR can reduce long-term liquidity surplus and can increase the control that Central Bank has over monetary emission.

Caprio and Honohan believe that RR can be automatically controlled in order to achieve the desired level of liquidity. For example, when capital inflows are high, RR can be increased, to mitigate their force [3].

RR is rarely used on short-term because of its low flexibility compared to other instruments (for instance, open market operations). The poor remuneration of reserves by the Central Bank, the export of capital, the influence of lending are other reasons why this tool should be used rarely.

Caprio and Honohan estimated that a low liquidity banking system makes loans more expensive, so, it moves attention to interest rates. It is therefore the Central Bank's role to increase liquidity through specific actions, without this being a consequence of changes in interest rate [3].

The monetary authorities can use several instruments and, in doing so, they should take into account the market perception and unwanted speculations [3].

Liquidity can be determined by the shifting of government deposits between the Central Bank and commercial banks. Increasing government deposits in commercial banks will also increase banking liquidity. Creating a framework for the development of this process, agreed with all the banks seems to be a great limit of this shift [3].

So, what tools are best to use?

Speaking about the optimal choice of the tools of monetary policy, William Pool (1970) appreciated that the choice depends on the shocks that need to be solved. So, Pool states that when shocks are real, the best solution is to focus on the money supply. Otherwise, the authorities should concentrate on the interest rate, when the shocks are monetary.

Indeterminacy – or “multiple rational expectations equilibria” as Bruce McGough, Glenn D. Rudebusch and John C. Williams (2005) described – can appear when a short-term interest rate is used as a monetary policy instrument and especially its zero bound constraint. That why, the researchers' proposal is to use a long-term interest rate instead of the short-term interest rate, along with a forward-looking policy that can diminish indeterminacy [6].

McGough, Rudebusch and Williams consider the *forward-looking policy* – where the expected inflation over the maturity of the bond influences the bond rate – as the one that determines stable equilibrium. Although they admit that this is not the most effective solution, they see it as the first step against the zero bound, agreeing with Greenspan who said that in order to lower the long-term interest rates, the Fed must buy long-term Treasury securities [6].

Continuing Pool's classic idea of optimal choice of monetary policy instruments, Joydeep Bhattacharya and Rajesh Singh (2008) found out that there are two types of shocks that the economy confronts with: real shocks and liquidity shocks. These shocks are related to two different monetary policy strategies. So, when an economy confronts with real shocks, then welfare is increased when it is used the monetary targeting strategy. In change, inflation targeting rise welfare when the shocks are nominal. Bhattacharya and Singh also discovered that an expansionary policy is optimal under inflation targeting, and not so efficient under monetary targeting [2].

C.A.E. Goodhart, P. Sunirand and D.P. Tsomocos (2011) chose the interest rate, instead of the monetary base, as the most important instrument for financial stability, based on the natural behavior of the Central Bank that focuses on the increased demand for money during financial crisis [4].

Looking for maintaining financial stability, the operational instrument that almost all the central banks have chosen is the short-term interest rate. In this way, Goodhart, Sunirand and Tsomocos believe that during economic shocks it is better or optimal to keep the interest rate constant and to adjust the monetary base [4].

5. Conclusions

Through direct instruments, the Central Bank can ensure banking liquidity.

All the tools of direct intervention that the Central Bank can use have strengths and weaknesses. In consequence, a tool is well used at the right time and together with the best monetary policy decision.

Open market operations are used to reduce liquidity – when central banks sell government securities on financial market – or to increase it, when they purchase them. It is one of the tools for creating scriptural money.

It is most used in USA. Romania's financial market isn't so developed, that's why here, we can find only repo and reverse repo operations.

The discount rate is used when a bank gives an interest to the holder of a commercial bill for selling it before maturity, for the period between the sale and the maturity of the commercial bill.

So, a reduction of the discount rate is a signal for commercial banks to increase lending, because they borrow at a small interest.

Reserve requirements rate is an instrument strictly governed by the Central Bank rules that directly affects the economy, the supply and demand for money.

Its purpose is to maintain a certain level of liquidity in the commercial banks.

Through this rate, the Central Bank can control the volume of loans released by commercial banks.

Because its level depends on the volume of deposits from households and economic agents, we can say that this rate does not favor or disadvantage any bank.

6. Acknowledgements

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Contemporary Electricity Market

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Abstract

In economic terms, electricity is a product that can be bought, sold or traded. Therefore, this product may give rise to a market. In the context of global economy, electric energy market had specific different features for its development, these situations being also found in the European Union. Regardless of these aspect, the Union tends to uniformity; the shape of energy markets desirable needs to achieve full transparency, following the example of stock exchange markets.

Wholesale trading of electricity is carried out by an independent entity specifically and exclusively constituted for this purpose, entity referred to as "market operator". Specific to this type of market is that the operator must have extensive knowledge not only of commerce, but also technical knowledge specific to this field, in order to properly balance the potential market with the absorption capacity.

Key words: market, energy, transaction

J.E.L. Classification: F15, L22, L81

1. Introduction

By its nature, electricity is a product difficult to store, but must be available upon request. Consequently, unlike other commodities, electricity, in normal conditions of operation, cannot be easily maintained for a long time. Moreover, supply and demand for this good varies continuously and uninterruptedly. For these reasons appeared the urgent need for a control agency, so between energy units generated and the expected demand to be a close coordination.

The two traded goods on electricity market are power and energy. Power transfer is the net quantity of electricity at a time

being and it is measured in megawatts (MW). Energy refers to electricity that passes through a certain point in a certain period of time and it is measured in megawatt hours (MWh). The domain of application of electricity markets is largely influenced by the transport network, which should be available for the entire chain wholesale - retail - final customers in any geographic area; ideal for the markets is to expand beyond national borders.

This ideal has two main purposes: on the one hand to ensure electricity supply in areas where there are shortages, given that there is availability at the point of supply which, as mentioned above, is difficult to store, and on the other hand, energy is a product of export worthy of consideration, taking into account the economical advantages.

Therefore, the electricity market is an economic concept with a complex content and expressing all selling and buying transactions perfected in a specific geographical area. It has as main function the correlation, through demand and supply, of production and consumption, together with the materialization of selling and buying contracts.

2. Wholesale market

There is a wholesale market of electricity when producers offer a certain amount of the product generated to the retailers. Retailers recalculate the price of the product and offer it to the market. Since the formation of the wholesale market price is an area of competence of the great providers, increasingly more great end users are looking to purchase energy directly from the manufacturer, in order to reduce costs, knowing that it is a substantial and permanent expense. Although this advantage is generally valid and recognized, there is a

number of disadvantages. However, the bigger the final consumer, the more justified such an investment is. [1]

Figure no. 1: Disadvantages of buying electricity directly from manufacturer



* Source: Own processing of the information available at www.absenergyresearch.com/energy-market-research-reports.

In order to form a wholesale energy market, it is essentially to have a series of key elements without which its operation could have existential difficulties. Among them, there are:

- short-term spot market with an offer based on dispatch security, coordinated by the market operator;
- transactions on the spot market to be done at a price which includes collateral losses and expenses;
- short-term bilateral transactions have the same price from source to destination;
- a system based on two-phase settlement systems that use the offer, the price and the contracts of the previous day, while updating in real-time;
- network access charges to cover the costs of operating the network and other auxiliary fixed costs associated.[2]

The price is formed according to the type of market, specifically for a market for the next day by meeting demand and supply at every consumer node, determining thus the equilibrium situation, usually at intervals of one hour. The price is calculated separately for regions where the operator of the market indicates that there will be constraints on the transportation of the product to consumers.

Theoretical price for each node is generically called "shadow price" and includes one additional kilowatt hour assumed that will be needed, together with an additional hypothetical cost produced to the

system that would result from returning available units in order to optimise consumption, thus generating hypothetical cost for a kilowatt hour. These notions are particularly important in the knowledge of the formation market price of electricity and this mechanism is called „location marginal pricing” - LMP or „nodal pricing”.

3. Retail market

There is an electricity retail market when final users can choose their own supplier in a particular region. A term used in the United States for this type of consumer choice is "energy choice". A special aspect for retail electricity market is whether these consumers are faced with a real-time pricing or if the price is determined by another method, like the average annual costs for example. In most cases, consumers pay a price made in real time and therefore do not benefit of the tip to reduce demand during times when wholesale prices are high.

Although market structure varies, there are some common features that retailers must meet in order to remain on that market. Among these, the most important are:

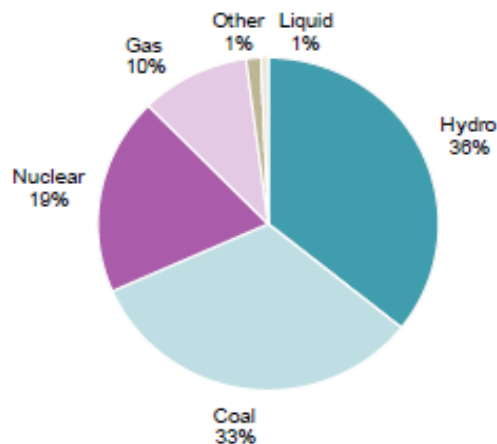
- credit control;
- managing customers through an effective call center;
- distribution of contracts so that the system can be well used;
- agreements on balancing;
- agreements on purchases on the spot market;
- hedging contracts.[3]

Competitive retailers need access to transmission and distribution wires. This means that prices should be already established for these two services. They should provide sufficient funds to encourage owners of these wires, but also to support the idea of constructing power plants in the most efficient locations possible. Consequently, there are two types of rates, access fee - which covers the cost of the existence and cost of accessing the network and wires and regularization fee - which covers the marginal cost of transfer electricity through existing wires.

4. Electricity market in Romania

Romania has a relatively balanced capacity of power generation, based on hydro, nuclear, coal and gas, adding to them renewables (other than hydro), whose share increases exponentially from year to year.

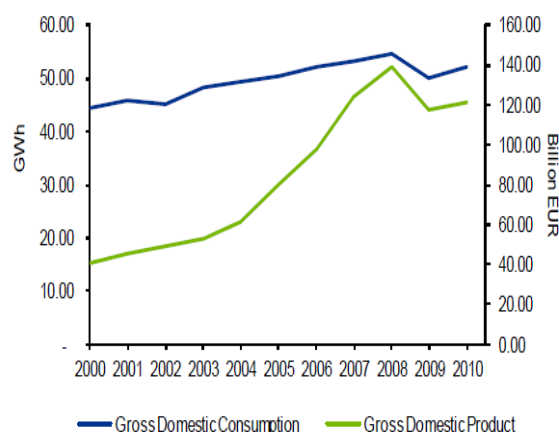
Figure no. 2: Share of different fuels in producing electricity in 2011



* Source: Own processing of the information available at www.kpmg.com.

The most used fuels are solid fuels and hydro, natural gas occupying an unfavorable position because it is largely imported. In terms of installed capacity (translated in economic terms - quantity of product on the market), it has gradually increased from 20GW in 2010 to 22 GW in 2012p; this increase is due exclusively to the wind energy development. [4]

Figure no. 4: Romanian electricity consumption and GDP development



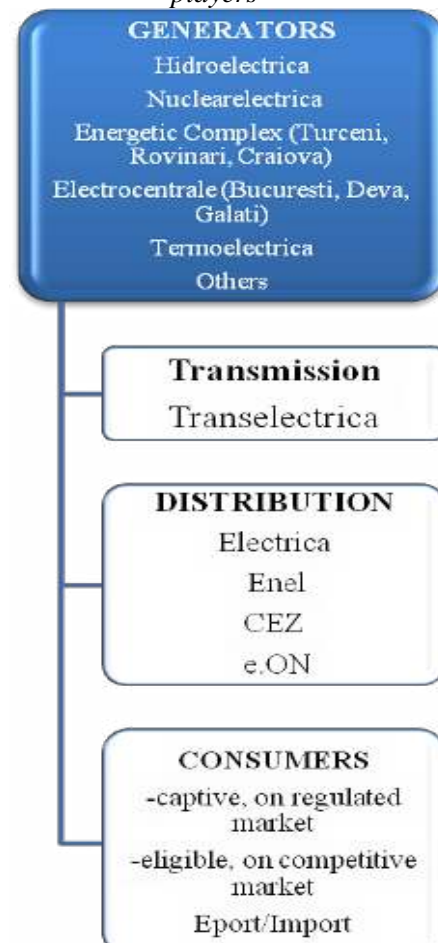
*Source: Transcription of the figure from www.kpmg.com.

In terms of consumption in this sector, the last two decades have brought significant fluctuations in Romania. Industrial decline in

the period 1989-2000 led to a collapse in electricity consumption. The first year of growth in consumption was 2000, after more than a decade of decrease, reaching a peak in 2008. In 2012, Romania registers a success in managing to balance electricity supply and demand, being even able to become exporter of electricity. [5]

Electricity generated obtains value through its circulation in the chain manufacturer - transmitter - distributor - consumer. Inside it, each actor has its well established role. For example, CEZ has both electricity distributor role by CEZ Distribution branch to the retail market, and the role of bidder to consumers through branch CEZ Sale.

Figure no. 3: The structure of Romanian electricity market and the main market players



*Source: Own processing of information available in the study "Overview of the Romanian Electricity Sector: Development and Investment Opportunities", KPMG studies, March 2012.

Regarding the electricity market in Romania, it has been liberalized since 1st of

July 2007. However, in practice, a substantial part of the electricity market continued to be regulated after liberalization. Consequently, the supply of electricity is subject of two systems: the regulated market, covering households and part of the industrial sector and competitive market, represented by large industrial consumers. At the end of 2011, the regulated market represented 44% of electricity consumption, the remaining 56% of the availabilities were disposable on the competitive market.[6]

At European level, the liberalization of energy markets was imposed on member states to complete by March 2011. Romania has not complied with the deadline imposed by the European Union, legislating this issue in July 2012. Hence, regulated tariffs were eliminated for non-household customers since September 2012 and will be removed for domestic clients since January 2013. The recently adopted law also stipulates that electricity supply in regulated conditions will be covered by the end of 2013 for industrial customers and until the end of 2017 for residential customers, the following periods aiming to accomplish liberalization.[7]

Romania's energy market liberalization and its functioning in the competitive regime is based on some solid paths, transposing the principles of creating and consolidating European electricity market:

- implementing the principle of "ownership unbundling";
- removal of regulated tariffs;
- protecting consumers;
- developing competitive environment through cumulative measures to ensure security of supply, sustainability and competitiveness of energy.[8]

Changes in the Romanian energy system are carefully monitored by both the private operators, and competent European institutes, because of the importance that this sector plays in the development of society, complex market liberalization efforts having both a particular economic impact, but also a socio-political impact.

5. Conclusions

Apparently accidentally discovered by the Italian Luigi Galvani in the late eighteenth century, electricity has quickly become a product hardly to replace for households and

without which industrial activities could not exist. Like any other particularly important product in the twenty-first century's global market, electricity benefits in 2012 from its very own market on which it is traded.

Electricity market is a relatively new concept, its necessity imposing itself increasingly stringent in the recent years or modernism. This market regulates the entire route of the economic product called "electricity". Electricity is transported from the place of production to consumers through power transmission networks (in Romania, property of Transelectrica) and electricity distribution networks property of distribution companies. Distribution companies bear full responsibility for continuity of supply and quality of the product. Electricity is purchased from producers, from another provider or imported and is sold to consumers by electricity suppliers.

Common to this relatively complex route is price formation through the snowball method, which depends on many variables, taking into account the factors of production (hydro, coal, nuclear), the difficulty of handling them and the submission of the final good to transmission and distribution processes.

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Consumption and its Determinants - A Model of the Households' Individual Final Consumption in Romania

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Abstract

The paper aims at presenting an econometric model for the household's individual final consumption in Romania with the declared intention of assessing the effect of several macroeconomic factors on consumption growth. The study is based on annual data for the dependent and independent variables from 1990 to 2011. The tested model estimates the influence of households' income, wealth, approximated by the monetary aggregate M1, monetary policy interest rate and inflation rate on households' consumption. The results show that households' consumption is significantly influenced by households' income as previously assumed and by wealth, approximated by the monetary aggregate M1. Neither the inflation rate nor the monetary policy interest rate, seem to have a considerable influence on households consumption.

Keywords: households' individual final consumption, model, influence, Romania

JEL classification: E21, B22, C13

1. Introduction

Given its essential role in economic theory the preoccupation for the study of consumption is easy to relate to. If one takes into account also its importance within national economies the endeavor appears even more justified. Indeed final consumption accounts for over 70% of GDP in most economies. Romania makes no exception – the final consumption accounts for

around 80% of the GDP, while the households' consumption accounts for over 70% of GDP. The evolution of final consumption and households' consumption respectively, in Romania is consistent with the general evolution of the economy following 1990, the year that represents the starting of the country's journey toward the market economy. Starting with the year 2000 consumption recorded a consistent and continuous growth until 2009, when the global crisis affected the economy in a visible and undeniable manner. In the next two years both the final consumption and the households' consumption maintained (in constant prices) the level recorded in 2009.

The aim of the paper is therefore to briefly review the most notable pursuits regarding the consumption function and test an econometric model having households' consumption in Romania as dependant variable.

2. The consumption function – a contemporary challenge

Consumption has been playing an important part in economic theory ever since Adam Smith proclaimed it as "the sole end and purpose of all production" [1]. But although the interest for consumption has been certainly present in subsequent economic works, the modern theory of consumption has not begun until Keynes's formulation of the psychological law on which consumption behaviour is founded in the General Theory of Employment, Interest, and Money:

"The fundamental psychological law, upon which we are entitled to depend with great

confidence both a priori from our knowledge of human nature and from the detailed facts of experience, is that men are disposed, as a rule and on the average, to increase their consumption as their income increases, but not by as much as the increase in their income" [2].

However, although Keynes's theory, also known as the absolute income hypothesis especially well received, it was soon contested by Kuznets (1946) who used U.S. statistic data for the period between 1869 and 1938 and revealed that the average propensity to consume remained constant for the tested period [3].

This empirical puzzle led both to a revision of the Keynesian hypotheses and to the advent of several new hypotheses on consumption. The revision of the Keynesian hypotheses brought to light the relative income (Duesenberry, 1948) [4] and inertia (Brown, 1952) [5] hypotheses, while Friedman (1957) [6] and Modigliani and Brumberg (1955) [7] elaborated the permanent income and life cycle hypothesis, respectively. The Keynesian model, the permanent income hypothesis and the life cycle model are the key theories that have decisively influenced the economic policies. In their vast majority the modern studies on consumption are based on one of these three fundamental models.

With no intention of presenting a thoroughgoing enumeration of the most important subsequent contributions to the modelling of the consumption function we list here several landmarks in consumption literature – the error correction model elaborated by Davidson, Hendry, Srba and Yeo (1978) [8], the works of Campbell and Mankiw (1989) [9], Deaton (1992) [10], Muellbauer (1994) [11], Elmendorf (1996) [12], Attanasio (1998) [13], Carroll (2001) [14], and Bertaut (2002) [15].

3. The research methodology – objectives and data

Starting from the assumption that consumption is influenced by several factors beside income and considering also previous research aimed at estimating the influence of different factors on consumption, we decided to test in the current study the significance level for the parameters of the following consumption function:

$$C = f(Y, W, IR, MPIR)$$

where Y is the households' income, W represents the wealth approximated by the monetary aggregate M1, IR is the inflation rate, and MPIR is the monetary policy interest rate.

In our study we used annual data for the period between 1990 and 2011.

The sources for the data were the statistical yearbooks and monthly bulletins issued by the National Institute of Statistics, as well as the annual and monthly reports of the National Bank of Romania.

For households' consumption, households' income and M1 the time series in millions of lei in year 1990 prices were stationarized by calculating the first difference.

The processing of the data was conducted using E-views Enterprise Edition 7.0.

In order to summarize the set of observations a summary statistics was conducted and the results are presented in table 1.

Table 1 Descriptive statistics

	C	Y	W	IR	MPIR
Mean	72.58994	63.44164	13.05607	58.41818	26.57364
Median	60.05564	56.57879	8.089681	27.40000	20.40500
Maximum	122.1699	102.2880	29.66779	256.1000	70.00000
Minimum	42.41815	44.18313	3.866763	4.900000	3.000000
Std. Dev.	25.61504	16.49069	9.127528	75.28839	19.80901
Skewness	0.639835	0.929238	0.556910	1.439936	0.666561
Kurtosis	1.918837	2.688503	1.676862	3.742300	2.465049
Jarque-Bera	2.572598	3.255048	2.742015	8.107615	1.891440
Probability	0.276291	0.196415	0.253851	0.017356	0.388400
Sum	1596.979	1395.716	287.2335	1285.200	584.6200
Sum Sq. Dev.	13778.73	5710.803	1749.547	119035.2	8240.338
Observations	22	22	22	22	22

4. The results of the study

Using the correlation matrix we can infer that many of variables of interest are correlated with one another (see Table 2 for a pairwise correlation matrix). For example, consumption is positively correlated with income (0.964), wealth (0.687) and also is negatively correlated with IR (-0.653) and MPIR (-0.760). Income is positively correlated with wealth (0.753) and is

negatively correlated with IR (-0.607) and MPIR (-0.717).

Table 2 Pairwise correlations for Variables

	C	Y	W	IR	MPIR
C	1	0.964	0.687	-0.653	-0.760
Y		1	0.753	-0.607	-0.717
W			1	-0.236	-0.663
IR				1	0.777
MPIR					1

We also constructed a correlogram using the adjusted time series (Figure 1).

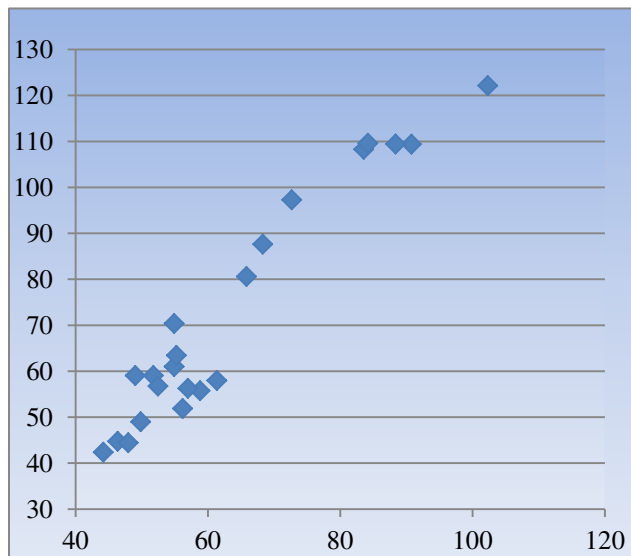


Figure 1. Households' Consumption – Households' Income Correlogram

Naturally, Figure 1 shows a linear dependence between the two variables, as presumed.

In table 3 there are presented the coefficients of the consumption function and the t-statistics levels, corresponding to the theoretical consumption function model presented in the section above.

It is noticed that households' consumption is first and foremost influenced by households' income, as one may have easily previously assumed. Households' consumption is also influenced to a lesser extent however by the wealth approximated in this study by the monetary aggregate M1. As far as the inflation rate and the monetary policy interest rate are concerned, it seems they do not significantly influence households' consumption.

Table 3 Estimation of Consumption Function Coefficients; OLS Regression

	Model
Constant	1.800006** (2.615565)
dY	0.596904*** (5.001382)
dW	5.001382* (2.092240)
dIR	-0.023941 (-1.272307)
dMPIR	0.070222 (0.649623)
Observations	21 after adjustments
Adj. R-squared	0.771839

Note: t-statistics are in parentheses. Significance level: *** at 1%, ** at 5%, * at 10%

5. Conclusions

Assuming that households' consumption is influenced by a series of factors, the paper attempted at presenting the testing of an econometric model having as dependent variable the households consumption in Romania and as independent variables the households' income, the wealth, approximated by the monetary aggregate M1, the monetary policy interest rate and the inflation rate. As expected, households' consumption is first and foremost influenced by households' income. It is also influenced by wealth, while the inflation rate and the monetary policy interest rate do not bear a significant influence.

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E-Learning - an Alternative to Traditional Education

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Abstract

The evolution of information and communication technology (ICT) has always had a role in the development of human society. New information technologies have produced practically a revolution in human activity in all field, from research and design to the production of material goods and services. Human society has come to depend essentially on automated computer systems in all aspects of life. This paper deals some of the current E-Learning systems namely achieving an E-learning platform Open Source Moodle platform.

Key Words:: *eLearning, software package, platform, educational system*

JEL Code: M15

1. Introduction

In this context of changes caused by new information and communication technologies emerged and developed eLearning phenomenon, namely: converted cultural content throughout the world in digital form, available to anyone, anywhere and anytime, amplification of information and proliferation of resources, establishment of huge digital library that can be accessed from personal computers to communications networks and high-speed wide area, overcome isolation and facilitate communication, develop multiple ways to represent data, to simulate interactions and express ideas, enlarging personal potentials.

Electronic learning systems represents the modern way of training and is at the same time more open and accessible than any classical teaching methods[1].

Retrieved from Anglo-Saxon literature, the term elearning, write as e-learning or eLearning, has broadened semantics, evolving from primary meaning, etymologically, from electronic learning in a broader sense, covering a wide range of educational situations, of applications and processes that involve educational content delivery via Internet, significant use of ICT and communications new media technologies to improve the quality of learning and facilitate access to resources and services as well as remote exchanges and collaboration[2].

All these changes have changed the cultural conditions in which the education and the introduction of the Internet has precipitated the emergence of a new paradigm in education and training characterized by the curricular orientation to individual needs, distribution of resources, facilitate synchronous and asynchronous communication.

Simply defined as interactive learning in which learning content is available online and provides automatic feedback to the student learning activities eLearning represent a form of education that meets the current needs of knowledge and training and improve existing structures, partially substituting them proposing a new model of education, more efficient and more adapted to the needs of society[3].

E-Learning E denotes the environment through which the training is done: the content is digitized to be stored and distributed in electronic form.

2. E-learning platform moodle open source

Modular Object-Oriented Dynamic Learning Environment (Moodle) is a software package for producing Internet-based courses, offering better security and management support and having shape a broad community of users and developers.

Source code written in PHP using MySQL and PostgreSQL databases is an asset to platform adoption due to the popularity of these technologies, and usability without modification on multiple operating systems, including Linux[4].

Evolution of the number of registered Moodle sites during January 2005 - March 2010. In early April 2010 there were an estimated 48,604 sites in 209 countries. Of the 48,604 sites, 15,347 have fewer than 10 users but there is a site that has 894,782 users, which is <http://moodle.org>. This means that Moodle can be successfully used both for sites with a large number of users, and for sites with a small number of users.

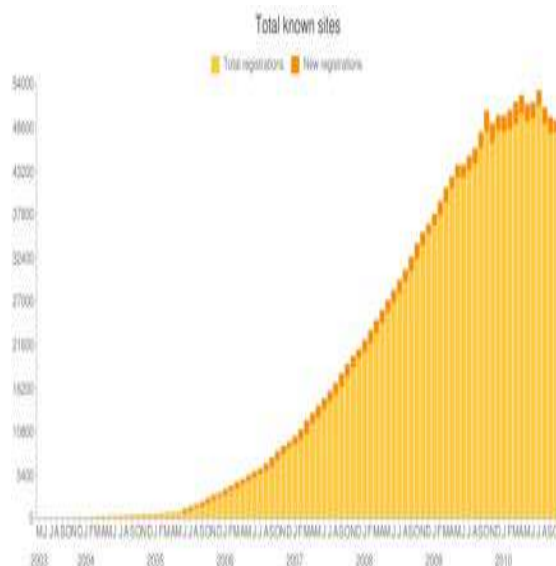


Fig.1 The evolution of Moodle sites(www.moodle.org)

The figure below illustrates the evolution of the number of registered users of the site

<http://moodle.org> in January 2005 - March 2010.

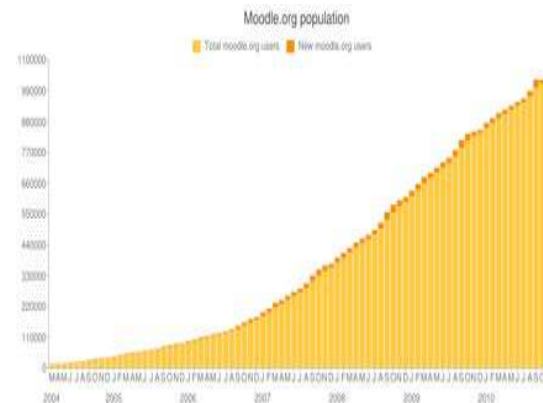


Fig.2 Evolution of the number of registered users(www.moodle.org)

This paper presents a method for achieving progress on an open source platform Moodle achieved.

The first page that opens when you start the application is entitled suggestively localhost. Is observed a page in which they are presented logo page, select the language, the menu bar, section autentificare and notices published by admin.

The menu bar contains elements that do not require authentication to be viewed (news, registration, schedule, exam dates, contacts), but also contains flexible elements which are taking their properties depending on the user logged in (chat, first year, second year, third year).

In the picture below we accessed the registration box without being logged to the platform.

Through a link the platform shows us page that contains a new element, namely, a second bar that shows the address pages and addresses taken to reach the final destination.



Fig.3 Items that do not require user authentication

Platform authentication is via username and password. All components for login are designed by the admin.

There are three types of users:

- Administrator or admin - this user has all the functions of the platform.
- Teacher or course creator - This role is usually assigned to teachers and its role in providing primary user functions to create courses, selecting participants, creation and correction of tests and examinations.
- Student or Learner - is assigned the role of visualization and use the configured users mentioned above.

Course creator role is usually assigned teachers. By entrusting this status will provide all the functions of this role that we present below.

The first step in creating a course selection process category. Course categories are created by Administrator account, their creation and configuration is done according to the varies requirements.

A category of course is where we want that course to be published. As shown in Figure we have three categories showing years of study. For this account we choose as the place of publication year 3.



Fig.4 Selecting a section for publication

Step two is to create a course is pressing adds new course button.

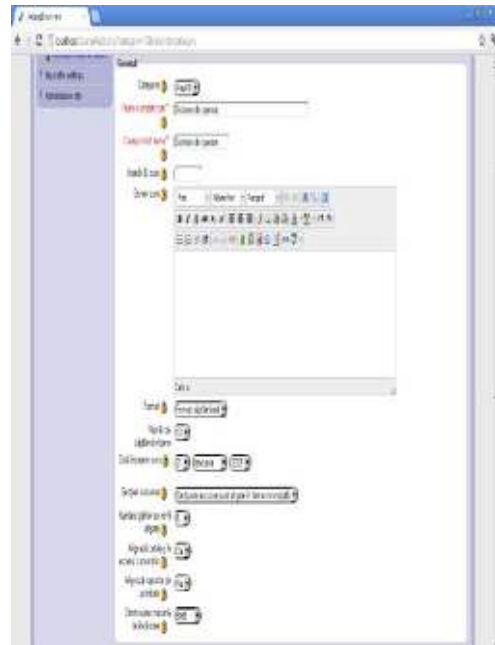


Fig.5 Setting a course

Initial setup of the course includes:

- A name given to the course (one long and one short);
- Course description and summary;
- Course format(Weekly - a weekly topic, Topic – on subjects, Social - type course focused on discussion forums, SCORM - technical format used for transferring between Moodle courses and other learning platforms).In this case will select weekly format.
- Number of sections (weeks - 3 in this example);
- The start date of the course;

- If notes are accessible to students(show gradebook to students – yes).
- If you are working in groups (Group Mode - No groups).

After completing these *changes are saved*.
After saving the settings, the teacher should detail the course content

In figure 6 is seen sharing workspace.

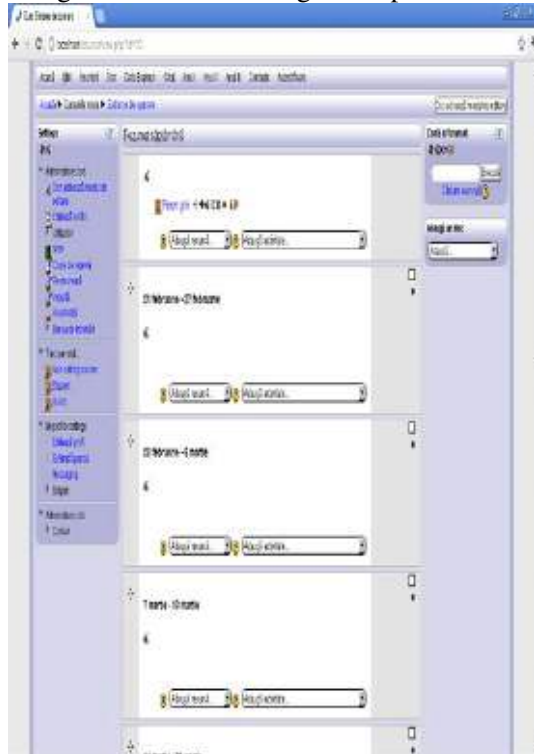


Fig.6 Working section

In the center section appears weekly content(plus the section dedicated discussion forum),with lists to add resources (documents, folders, etc.) or adding activities (lessons, tests, quizzes, etc.); basically, this area is used to provide to the teacher files(presentations, course support, etc.) and support materials for activities;

In the left appears menu management course. You can see the navigation menu Participants (members), Reports and management options (Course administration); In the right appears various sections support: access to forums, news, announcements of events etc..

The main operation carried out by a creative course is loading a content. It was seen that a course can be selected by weeks or topics. In each section you can define

resources (study materials) and activities, on the homepage of the course, with the condition that the "Enable edit mode" (top right) have been activated (or resources can be read but not modified).



Fig.7 Activities

Resource types allow to insert almost any kind of web content current. There are many resources tipuri namely:

- Label - A badge allows text and images to be included in activities accessible via links course page.
- Folder - For better file management type.
- IMS content package - A package enables IMS content packages created according to IMS specifications of archived content is being displayed.
- Page - A page allows you to display and edit a web page in a course.
- Resource - Allows loading platform file type, eg Word, Excel, Rar, Exe etc.
- URL - for direct connection between the platform and a specific site.

To upload a visible content that do not require downloading to select the type of Page.

The following example will load a number of content items. Firstly, for the first week, loading a file with a folder. For this, the first week is selected Folder section.

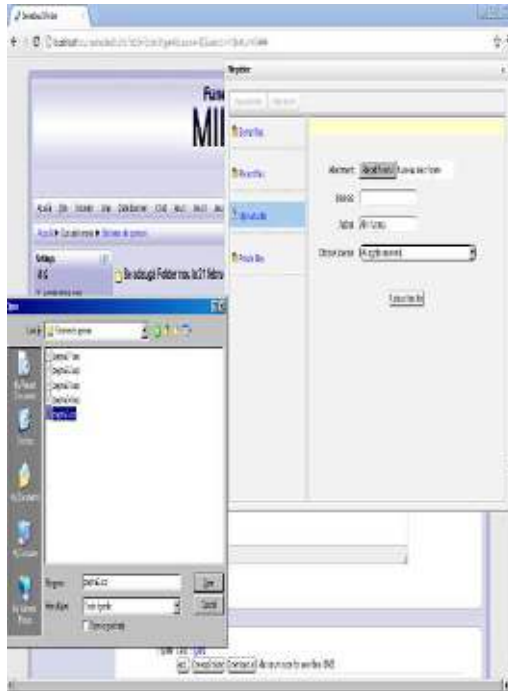


Fig.8 Uploading content

After loading the desired files in the folder, return to the course page with the Save and return to course. Similarly you can recharge single file without creating a folder, the difference is that it uses the Add a resource - File.

Perhaps the simplest type of resource is web link which directs students to informational materials that are already on the Internet. A link is added to the option URL.

A second important factor is the inclusion of learners, which means that the platform provides us with choosing which can benefit from these courses. Entry is by pressing Enrolled users button found in the Settings block.

Selecting role(Assign roles: Student) through the teacher assign roles of student to those registered(you can assign the role of non-editing teacher if the teacher invites other teachers to contribute to the ongoing, but those invited will not change and manage course, will only ensure teaching and communication with students).

Enrol button next to each account will enroll students.



Fig.9 Registration of participants

Registration ends with the Finish button at the bottom, then the list of participants will be updated. The teacher can select and can send the selected or store notes about users.

3. Conclusions

If learning is a distinct educational system, e-learning is rather a means by which the remotely open learning methods can be implemented.

E-learning systems can be used as an improvement to traditional education forms than as a substitute for their.

Offering support of study by applying information and communication technologies, these systems have real advantages, allowing students to access, explore, analyze, evaluate and build on the topics of learning materials.

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Tourism Infrastructure – a Factor which Influences the Quality of Tourism Services

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Abstract

At the end of this century and millennium, the tourism and travel industry represents, at a global scale, the most dynamic activity sector and, at the same time, it is the most important workforce generator. From an economical point of view, tourism represents the main source of redressing the national economies of those countries which possess valuable tourism resources and properly exploits them. Its action manifests at a large scale, from stimulating economical development to perfecting social structure, from a superior resources' valorizing to an improvement of life conditions.

Any tourist activity requires a specific material base tourism industry, but at the same time, to ensure tourist traffic require both the tourist material specific as well as general and technical infrastructure.

Key words: free time, accommodation capacity, technical infrastructure, material basis.

Clasificare J.E.L.: L83, F63, O18

1. Introduction

Viewed in conjunction with the national economy, tourism acts as a stimulating global system. Conducting tourism involves a specific request for goods and services, demand drives the increase in their production area. Tourism demand determines supply adaptation that results in, inter alia, the technical and material development of the sector, and indirectly stimulating the production branches participating in the construction and equipping of accommodation and food, modernization of

roads, development of means transport, leisure facilities etc. Perceived in relationship to the assembly of national economy, tourism acts as an element which activates the global system.

2. Determinant factors of tourism development

In this context, the main arguments which determine the necessity of tourism development are the consequence of the following aspects [1]:

- ✓ because tourism resources are practically inexhaustible, tourism represents one of economy's sectors with real long term development perspectives;

- ✓ the complex exploitation and valorization of tourism resources, together with an efficient advertising on the external market can represent a way of growing the financial resources of the state, contributing to establishing a balance of external payments;

- ✓ tourism is a secure market for workforce as it redistributes the unemployed personnel coming from other economic sectors;

- ✓ because of its multiplying effect, tourism acts as an element of the global tourism system, generating a specific request of goods and services which determine a growth of their production, contributing to the national economy's sectors' diversification;

- ✓ a harmonious development of tourism contributes to the economic and social growth and to the attenuation of the disequilibrium between various areas, representing an important source of increasing the population's financial resources.

3. Regional development

The regional development policy wants to:

- ✓ diminish the existing regional disequilibrium, focusing on stimulating a balanced development and revitalizing the affected areas (with delayed development); it anticipates and solves future disequilibrium;

- ✓ accomplish the criteria of integration in the European Union's structures and having access to financial assistance tools for member states (structural and cohesion funds);

- ✓ correlate the governmental sector programs; it also wants to stimulate the interregional, internal and international cooperation, which contributes to economic development and follows the legal regulations and international agreements signed by Romania.

- ✓ tourism represents a tool for rural development by means of expanding the area of the specific offer and of creating workplaces other than the traditional ones, improving life conditions and growing the local population's incomes;

- ✓ local industry's diversification through small and medium enterprises;

- ✓ developing nonpolluting industries which would promote products such as handicraft articles, furniture, leather etc.;

- ✓ under the conditions of respecting and promoting the durable development principles, tourism is a means of protecting, conserving and valorizing the cultural, historical, folkloric and architectural potential of countries;

- ✓ by adopting a durable development strategy and imposing a series of measures for the protection of environment and human existence's fundamental principles (water, air, flora, fauna, ecosystems etc.), tourism has an ecological vocation at the same time;

- ✓ the social dimension of tourism manifests itself as a way of educating and improving the level of civilization, playing an important part in properly spending the free time.

The adaptation of tourism activities to the current level of exigencies and to the present and future mutations of the internal and

international request's level and intensity cannot be realized without the existence of a tourism material unit and that of an adequate technical and social infrastructure which would be able to valorize all tourism resources available. Valorizing the touristic potential, the natural potential (relief and geology, climate, hydrography, flora and fauna, natural parks and natural reservations) and the anthropic potential (vestiges, historical places and monuments, ethnography and folklore, as well as technical-economical and social-demographic) directly depend on the technical-material base of tourism and the quality of tourism services [6].

Over the last few decades, at an international level, the hotels' activity has gained more and more the characteristics of a true industry.

The hotels industry gathers in a coherent system all those processes developed in accommodation units generated by the tourists' receiving, hosting and departure. This is the reason why it can be established a complex and profound interdependency relationship between hotels industry and tourist activity [7].

On the one hand, tourism development is causally determined by the existence of accommodation units, their equipments, the services' variety and quality, and on the other hand, the hotels industry develops from both a quantitative and qualitative point of view as a result of tourism circuits. This way, hotels industry allows a superior valorization of the touristic patrimony by attracting in this circuit various geographical areas; it creates the conditions which would allow a larger amount of the population to spend their free time in a tourism destination [2].

The level of hotels industry's development also represents the extent to which the population's need for tourism has been satisfied. In return, profits increase, urbanization, a larger amount of free time have led to mutations in what regards consumers' behavior, in the sense that their tourism request has grown.

Insufficient or low quality hotel services in relationship with population's requests will determine changes in incomes' destination and in the way of spending free time, leading to a decrease in tourism circuits. Hotels industry and the quality of tourism services

provide a good valorization of the tourism potential, workforce, the capacity of the technical-material base and growing the efficiency of its trading. The hotels industry is influenced by tourism development and develops under the influence of various factors and economical and social phenomena in which tourism circuits play an important part [3].

The increase of tourists' number and their exigencies will lead to an increase of accommodation units and their modernization. Moreover, we will face the apparition of hotel units with complex functions, as well as a diversification of their services.

If we analyze the tradition of hospitality and the manner in which it has been managed, we reach the conclusion that hotel activity oscillates between services and industry.

4. Types of services specific to the activity tourism

Modern hostelry is characterized by a series of tendencies of integrating tourists' accommodation and alimentation. Moreover, there are some accommodation units which provide cultural and artistic services, recreation services, informing services and commercial ones [7].

Recreation and cultural-artistic services request adequate equipments (pools, saunas, gyms, sports fields, areas for holding folkloric festivals, reunions, shows, exhibits etc.) and specialized personnel able to instruct and/or supervise tourists [4].

Information services enable the possibility of acknowledging the tourism offer.

Intermediation services enable a better communication between tourists and specialized services providers: renting recreation products of personal use, booking etc.

Commercial services are represented by selling a series of necessary products during the sojourn.

Considered through the lenses of its position – that of component part of both the tourism product and the base services – public alimentation determines the quality of tourism services in its assembly, and it influences the tourism offer's content and attractiveness, having at the same time major

influences over the dimensions of the tourism fluxes' directions. In order to achieve these things, public alimentation services must complete the following requests:

- ✓ being present at every major moment of tourism consume;
- ✓ the existence of a structural diversity of this type of services;
- ✓ particularizing the public alimentation service;
- ✓ the necessity of responding to both local and foreign tourists' exigencies;

Enterprisers from the public alimentation services domain are permanently busy with providing a qualitative and quantitative development of the provided services, in order to respond to alimentation requests of local and foreign tourists. From a quantitative point of view, they focus on growing the volume of activity, and from a qualitative perspective, they permanently adapt to the requests' exigencies by means of modernizing and perfecting the production, of improving and diversifying serving methods.

In order to respond to international tourism's requests, it has been developed a network of specific, representative units, which offer ethnic food in a pleasant ambient with cultural and architectural elements, decorations, well chosen artistic programs – offering public alimentation new features and making it more interesting.

Balneary units contain both accommodation units and treatment units. Most of the treatment units are placed inside the hotels and allow a number of 95.000 procedures a day and they assure a diversified treatment base, able of satisfying treatment requests included in the World Health Organization's nomenclature: hearth diseases, renal disease etc. [8].

The therapeutically value of these natural cure factors in our country has led to the development of treatment bases which allow the treatment of various affections, the most important ones being listed below:

- ✓ renal affections;
- ✓ alimentary duct affections;
- ✓ hepatic and bilious affections;
- ✓ metabolic affections;
- ✓ inflammatory and degenerative rheumatic affections;
- ✓ respiratory affections;

- ✓ neurological affections etc.

These are the reasons why the development of accommodation and treatment units at the level requested by the balneary tourism market becomes a necessity. Moreover, they improve the recreation and relaxing possibilities. A scientifically funded strategy – that of diversifying tourism services in spa units – must take into account various categories of clients which favor those market segments that include this kind of services.

The characteristics of treatment and spa services derive from the definition of cures: treatment possibilities which are based on a regular use of therapeutically methods according to medical prescriptions together with a change regarding the tourist's usual environment. During the treatment, patients would benefit of medical assistance. This way, medical consults and medical assistance represent a specific form of balneary and medical services, provided in order to complete the series of spa and treatment services.

The recreation unit contains all the tools and equipments needed in order to provide a qualitative spending of free time. The recreation unit's technical and material base consists of clubs, casinos, multipurpose halls, amusement parks, sports and recreation services etc.

The recreation service was conceived as a base of the tourism service and it responds to tourists' specific needs and interests. Therefore, it focuses on the tourist's physical relaxation, his amusement and the development of his abilities. Its development aims at fulfilling the exigencies regarding the improvement of tourism units and leads to a diversification of the offer in this field. This is the reason why the recreation units' development strategy must take into account tourists' motivations, exigencies and expectations, on the one hand and the units' profile, structure and specific, on the other hand.

In order to achieve tourism services, we need a material base, a general tourism infrastructure and a special technical infrastructure.

5. Conclusions

The general tourism infrastructure which

contributes to achieving of tourism consumption is made by:

- ✓ road network: it occupies an important place in developing tourism travels as it is distributed in the entire country and it offers the opportunity of visiting touristic objectives even in more isolated areas;
- ✓ railway network;
- ✓ air transportation is a main factor of international tourism's development;
- ✓ water transportation (fluvial and maritime) are favored by the fact that

Romania is placed on the inferior course of the Danube, having 1.075 km of navigable waters. At the same time, Romania benefits from the advantages of being placed near the Black Sea, having 224 km of beaches. The fluvial channels can be developed by means of various facilities which derive from the existence of a high number of rivers and lakes.

The general infrastructure and the tourism infrastructure also include elements from the cultural networks: theatres, cinemas, clubs, museums, exhibits etc.

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Theories of Migration-Conceptual Dimension

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Abstract

Migration and territorial mobility of population is a complex process with a wide range of effects that are felt in the economic, political, social, cultural, religious and occurs both in the place of origin of potential migrants, and in the purpose. Thus, it creates a "hole" left by the absence of which is felt, especially family and local community, and integration and absorption of new immigrants in communities is problematic, at least in housing and employment.

Evolution of migration in Romania in the last two decades, the two moments, intense migratory flow (transition from centralizată to market economy and accession to the European Communities) and provides for a new migration enhanced with the entry României în spațiul Schengen. Subject of the work is a challenge to know the characteristics of migration in general and in particular for Romania in the period 1990 ÷ 2009.

Keywords: immigration, migration flows, migration brain

J.E.L. Codes: O015

1. Introduction

„Migration is the movement of a person or group of persons from one country to another intending to settle permanently or temporarily in a place other than home. Since the movement between two geographical units should not occur directly, it can still differentiate between the place of origin or destination, transit areas and welcoming place of destination or region” [1].

Overall population displacement refers to two types of migration: immigration and emigration, which represents all entry and exit of people. In this way, a migrant has a double as an immigrant receiving country and the immigrant, the country of origin.

International migration is currently underway in several forms [2]:

- ethnic migration to countries of origin;
- labor migration;
- family migration (migration migrant workers' families earlier) as the right to family reunification, guaranteed by international law;
- migration of natural disasters, political or religious persecution, wars, etc..

Also, these types of migration can be classified in turn according to the following criteria:

- legal: legal (done by following these rules) and illegal (done in violation of rules, which makes it difficult to assess);
- motivation: voluntary and involuntary;
- length of stay in the destination country: temporary, long-term, permanent.

Other international migration are:

- migration based on ethnicity;
- postcolonial migration, when colonizing countries have established strict rules for immigrants from former colonies;
- economic migration, which is one of the most common forms in recent decades. This is caused by differences between countries in terms of access to resources and jobs, and the shortage of certain specialties. Many developed countries have "recruited" immigrants and continues to encourage highly skilled labor migration from less developed countries.

2. Theories of migration

In recent decades, most theories of migration process were based on economic factors.

Classical theories are considered to be more “descriptive or classificatory schemes” [3]. In the new socio-economic conditions of rational approaches the question of migration, the question here “type econometric models cost – benefit” [4].

One way to classify these approaches reveal different aspects of migration. For example, there are approaches that focus on the factors that determine people to leave their regions or countries (wars, economic hardship, religious persecution, ecological disasters, etc.). On the other hand, there are approaches that focus on factors "pull" that determines targeting migrants to specific regions or countries (through higher wages, democracy, peace, favorable conditions of life in general).

Another way of grouping approaches is the level of analysis. For example, studies based mainly on structural aspects (comparative levels of development, living standards, demographic, socio-cultural changes, communication and transportation technologies). These explanations or approaches can be called "macro". These were the first theories on migration and their explanatory power is demonstrated in general. However, not all who are affected by these factors macro decide to migrate. Thus, there were other approaches that have attempted to explain the decision to migrate individually. Therefore, these approaches can be called "micro", aimed at understanding the decision to migrate individually.

However, in recent decades was introduced intermediate level or mediator between the structural and individual decisions, which may be called the light "meso". This view is based primarily on understanding social networks and organizations that facilitate migration.

3. Macroeconomic migration approach

Demographic approach is based on the analysis of the phenomenon of migration as it provides an overview of the existence of a potential migration or application.

Regions with significant capital which generates absorption workforce shortage of staff employment and is therefore attractive for immigrants. Migration flows tend to create a state of balance, causing the premises to improve working and living conditions for migrants. The main theories of migration, macroeconomic concerns neoclassical economics, the new economics of migration, market dual dependency, world system.

Neoclassical economic theory

This theory refers to the mechanisms of the market, supply and demand that determined the distribution of prices, output and income. The basic idea of neoclassical economics, Walras attributable to a economic emerges in equilibrium, ie equality between supply and demand in all markets under perfect competition.

International migration is explained by the amount of income determined by the gap between supply and demand of labor between countries. Economic profit occurs on migration flow that occurs in the level of income from income areas/areas with low wages for income/salaries. According to this theory, labor capital migrate to rich countries but poor labor movement resulting in qualified personnel, ie international flow of human capital. These international migration flows are balancing mechanisms of internal gaps in the labor market worldwide, and while population-capital migration will lead to economic disparities and loss mitigation case that generates migration.

Some economists critical prerequisites for the development theory of migration flows only in the context of differences between countries in the level of wages. For example, if the European Union, where there are obvious differences between the levels of development of countries freedom of movement components and labor movements of population means that migration is influenced by the level of economic development of the country.

New economics of migration

Falling on the neoclassical economics, the new economics of migration brings two major changes, neoclassical conceptual framework in the sense that the individual is treated as family/household (income are reporting to the community) and the fundamental role of differential wage level is no longer a fundamental economic factor.

In this framework, the solution is related to migration of family or household decision (related to loss of income, unemployment) For new sources of income that money sent home by migrants (remittances).

Dual labor market theory

Harris and Todaro [5] revealed "migration flows" established between urban (employed or unemployed) and rural (which is entirely occupied but low wages).

Dual labor market includes a primary sector with good working conditions and stable jobs and a secondary sector with difficult or dangerous working conditions and unskilled and unstable. Avoid domestic workers in the secondary sector employment due to job instability, low wages. In this context, immigrants are that can replace labor employment in the secondary sector.

Dependency theory

This theory supports the macrostructural level that capitalist development has created a global order where there is industrialized countries (center), on which less developed countries (periphery). So poor are dependent prosperous and developed Western countries producing so underdevelopment. Arghiri Emmanuel [6] believes that the sources must be identified underdevelopment of international trade liberalization based on the division between metropolis and satellite, commercial unequal exchange between the developed countries, exporters expensive equipment and technology, and developing countries, exporting cheap raw materials. Dependency theory has "little to say about migration, especially international form" except maybe being a "fascination" for "brain drain", the term in English "brain drain" "refers to the selective migration of talented and educated Individuals of poor nations by rich ones" [7].

World system theory

Best known exponent of current, Wallerstein (1979) defines "modern world system" [8] by attracting new order states, which încadrează in three concentric zones: central (dominant power), semi-periphery, periphery (areas which are added external as isolated parts, external world system at some point in time).

For this purpose a new category of people moving in search of a better life to urban and then to countries in central global economy. Some economic conditions, leading to the formation of these groups of people are, in general, modernization of agriculture (labor redundancy and creating a surplus in rural areas); extracting materials (domestic labor, especially peasants whom out of traditional environment), production subsidiaries of foreign companies (possibly international corporations) that offer low wages for female labor usually for short periods of time.

4. Migration approach at mezeconomic

Macro and micro perspectives were harshly criticized in the last decades of the last century because it omitted that between general and private factors there are a number of structures that enable migration, reducing its costs and channeling it in certain areas, employment niches and localities. Thus, there was migration networks have created a migration capital that increase as they develop migration. This migration capital includes the departure and material resources that facilitate inclusion in the new company to the contact and crucial information for how to be successful migration.

Effort and high costs of road opener forms capital that facilitates migration of others who usually have fewer resources or less favorable circumstances. Meanwhile, the pioneers tend to become leaders of the new group of immigrants because they can integrate into the host society. This form groups of migrants are called ethnic enclaves that have economic resources, but which often exploit the people in the group appears. For example in the U.S. there are Chinatowns or Cuban enclave in Miami. These enclaves have shown that despite intra-ethnic injustices, the term was important aid for the entire ethnic community involved. Also be included in this meso-level approach to migration, the method of migration industry, which starts from travel companies low cost, specialized in the transport of migrants by companies that give loans to facilitate migration or sending remittances.

5. Microeconomic approach to migration

Micro approaches arose from the need to explain the actual decisions of individuals who migrate, ie migrants themselves. The starting point of this view is that there is really a decision to migrate and that fact is not just a force, such as the slave trade or the mass deportations of the population. Paradoxically, most of the population subject to political persecution or economic conditions do not leave their home countries choosing to stay and endure harsh conditions.

Economic theory treats this as an investment theme migrant considering that an assessment of costs and benefits and choose

according to this calculation and attempt to maximize the benefits, whether or not shown to migrate. One of the deciding factors in the decision to migrate is profitability potential emigrant human capital in a new labor market plus costs, current income and other losses of emigration.

6. Migration factors

Migratory movements are caused by a combination of different factors, so individuals Push factors from their native places and the factors that attract, that causes them to move up in the host country.

The main factors of migratory movements may be:

a) lack of economic, employment CI country of origin, and what expectations regarding better living conditions and demand for labor in host countries encourage migration from less developed to more developed ones. Example of this type of migration in South meets (Portuguese, Spanish, Italians, Greeks, Turks) who, after World War II emigrated to northern European countries, which needed labor, such as, Germany, Netherlands, France, Switzerland, Austria, etc.. At present this type of migration occurs between poor countries in Africa, Latin America and the countries of northern Europe.

b) disaster, volcanic eruptions, earthquakes, fires, floods, can produce massive migration of people from their original location to other locations. After these disasters people usually lose all goods, arable land, houses. So that decides to start a new life elsewhere.

c) various issues, human activity is also a cause of migration. Wars (as in the former Yugoslavia) religious persecution (which caused major migratory movements in the modern era), ethnic, political structure, the existence of a repressive regime, political instability, colonization and subsequent decolonization of new land for European countries, traffic slaves.

d) socio-cultural occurs at micro (family) and macro context: modernization variables (education, urbanization, modern communication technologies, modern medical technologies), ethnicity, culture, religion, attraction of cities, how life, which makes many people in rural areas to decide

change of residence to provide more opportunities for their children. There is also the opposite case, people living in cities and decide to move to rural areas to combat stress.

7. Opinion

The problem is seen migrants in destination countries of origin and in two ways: as a source of benefits, but also as a source of problems.

Country of origin, labor migration specialist (brain drain) and labor shortages in certain sectors of the national economy leads to reduced productivity and income, and quality of life. We also produce and positive impact phenomena such as capital flows into the country, increasing GDP and raising the living standards of migrant families and communities from which they come. So, the income generated by immigrant workforce are compensated sent financial capital of the country of origin.

In that country, immigrants are welcome as cheaper labor, especially the highly skilled, bringing economic benefits (increased labor productivity and GDP) for the country.

There are some problems in the period of adaptation socio-economic conditions in the country of destination and periodic unemployment when there are negative economic effects on housing and social security system, because it creates economic problems for the country and for communities and citizens.

One problem is that resulting from correlating the aging problem in developed countries, pressure on the social security system, especially on pensions, which is rising with increasing migration flows are netted.

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Mechanisms to Stimulate Employment in Romania

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Abstract

This paper briefly summarizes the precarious situation of employment in Romania through a set of relevant indicators. Then we analyze the active employment measures under the Employment Program of the National Agency for Employment for 2011, focusing on measuring and highlighting the effectiveness of each category of measures in terms of employment.

In the context of all active applicable measures, the greatest impact on employment in 2011 was represented by the measures circumscribed to labor mediation, information and counseling (more than 83% of the persons employed on a job vacancy).

Keywords: employment / job vacancy, active employment measures, the effectiveness of applicable measures.

J.E.L. Classification: E24

1. Introduction

An active and decisive factor in the progress of any economic and social activity, labor is intrinsically linked to its provider - man with his physical and intellectual abilities. And man, as depository of these skills and experience, can only perform social and economic activities by taking a job. Vacancy, in this context, is equivalent to wasting this vital resource, with diminishing any growth potential. For this reason, in full agreement with the arguments offered by J.M. Keynes, any economic policy that would be desirable for all has to make the fullest use of labor, its central objective.

For a long time, employment or job vacancy has been associated with a balance / imbalance of the labor market where work supply and work demand occur with their

outcome- the salary. Or contemporary theories revolve around the idea that labor market is only a derivative market, employment being the result of the developments in other markets, particularly the market for goods and services, the money market, and the capital market, but which in turn affect the formerly mentioned, representing the transmitter, the receiver and a resonant of change. Therefore, although employment or job vacancy are seen as a reflection of the labor market, their roots are more diverse: they are neither only the result of labor market functioning nor are they only consequences related to dynamic growth. The conjectures of G. Abrahams-Frois¹ are eloquent in this regard:

- unemployment, as it stands for vacancy, is not entirely derived from lack of demand, as far as economy is concerned there are available jobs and unemployed people of working age at all times, as a result of a structural mismatch in demand and supply of labor;

- the creation of a number of jobs does not diminish unemployment as much, a fact which is due to demo-social causes inducing additional unemployment;

- increased production does not necessarily involve job growth as a result of prioritizing investments in productivity at the expense of capacity investments.

In this context, job creation means not only increased costs but also the measure of its effectiveness.

2. The effectiveness of Workforce Employment Program drafted by the National Agency for Employment in 2011

¹ Frois G.A., *Dynamique economique*, Dalloz, Paris, 1989.

It prefaces the analysis of the active measures to stimulate employment, the presentation of relevant indicators for the use of labor resources in our country:

- The dependency ratio of people not working as compared to that of the people who work is 1.76% downtrend;

- The replacement rate of the working age population by young population is only 76%;

- The activity rate of the working age population is 67.47%;

- The workforce employment rate fell to 51% in recent years being on a downward trend, while the tertiary sector remains the main suction valve;

- The ratio of inactivity dependence in Romania is also worrying:

 - Idle / employed population = 118%;

 - Inactive / employed young population = 46.3%;

 - Inactive/employed adult population = 43%;

 - Inactive/employed elderly population = 28.7%;

- Unemployment rate at the end of 2011 was 5.4% with an upward trend due to the flares of the economic and financial crisis.

Given all these brief aspects that characterize the unfavorable situation of employment in Romania in 2011, the National Agency for Employment (ANOFM) prepared the program of workforce employment in 2011, in full agreement with the Government Program from 2009-2012 and the European Union's strategic objectives for employment in the light of Europe 2020 .

By means of the National Workforce Employment, ANOFM estimated the employment of 324,000 people nationwide through a set of measures financed directly from the unemployment insurance budget. According to statistics in 2011 it was necessary to assist up to 1,453,721 unemployed .

By applying active measures, it was performed the employment of a number of 366,113 people, representing 113% more than it was planned.

By analyzing the human effort involved to increase service efficiency offered to the unemployed it can be seen that the largest impact on employment in 2011 had been made by the following proactive measures:

- by labor mediation, counseling and vocational guidance ,303,874 people were employed , or 83% of the total number of employed persons;

- by providing subsidies for the employment of disadvantaged people in the labor market (people over 45 or single parents providing for their families, the unemployed who have 3 years until retirement, graduates of educational institutions, disabled people, socially marginalized people), 28,227 people were employed, namely 7.71% of the total number of the employed;

- by providing an allowance for the unemployed who manage to find a job before the expiry of unemployment period, 19,221 people were employed (5.25% of total employed);

- by means of training, 14,791 people were employed (4.04% of total employment).

A major problem at the employment level is represented by the occupational training in rural areas.

Job offers materialize mainly in urban areas, the rural unemployed not having a wider range of jobs, professions and industries at their disposal.

3. Conclusions

1. To measure the level, structure and efficiency of employment in 2011, it was assumed that the labor market works in conjunction with the general requirements of the market and price theory although the evolving labor employment evolves under the combined impact of several conditions and social factors that are often different in direction and intensity.

2. The efficiency analysis of increasing work opportunities for employment must be addressed from the point of view of the relative costs involved in implementing some active measures.

3. Unemployment allowance should not be viewed only in terms of its function as passive social protection but also in terms of its function as an active support for those unemployed who, after completing their active employment measures, manage to integrate themselves into the labor market.

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The Actuality of the Crafts Issue in Romania

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Abstract

The issue of crafts has always been of actuality in Romania, as well as worldwide. This article sets out to present the vision of Professor Nicolae Ghiulea concerning the trades' situation in the interwar period. We expose various aspects of the vast problem and different solutions in order to solve it. Born in ancient times, crafts retain great significance even today, along with the large industry, being indispensable to any national economy, to its culture and civilization.

Keywords: craft, guilds, middle class, regulations

J.E.L. classification: A14, B30, J01, J44, N34, Z13

1. Introduction

Born in Iaşi (11 September 1884) with an original background in Mathematics, Nicolae Ghiulea was a professor of social policy at the Faculty of Law of the University of Cluj (1919 to 1942). His inclination towards Sociology came from a series of special sociological studies conducted in Paris, Göttingen and Iaşi. An economist as well as a sociologist with outstanding administrative and social leading functions, he was one of the most important representatives of cooperative doctrine in the interwar period. Ghiulea is amongst the initiators of the social market economy in Romania, also having a prestigious academic career and a rich publishing activity in the areas of statistical theory, social economy, cooperatives and sociology.

The socio-economic issues in general and the situation of his times in particular were the main concern of Professor Ghiulea. Therefore, in his studies, he also addressed the issue of trades in interwar Romania. This article sets out to present the vision of

Nicolae Ghiulea on this issue, as it was included in his paper published in 1941, *The craft problem in Romania* (original title: „Problema meseriilor în România”).

2. The craft problem in interwar Romania

As a definition, craftsmen, along with the small industrialists, traders, freelancers and small officials, form the middle class of a society, which mostly inhabits cities. It is well known that the social, economic and national importance of every social class cannot be disputed, as the absence of one of them could destroy the continuity of a nation.

The middle class, in addition to the role of support and cushion between upper and lower classes, provides a vital economic role. In countries where the industry and the commerce are not large-sized, craftsmen and retailers offer the indispensable industrial products, whereas in large industry countries, they cover specific economic needs. From a cultural standpoint, craftsmen's superior technique raised the level of culture and civilization everywhere. From national perspective, the middle class prevents the destruction or alienation of the ruling class. Ghiulea shows that the national lack of this class in our country has led to a large alienation of the ruling class, which had, in turn, Turkish, Greek, Russian, Hungarian, German and French influences, not being able to form a natural and continuous link with the art, literature, culture and national life of our people.

The middle class gives the appearance, the culture, the civilization and the nationality of the cities. Supporting and strengthening the Romanian middle class was a social, economic, cultural and political national duty. Thus, the author considers that the crafts problem, aimed exclusively and acutely at the middle class, required immediate solution.

Craftsmen were in conflict with both the ruling class and those of large industrial capitalists and working class. The capitalists considered them obsolete and a hindrance to the development of civilization due to the competition they represented. Large industries used to encourage the contempt of the ruling class towards the craftsmen, who minimized the value and importance of a middle class. Workers on the other hand, opponents of the bourgeois capitalist state, saw them as tools of capitalism, non-adherent of the international socialist conception which was gaining more and more ground in the period between the two world wars. So, craftsmen, says Ghiulea, were a strong national class, in competition and conflict with the great capitalist class and the working class, with the capitalism and the democratic socialism or the communism, with the internationalism and the social democracy.

Over time, though considered anachronistic, the craftsmen class proved its necessity and viability. However, its organizational problem was always delayed and burdened with other essential issues that made it impossible to solve. The craft problem had to be therefore strictly limited to organizational activities and socio-economic protection of this part of the middle class.

The craftsman, says Professor Ghiulea, represents the whole human industry. He is more than a worker because he has a profession, a special technical training and can be replaced with difficulty. He has a crucial economic role, because he is practically the industry's foundation, and in small industry countries, he has an important social role. Moreover, the craftsman's work is complete; it covers all aspects of work: manual work, invention work and direction work. The craftsman masters, in his activities, the work in all its aspects and the industry in all its forms, from raw material preparation and storage, to industrial processing of these raw materials into manufactured goods, to marketing its products. He therefore performs the complete cycle of the economic activity, achieving the balance between production and consumption and ensuring direct contact between producers and consumers, eliminating the intermediate.

Craftsmen are distinguished from the workers by the fact that they are not

proletarians, but small employers, with employees, little wealth, a workshop and their own tools, and they are different from the home workers because they are enterprising, independent, sell their products alone, often using their own raw materials and work for the market. They also differ from the industrialists, who are engaged only in direction work and recovery of products, not actually using their arms in their company.

Nicolae Ghiulea considers the craftsmen elements of economic equilibrium and economic peace, arguing that in the professions regime there cannot exist economic crises, only of a small and insignificant extent, there can be no unemployment, no stock of products to be destroyed in order to keep price levels. The craftsman produces as much as the market demands and does not develop its enterprise more than necessary.

In primitive times and prehistoric antiquity, craftsmen were factors of human culture and civilization. Later, historic antiquity turned work into disgrace, being dedicated exclusively to slaves. In the Roman Empire, the industrial work was done by the lower classes, which, deprived of rights and treated with contempt, were organized in colleges. Their involvement in politics and winning a place in the political organization of the state has kidnapped their freedom though. In the Middle Ages, serving took the place of slavery. The craftsmen corporations revived with the advent of Christianity and the honourable work, the work in which the craftsman began to put zeal, love, soul, art, pride, the work producing a great moral and material condition, bore the strong and admirable class of unsurpassed, esteemed and admired craftsmen. These associations, which took the form of jurandes in France, guilds in Germany and corporations in Romania, all aimed mutual assistance in economic and social struggle. The great prestige and their remarkable results have led over time the sociologists and politicians to revive the idea of these associations, but the economic and social circumstances did not correspond any longer and their attempts failed.

Guilds began to be dissolved in the second half of the 17th century, due to state leaders' intervention, because they represented closed

associations which owned trades' monopoly worldwide. Romanian guilds, shows Ghiulea, were religious associations of mutual help as in the west and had almost the same organization. Their results were weaker because Romanian craftsmen were less able to master the country's economy. They were overwhelmed by foreign craftsmen, failed to maintain a monopoly for a long time and, in time, they declined, along with all the Romanian economy. We could therefore say that the craftsmen and their guilds knew in Romania times of various glory. From clearly defined historical reasons, crafts have declined and the craftsmen's situation in the interwar period was worse than ever.

Like in the entire world, in Romania, the large industry was built on the ruins of trades. The competition from foreign and local industry and from commerce has led the craftsmen in ruins. In addition to this, the monopoly held by craftsmen in the Middle Ages dissatisfied the ruling class who came to destroy the old Romanian craftsmen and form a new class of foreign craftsmen, which became the cities' middle class.

Due to the lack of solidarity of Romanian craftsmen, the crafts problem was never taken separately into account and thus solved. All the attempts to solve it were made while solving the workers' problems in general, which shows its acute misunderstanding.

Nicolae Ghiulea lists some of the pressing economic and social problems of the craftsmen class, proposing necessary measures to fully resolve the trades issue in Romania. Lack of workshops, lack of retail shops, lack of housing; lack of improved machinery and tools; lack of motive power and economic fuel; lack of cheap credit; the difficulty of purchasing supply in favourable terms; the expensiveness of railway transport for raw materials and manufactured goods; lack of well-organized sales fairs; lack of association and organization of the craftsmen class; high duties and taxes, late paying for the supplies made by the state; insufficient use of labour and craftsmen's products in public works and supplies; lack of regulation of production and sale, in which the fight against counterfeit goods is concerned; lack of technical training; the very small number of Romanian craftsmen: here are the points forming the vast problem of trades.

In order to address this, the author recommends several measures to satisfy each of the five categories of interest: *social* (craftsmen class organization in specialized associations, general unions and chambers of handicrafts, all free and independent), *economic* (the establishment of a credit institution for the craftsmen, which, supported by the state, is meant to provide long-term interest-free investment loans, long-term operating loans with a very small interest and bearing short-term loans with low interest rates; creating supply, production and sales bureaux or the establishment of cooperatives that share the same object; organizing of national workshops for purchasing machines and tools at reasonable prices; providing goods and services of public authorities to craftsmen; establishing a simple and protective tax system; the encouragement of trades at least to the extent that the domestic industry is encouraged through various tax exemptions or reductions; removal of actions that are prejudicial to the craftsmen, of the competition from workshops and vocational schools, maintaining prices at market cost; the purchase of advantageous transportation and cheap fuel; facilitating procurement of raw materials advantageous in terms of quality and costs; favouring the payment of goods and services provided by craftsmen), *professional* (organizing vocational education, additional professional education and training, the regulation of the title of capacity, providing scholarships in the country and abroad, improving technical working conditions, prohibition of illegal actions and counterfeiting of products and ensuring jurisdictions for trades), *cultural and social* (building hygienic workshops and healthy and cheap housing for craftsmen, establishing mutualities against professional risks, for life and economy, supporting social and cultural works) and *national* (imposing a policy for increasing the number of Romanian craftsmen through: creating homes for Romanian apprentices; vocational guidance for the peasant surplus through scholarships and grants; incentives to employers through benefits and grants in order to ensure a good organization of crafts learning; supporting Romanian craftsmen in all possible ways to overcome minorities by number and quality; limiting the increase in

number of foreign craftsmen).

Of course, these were just some of the solutions that were meant to partially solve the large problem of trades in Romania, according to Professor Nicolae Ghiulea. The most important step in addressing this issue was the state recognizing the possibility to create a Romanian middle class, the possibility of Romanization of the cities by supporting a strong class of Romanian craftsmen. Leaders had to see the national dimension of the problem, recognize the danger in which the state was due to the lack of Romanian capital, lack of Romanian economic enterprises, in other words, due to the lack of a Romanian national economy and then create and diligently follow a program of administrative and law policies in this regard.

Although he was aware that the problem of trades in Romania is complex, with economic, social, political and moral dimensions, Nicolae Ghiulea believes that the moral aspect is most important. To be part of the national development, the craftsman must be morally exalted, because he is a complete worker, as his job consolidates manufacturing, transport industry, commerce, art. He is a free, independent, entrepreneurial worker. His work is superior, creating culture and civilization. He is the one from whom, says Ghiulea, we have to expect the cultural raising and increasing of our civilization. The craftsman brings welfare, creates the beautiful, collects wealth, supports culture. That was in the past and at least in our country there is no other way than this to raise our civilization, culture, ethnic wealth and power.

3. Conclusions

In the evolution of industrial labour, working in professions was an important element. Although, over time, modern industry has exceeded crafts, the social, spiritual, ethical and aesthetic superiority of the latter and their great economic importance cannot be denied. Work has evolved from the primitive state of domestic industry to specialization and exchange, initially taking the form of semicrafts and then actual crafts. The craftsman appears in the free labour era in the Greek and Roman society and rules the entire Middle Ages, and

continues to have today representatives whose work is still indispensable to the society, for work at customers' home, for repairs, for art work or for individual necessities.

Trades' merits cannot be denied and, therefore, their current situation needs to be improved. They are the economic base of the present industrial organization, they are always needed for jobs impossible to be done in factories and they ensure the continuity of national life.

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Consideration Regarding the Approach of Sme's Development Modalities, in Context of Knowledge-Based Economy, from the Perspective of Firm Theories

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Abstract

Knowledge economy is based on the existence and development of small businesses and how their development modalities should be focused on innovation, creativity, competitiveness, entrepreneurial culture, accumulation and use of knowledge, organizational intelligence, cooperation and communication.

Analysis of firm theories reveals a multitude of business development opportunities, taking into account the different cultural components and key success factors in business. As such, this paper highlights the main ways of development of small business in the current context, highlighted by the most popular theories of the firm. These, and not only these, can be considered as successful models to follow by Romanian SMEs.

Keywords: development, SMEs, theories, innovation, creativity

J.E.L.: D 21, L2, M1

1. Introduction

Known is that, permanently, changes in entities vision causes appearance and evolution of theories and specific models, in the hope of streamlining those entities, based on environmental impact assessment (located in a rapidly changing) over the entities, as well as identification, systematization, analyzing and principles combination of management of human resources at the

organizational level. This is because, in the current economic climate, entrepreneurs and managers need to rely on the flexibility and creativity of employees, on a effective interpersonal communication, on cooperation to accomplish tasks, on innovation in all areas of activity of the organization etc. But all this can be achieved at least through effective management of human resources, based on different theories of the firm, which reveals the importance of personnel in providing high performance.

Literature in this field shows that the degree of development of a business can be based on factors of influence such as real capacity to invest, ability to generate both new activity (innovation in organizational processes and specific technological each business, production processes, distribution, supply, etc..) and in terms of its results (new or improved), the ability to compete and meet global market (based on certain competitive advantages derived either from providing products obtained at lower cost than direct competitors or products with advantages against competitors or from employees competitiveness). It should be noted that, in the contemporary economy, must be considered also other influencing factors such as: degree of creativity, communicational management capacity, the degree to which members identify with the organization as a whole, the degree of integration.

During the economic crisis, small businesses did not have easy access to credit and the opportunity given by the Structural Funds has been seized for obvious reasons:

excessive bureaucracy, project evaluation periods, provided by financing etc. As such, few businesses have developed in crisis context, investing in productive capacity, technology or science (staff training, for example).

Rather, small companies have implemented strategies oriented on market needs, being flexible to provide their customers what they need, given the financial conditions of all actants. Employee creativity manifested in all activities conducted to maintain and even develop business in the current economic climate.

Of course, small businesses focused on what they hold, as an advantage (strengths) compared to direct competitors, so that they can survive in the market and, why not, to develop themselves. This is because small businesses should focus, in terms of the knowledge economy, on the maximized benefits held, and on creating new advantages.

2. Business development: concept, perspectives approach

Any business development can be viewed from several perspectives. Thus, business development can be addressed on an individual or organizational level, scientific and technological level, simple or intensive level, extensive or mixed one.

Also, the development can be defined in terms of the field of action, respectively as *operational development and organizational development*. Operational development relates exclusively to individuals, with their roles and values, and organizational development refers to all procedural development within the organization, obviously taking into account its specific environment of action.

Definitions of organizational development (Organizational Development - OD) on existing literature identify components, influencing factors and procedural elements of business development, while clarifying the difference between the concept of organizational change and organizational development. Thus, among the best known definitions of organizational development may be mentioned:

- "the process of improving the efficiency of the organization and the welfare of its members through planned interventions";
- "a planned effort, depending on the size of the organization, managed from above, to improve the health and effectiveness of the organization through planned interventions on the organization's processes, using knowledge in the field of behavior" (R. Beckhard);
- "long-term effort, sustained by the direction, regarding to improve problem-solving processes and to revitalize the organization. This objective is achieved with an effective diagnosis, established in collaboration and managing organizational culture, focusing on formal work teams, temporary teams and intergroup cultures, with the assistance of a counselor, facilitator and using behavioral science theories and technologies" (L. French and Bell CH);
- "educational strategy using by all means behavior based on experience to provide the best range of organizational options in a world in ferment." (W. G. Bennis);
- "long-term effort to improve the organization's ability to solve problems and its ability to adapt to changes in the external environment, using behavioral science consultants or change issues." [8];
- "a planned effort, coordinated by senior management covering the entire organization, which aims to increase efficiency, improve working conditions through intervention processes using behavioral science knowledge" (R. Richard);
- "a comprehensive system of data collection, diagnosis, planning, intervention and evaluation, which aims to: improve consistency of organizational structure, procedural organization, strategy, personnel and organizational culture, developing new and creative organizational solutions; development organization's capacity for renewal. This can be achieved through collaboration between members of the change agents who use behavioral science, research and technology" [2];
- "a mix of design and implementation of measures to improve the management system components (strategy, structure,

system information, system decision methodological system), aimed at increasing the performance and competitiveness of the organization"[4].

All these definitions reveals that **organizational development is a planned process** that is based on a wide range of methods, techniques and behavioral management tools in order to increase performance of the organization. Moreover, the essence of these definitions is to reveal the fundamentals of business development directions, and also of various modalities for business development. For example, definition provided by Richard R. to organizational development highlights that the planning effort coordinated by senior management aims to increase business efficiency, and improved working conditions, based on behavioral science. In other words, at a business level, improvement of working conditions increases productivity, creating a climate conducive to achieving performance through use of specific methods of science behavior (behavioral technique, social consciousness development, positive patterns of behavior development, work motivation, etc.). Thus, one can say that the natural way of business development is that of professional and behavioral development.

In essence, business development aimed its conception, design and implementation of various changes aimed to promote efficient use of resources and increase economic efficiency. As such, in the most general purpose, the purpose of organizational development is successful organizational change in order to achieve high organizational performance. In the range of the various changes can be highlighted four areas that will produce competitive advantage[6]: technological change, changes in the products and services, strategic and structural changes, cultural changes and individual.

It is known the fact that insuring the enterprise competitiveness requires the development of **new competitive advantages and strengthens existing ones**, all in relation to the opportunities and threats that characterize the environment. Therefore, a first step (method) in business development is to diagnose that business and "investigate the main aspects of the organization, economic, technical, sociological, legal and

management in order to identify strengths and faults, causes it generates and design recommendations for improvement and development"[3]. As such, any entity development is based on identifying market opportunities and establishing ways of action to capitalize on those opportunities, depending on their strengths. Clearly, business development means developing their strengths: human, technical, social, production etc.

3. Aspects of Romanian SMEs situation in global crisis

The role of small business in the context of the knowledge economy is clear: small businesses being the engine of the European economy and the most important generator of jobs and economic growth. Also, SMEs account for large firms, the world from which they came and where their competition will occur tomorrow, while for individuals, is a first job, the first step in their career and a first step towards world entrepreneurs. Also, for any economy, SMEs generate new ideas and new assembly processes that accelerate growth based on efficient use of resources.

The importance of small businesses is revealed by the fact that in the center of the European Commission policies are small business needs: improving financial environment, enriching the regulations SMEs in Europe in terms of facilitating their work, increasing EU funds for SMEs etc.

Although the current economic climate is unfavorable to small businesses, however, they find resources (human, in particular) to survive and grow. Obviously, the knowledge economy provides sufficient leverage and tools for business survival and development.

Romanian SMEs manifests themselves now in a negative context from social and economical point of view, very dynamic, with significant changes in all areas. According to experts, over 90% of Romanian SMEs have bigger or smaller problems regarding economic crisis. As crises of all kinds (social, political, economic, system) are racing in our country, we can say that Romanian entrepreneurs are accustomed to deal with all problems.

Currently, most of Romanian small businesses fail in signs of recovery from the crisis, for various reasons. Many small

businesses do not understand the harsh reality and, moreover, do not know which is that something they did well and why the business worked until one point. Also, there are some businesses that do not know their customers well, have assessed objectively neither the customer categories nor the created value or adversely affect their business. In other words, many businessmen do not really know their business.

In some profitable business, until the crisis, have been forgotten proactive encourage measures to innovative thinking among employees, and effective communication, cooperation and collaboration. As such, the crisis, there were gaps in activities, communication problems, low solidarity, low level of integration and identification with the organization and obviously low trust among employees.

Present certainty refers at the fact that effective business model in recent years does not work under current conditions. Thus it is necessary to reconsider the fundamental things about small businesses: entrepreneurship, quality, customer, business and labor organization, resource management, social behavior, motivation, cooperation and communication. Obviously, the contractor who will be concerned with customers, customer-oriented business organization, by creating an enabling environment for the development of creativity and innovation, adequate performance by motivating employees creative, inventive and performance, and develop positive patterns of behavior not only that will emerge from the crisis, but will be able to successfully develop their business.

Moreover, in the present economic crisis, it is necessary to change the basic paradigms of individuals (employees of SMEs), along with those of small business. At the organizational level, the paradigm shift usually address the strategy, structure, systems, staff, style, skills, values shared power source and leadership"[13,10,9,11]. But any change at the individual or organizational paradigm should be built, according to S. Covey"[5], on the following principles: the principle of proactive approach to reality, the mission principle, discipline principle, the principle I gain/you gain, empathic communication principle,

synergy principle, the principle of renewal (maintaining and enhancing capabilities through a balanced approach organizations dimensions: economic (physical), mental (psychological), spiritual and social/emotional.

4. How to develop SMEs revealed by various theories of the firm

In the context of the knowledge-based economy and, especially in conditions of economic crisis is required research in the development organizations in the hope of identifying new development models applicable in the contemporary economy. A review of the main theories of the firm noteworthy experts' attention on at least the following elements: entrepreneurship, with emphasis on human action (Frederick Barnard Hawley); Developing human potential in the organizational (Elton Mayo and Roethlisberger and Dickson - Management and the worker); develop social consciousness of employees (David Emile Durkheim); develop positive models of organizational behavior (Herbert Simon, Abraham H. Maslow and Mc Gregor); changing social behavior (Robert Owen - A New View of Society); moral motivation of employees (Chester Irving Barnard); organizing creative work and organization (Charles Babbage); creative and innovative employee motivation (material - share of profit) (Charles Babbage); growing importance of group work in achieving company (Mary Parker Follett); Designing and developing an enabling environment for action (Ronald H. Coase - The Nature of The Firm); creating an appropriate organizational performance (Irvin Fredrick Herzberg); cooperation and effective communication within the company (FW Taylor in his book "The Principles of Scientific Management").

All these elements are added assuming social responsibilities by small businesses. Essentially, CSR represents the obligation of the firms to use their liberty to decide and to act accordingly to their goals and mission. Freedom consists precisely in taking responsibility of facts and trademarks of the firm. Moreover, each entity develops its own kind of legitimacy, namely a specific type of social responsibility based on his resources

and developing business practices that contribute to the general well[12].

Starting from the idea that entrepreneurship is a sure way of development of small business in the current context, it worth to notify that the first person who defined the company as a human action, integrated to the market, was Frederick Barnard Hawley. Essentially every business bears the imprint and is the result of the entrepreneur, taking into account the resources held and environmental influences on the activities undertaken. To develop business, entrepreneurs should manifest proactive, in order to contribute to creating an enabling environment for action appropriate to obtain high performance.

In the context of the knowledge-based economy, developing social conscience of employees contribute to a firm attachment to the objectives to increased identification with the company to understand the purpose and mission of the company, which leads to ensure high performance and business development socio-economic perspective. The development of human potential, including the development of interpersonal relationships, increases productivity and business sustainability in the economic crisis.

R. Owen's theory, based on multilateralism development of personality, arisen from ignorance criticism, emerges as a means of business development in terms of improving working conditions and thus changes social behavior of employees. Perspective of improving the working conditions of employees with impact on business development has also been the subject of C.I. Barnard theory. In "Functions of the Executive", C.I. Barnard regulates a theory on the role of executive management, administrative management in organization development[1]. On the basis of this theory is effective communication and motivation (especially moral one).

That is why, the concerns of Charles Babbage on work specializing and its creative organization can be considered ways in business development, motivating and rewarding creative and inventive employees. The working group is the unit in which employee manifests its creativity and inventively. In "Community is a process"[7]. M.P. Follett considers the group as the core of social process, creator of personality and,

at the same time, of the individuality. The idea is also relevant in the current economic context; in which the importance of group work is major in individual and organizational development.

One of the characteristics of the knowledge economy refers to cooperation and collaboration among entities in order to enhance their performance. The idea of cooperation is not new, but is essential in the present context, of the economic crisis. Thus, the fundamental principles of scientific management theory, first stated by FW Taylor in his book "The Principles of Scientific Management" published in 1911, include "achieve and maintain a clear level of cooperation between hierarchical levels in the organization, between performers and management for the purposes of fair and efficient procedures scientific elaborated"[14]. Obviously a safe way to achieve the objectives of any organization is cooperation and therefore effective communication.

5. Conclusions

Reality shows that the time in which small businesses were managed according to an original method passed. Nowadays, managers need to behave in a professional manner; using methods, techniques and tools of modern management to apply the theories presented extensively pluses and minuses by experts in their field of activity. In this respect, it is imperative to examine the most important theories of the firm and the application of these methods to relevant, which should be considered as real modalities for effective business development.

Creative organization and work organization in small business is, for example, an effective way of business development (through professional development of employees, developing an effective organizational climate, development of creative intelligence organization, etc.) based on management and paradigm and work organization changing, basic characteristics of the knowledge-based economy.

Obviously, there are no solutions, sustainable development means, generally valid for all business, but every business can

identify the elements necessarily to build development models, theories revealed by the company.

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Offshore Companies-Instrument of International Tax Planning

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Abstract

Offshore business are based on reputation and business, investors and consultants with experience know offshore operators worthy of trust and the scammers who kidding investors or other institutions. For this reason, the offshore operation means the assessment of the experience and letters of recommendation of potential business partners.

Currently the world economy through a period of globalization and the mobility of capital elements.

An offshore company, known as the International Business Company (IBC) is a company incorporated in the jurisdiction of a country or a territory, and which operates outside the jurisdiction in question.

Offshore companies are becoming more popular on the international market to investors from all European countries and the United States, due to the many advantages it offers, beyond the fact that they represent a real opportunity to initiate and develop international trade relations.

Keywords: offshore, business, tax planning
JEL Classification: K34 - Tax Law

1.Introduction

Representing an alternative in avoiding an excessive taxation, offshore companies have seen a remarkable rise.

Stricto sensu, the term "offshore" means the territory, located beyond the shore, offshore, away from the country of origin, in obvious contradiction with the onshore. In economic jargon, the offshore are referred to as economic activities and businesses that operate outside the State in which they are registered.

International tax planning in principle is very simple, the details are the ones that

complicates the problem. The tax authorities have often difficulties in crossing borders, in return, the companies, the rich and their money do it very easily.

Tax planning has two stages:-national tax planning as it relates to the tax legislation in the State of residence of the taxpayer;

-international tax planning which is based essentially on the following two elements:

- the use of tax havens using treaties to avoid double taxation, dangerous for international tax planning is inadequate research leadership, holding insufficient knowledge on the relationship between the various jurisdictions on national and international laws.

What's legal in one area can be considered total illegal in another jurisdiction [1], and there are a lot of traps that you can fall for lack of information.

Offshore business are based on reputation and business, investors and consultants with experience know offshore operators worthy of trust and the scammers who kidding investors or other institutions. For this reason, the offshore operation means the assessment of the experience and letters of recommendation of potential business partners.

Currently the world economy through a period of globalization and the mobility of capital elements.

An offshore company, known as the International Business Company (IBC) is a company incorporated in the jurisdiction of a country or a territory, and which operates outside the jurisdiction in question.

2.Content

Offshore companies are becoming more popular on the international market to investors from all European countries and the United States, due to the many advantages it offers, beyond the fact that they represent a

real opportunity to initiate and develop international trade relations.

Taken from the Common Law, Cyprus was among the countries that have developed legislation on companies (Cap. 113) by special law-International Trust Law (ITL), Law 89 (I) 92.

Taking into account that these companies are located in different countries, the only way through which financial moves can be verified in their entirety is through the collaboration of control bodies in the countries in question, namely the exchange of information, provided in the OECD Model Tax Convention in the framework of article 26 "Exchange of information".

In the OECD Model is approached the problem of companies that, through legal constructions, enjoy tax advantages offered by the internal legislation and modern facilities from taxation provided for by the conventions to avoid double taxation.

Such a case would be that of a person (whether or not a resident of a Contracting State) which acts through a legal entities established in a State in order to obtain the essential benefits of the Convention, which would not otherwise have been available. "All these comments, it is mentioned that:" several solutions were taken into consideration but [...] was not drawn any definitive text were not made any strict recommendations of the circumstances in which it should be applied, nor was a list exhaustive measures to counter the possible".

An increasing number of Member States have implemented the provisions of the conventions (both General and specific) to prevent abuses and to keep the law in their domestic legislation. In view of enhancing States pending legislation actions to eliminate opportunities for tax avoidance, some States trying to limit the ways of use of aggressive tax schemes and illegitimate.

The European Union is trying to facilitate the exchange of information by creating European databases (e.g. FISCALIS programme) and through the formation of committees composed of tax bodies in several countries.

Another tool available to States to counteract the multinational companies abuse is given by the methodology of transfer prices, to which reference is made in the OECD Model Tax Convention (article 9),

which was regulated by the domestic law of the State (Law No. 571/2003 regarding the fiscal code, article 11, paragraph 1. (2) the order of the President of NAFA. 222/2008), companies have to ensure not only the fact that the transfer prices can be justified by the tax authorities, but to demonstrate that they reflect market prices.

"Transfer Pricing", prices for transactions between affiliates, represents one aspect of increasingly important for multinational companies in the establishment of tax planning. This means that these companies have to apply the prices down to a level of market transactions conducted between affiliated persons, respecting what the OECD has defined as an "Arm's Length" ("arm's length" principle, in free translation, or "market price" principle in translation adapted).

On the other hand, the tax authorities have the right not to get "in a transaction which does not have an economic purpose or supervised the form of a transaction to reflect the content of the transaction", in order to determine the amount of a tax. So, if you use certain companies building businesses to choose a more favorable tax regime, the authorities have the right to determine the reality of the economic transactions between them, or to demonstrate that they have been created solely to avoid certain taxes.

Multinational companies have taken advantage of the tax treatment afforded to certain countries for certain categories of income, finding solutions to minimize tax liabilities, and choosing those forms of work organization business optimal.

Tax planning tools have become increasingly more common, giving the possibility to the taxpayer to reduce the legal size of tax liability, without offences.

International tax planning connected with treaties of avoidance of double taxation are extremely important tools for maximizing the profits obtained.[2]

According to The magazine's annual co-authored two volumes Economist, offshore companies are registered in certain countries or jurisdictions that have legislation or tax without taxes or taxes very low as long as company does not carry out activities in the territory of the country where they are registered.

In the British language designates the territory just beyond the shore. In economic jargon, the offshore economic activities are the companies that operates in the national territory of the State in which they are residents.

In other words it is about enterprises that do not carry out commercial activities in the country in which they were registered and which, from the point of view of commercial laws, are considered as foreign firms. An offshore company don't realize revenue in the country in which it was enrolled.

Theoretically, offshore companies can be set up in any country in the world, but it's not everywhere you can get and tax advantages.

There are a large number of objectives: the creation of offshore companies, the main being to reduce the parent company's profit in the areas of taxation. Parent company has a profit, and the tax on profits will decrease considerably. The company's profit-daughter offshore will be higher because the income tax into a tax haven is very small or non-existent.

Smart use of an offshore company can reduce, postpone or completely eliminate some taxes that would otherwise have been payable in respect of his business.

Many of the multinational companies are organized so that they can take advantage of the opportunity to avoid the payment of taxes in various jurisdictions in which they operate.[3]

Implementation of an offshore strategy will face almost always with some anti-avoidance laws which may be in force in the country where the beneficial owner resides or in which it operates. For this reason it is recommended that anyone who takes in consideration a plates, to consult first with a tax advisor in the country of domicile of the client and of the country in which the business operations. In the case of offshore companies, offshore jurisdiction laws will have to be taken into account along with the general laws and regulations in other countries, particularly countries where offshore company will have sales contracts and supplies.

3.Conclusions

Offshore companies can be used within the legal tax planning schemes. Also,

however, like any other tool, they can be used in illegal operations such as dirty money laundering or tax evasion. The legality of certain transactions in the case of offshore companies is defined by the law of the country in which it is registered under the laws of the other member countries of the transaction, as well as by international treaties. Many developed countries apply certain limitations concerning the operations carried out with offshore companies, but not full ban is almost never used. Our careful approach means that we can provide you with the necessary legal orientation before any important transaction to be carried out, thus avoiding any rigging or irregularities.

Many countries apply certain limitations for residents on the use of offshore companies (so-called regulation anti-offshore). The full ban is almost never used. However, there are certain restrictions discriminatory, for example, raising taxes for transactions with offshore companies for residents of the country, as well as the application of additional regulations on the exchange of foreign currency.

Many large companies in Romania are the main shareholders of offshore companies. Transfer of shares in offshore companies Romania has intensified with the growth rates of 10% to 16%. Furthermore, these companies are active on the local stock market and begin to dominate the local businesses.

Currently, there are more than a million offshore companies registered at the international level, countries who practice a more flexible system of fees and provides privacy stakeholders.

In order to support an action to have a genuine supranational impact, European Economic and Social Committee must align the position of the farms of the European Parliament, expressed in its decision of April 2011, in which, inter alia, supports the strengthening of the fight against the lack of transparency of the information relating to transnational financial transactions.[4]

Even some multinationals have come to Romania through the offshore companies, not by the parent company, the advantage being the achievement of profits. For example, the offshore company can buy the parent company supplies at a ridiculous price, and the company concluded contracts for

offshore selling these goods at a higher price. Thus, the parent company will have a smaller profit and, as a result, the tax on profits will fall. In the end, the offshore company will profit. Also, the companies set up in "tax havens" can be transferred to a third country, without prejudice to any law, the profit of the company, in the form of non-taxable dividends. The State can ask information about offshore only if it has evidence of illegal activities. The authorities of each country may make available certain information to the Romanian authorities. In the case in which the Romanian authorities provide evidence about a particular company that conducted criminal activities when the jurisdiction of the authorities concerned, as well as local banks give their consent for the liability of those involved. If the company's activities are lawful activities, do not have to do so.

A new Treaty for the avoidance of double taxation which will facilitate the exchange of information in accordance with OECD standards, was signed on June 15, 2009 by Stephen Timms, Financial Secretary to the Treasury, and W. McKeeva Bush, leader of Government Business of the Cayman Islands. The exchange of information is a vital tool for those Governments who need revenue to essential public services that we depend on all.

According to the study "The price of offshore revisited", we now have over 80 offshore areas throughout the world. Through their global investments are made with a value that ranges between 21 and 32 trillion dollars.[5]

The great challenge of offshore companies is tax avoidance, an amount estimated by experts at four trillion dollars for the period 1970-2010. From this point of view, seems rational the idea of some politicians to tax the companies in offshore areas further. [6]

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Informational Systems Characteristics in the Context of Globalization

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Abstract

Today, more than ever, it is necessary that the company can exploit appropriate information at the right time, so to use it choosing an informational system tailored to its need and its way of organizing which will help it taking decisions.

Globalization, shaping and developing the knowledge company, the spread of Internet, new business models are as many reasons for which information systems in organizations must be seen from another perspective.

Key words: informational systems, TPS, MIS, DSS.

J.E.L. Classification: M41

1. Introduction

Informational systems were different defined in the literature: as realization of some features such communication, exploiting, preparing decisions [2]; as information means [3], as result of some perceptions of reality by company's members [4].

Thus, according to Laudon and Laudon [2], an information system may be defined as *a set of elements that collect, process, store and distribute information to support decisional process and control in an organization.*

Robert Reix [3] believes that *informational system consists in a set of tools and procedures for identification, collection, classification, storage, processing and dissemination of information and aims to provide timely information to all company's members, ensuring decisions making support at various levels.*

James O'Brein [4] identifies a series of informational systems' perceptions by users-managers of these systems:

- service compartment as important as departments of accounting, financial, production, human resource or marketing, which depends on operation and development company;
- an element that influences operational efficiency, productivity and motivation;
- a significant part of company's resources and operating costs;
- participate in the developing of competitive products and services which will ensure a strategically advantage on internal and international markets.

2. From organizational approach to global approach

The purpose of an informational system is to provide information required for timely decision making at any level, but also to provide a better functioning of operational systems[5]. Starting from this point of view, we can have another classification of informational systems, as following:

- informational transaction processing systems (TPS);
- management information systems (MIS);
- decision support systems (DSS);
- executive information systems (EIS).

Transaction processing systems. The role of informational systems in the early 60s was limited to automate routine activities of a company. Over time, have been developed applications in other areas of business: production tracking and staff management. The main characteristic of informational technologies at that time was processing on batches. This meant accumulate trade data in blocks at a certain period and then processing them regularly and update the database.

These operational transaction processing systems of companies are very important in data collection and validation regarding transactions, their processing to obtain reports in order to satisfy different requires, updating company database. At the same time, they are the infrastructure of future levels of informational systems.

Management information systems. A new function is add to informational systems in the late 60s, function that provides the information in making decisions to management, as periodical reports with predefined format. In this way, is realized a better use of data collected in TPS. Usually, these reports have as finality the control. The capacity of informational systems to satisfy the new requires was determining by good IT progresses, with the arrival of minicomputers, management systems of databases, application integrity or more accessible data. But, maybe the most important development was renouncing of batches processing and using on-line processing (OLTP- On Line Transaction Processing), fact that allowed combining distributed processing of TPS and activities centralization specific to MIS.

Decision support systems. Not always the reports provided by MIS are relevant enough for making decision, especially at high hierarchical levels. This is the reason for which were developed decision support systems. DSS expansion was due to the advancement of artificial intelligence, especially expert systems. Generally, in a company are more DSS because the activity of a certain area from informational resources point of view may be different from other activities.

Executive information systems. Starting with 80s, informational systems have a strategically dimension, so often is speaking about strategically information systems. At the same time, there is the necessity of management to get another type of information, others than those directly related to business: information about competition, suppliers and customers, global market. The main function of EIS is to answer the top manager strategically requires, providing fast and easy access to information about critical factors that can ensure the success of the company. Studies about EIS reveal rather an orientation to an individualized and

summarized presentation of information than to alternative decisions or developing forecasts.

From the above, we identify three important functions of informational systems:

- supporting operating activities of the company;
- supporting decision-making;
- ensure obtaining strategic advantages.

3. Globalization influence on information systems

Globalization, electronic trade and development of new technologies have made that the number of companies operating across the national boundaries to growth in a accelerate rhythm. This has resulted in a series of complications regarding planning, developing and exploiting informational systems.

Being under permanently changes to keep pace with modifications that occur all the time in any plan of economic and social activities, informational systems, in the context of globalization, are perhaps more concerned in terms of adaptability to new requirements of this process.

Products, customers, activities, available materials or human resources are the factors which companies depend on, so when we speak about global companies, all these factors are elements that can be influenced by informational systems, as follows [6]:

-products - always will be the same, whether are made inside the parent company or are made by branches from any point of the globe. Information system has the possibility to facilitate the production activity, marketing and quality control, because it is necessary to know in detail the specifics of each geographically region, both in terms of existing resources and especially in terms of customers requirements from that area. Information regarding these aspects can be easily obtained by creating an integrated informational system. Informational system integration is more important because the majority of products are made by assembling components produced in different places, geographically dispersed, this activity being influenced by the advantages from raw materials and materials prices, from workforce and fiscal facilities.

-Customer- to support the commercial activities of a company can intervene in informational system providing services in order to satisfy customers' needs, in a relatively short period of time. Thus, through new information and communication technologies, clients are even able to participate in projecting desirable products, if the producing companies have implemented a system which allows specific e-commerce activities.

-Activities- when we speak about a global company, these activities are often very complex. Many products or processes are assigned to branches that are under the influence of economic, social or politic changes. Taking in consideration this situation, it is easy to understand that in order to successfully cope with all changes that occur in the existence of such a company, one of the elements that ensure adaptation to new conditions is realizing some informational systems with high level of flexibility. By upstream integration of companies (supply contact channels and abandoning producing components of the same company), they can get obvious benefits, such as reach scales economies, specialization, flexibility in adopting production lines for manufacturing the marked required products, reduce through a better market discipline.

-Resources- although are used in common, raw materials, human resources and financial resources, this use requires also a certain distribution between different branches of the global company. Informational system through its applications may keep a strict record of these resources, regarding resources distribution and their size.

-Human component- knowledge and experience of human resources may be easily used in order to support the efforts of a company only if the informational system has the component that allows group working-teleconferences, videoconferences, Internet, Intranet, e-mail.

In order for organizations to may be competitive in the new economy, informational systems managers must take in consideration the main dimensions of these [7]:

a) economic, politic and cultural life that they must reflect on:

- cultural problems refer to language differences, cultural interests, social attitudes and politic philosophies;

- policy framework is different from a country to another, there are states where it is forbidden data transfer across national boundaries or have restrictions regarding the import of hardware and software;

- geographically, even if telecommunications have known a strong development, still feel physical distances (here we take in consideration the time differences);

- there are difficulties in finding or attracting specialists from another countries, due to differences in standard of living and labor costs.

b) building applications in order to ensure coverage of all informational requests: these applications of systems depend largely on the adopted business strategies, on the nature of activities, competitors on the market, available resources, customers and company's product, staff knowledge and experience, the degree of centralization of the system architecture. However there is a series of general applications that can be used by any type of companies, such as:

- group decision support systems;

- financial applications;

- global applications of inventory management;

- applications for regional data processing centers.

c) *integration of systems strategies across strategies of global companies:* the main strategies of a global company that should be set refer to virtual activities, world-wide markets, production transparency, dynamic resources management. Taking in consideration all of these, informational systems' strategies should focus on:

- integral systems and logically consolidated, but physically distributed;

- using common data in all levels of companies' components;

- developing IT applications specialized in fields.

d) *development of a solid informational infrastructure:* it refers to

hardware, software, telecommunications networks and other facilities in processing data. Choosing the technologic platform, it not only a technically issue, the compatibility of different architectures, but a problem with political and cultural implications.

e) improving data management:

- one of the major problems is trans-border data flows, especially economic data flows that cross international boundaries with the help of telecommunication networks. There are many countries which consider that these types as a violation of national sovereignty, arguing that thorough trans-border data flows are not respected the rules applied to import and export of goods and services or rules that have as scope to protect local and regional industries or jobs.

f) providing grater flexibility for adaptation: problems that should be taking in consideration in developing informational system of a global company refer to:

- conflicts that appear between local informational requires and those of global system;
- difficulties in implementing and maintenance of the system because of geographically positions;
- difficulties in establishing some common characteristics of the systems;
- difficulties in achieving a system operating under resources sharing and different operating systems, depending of computing available locally.

Regarding companies' informational systems that operate across national boundaries should be noted that they are different from other distributed systems, are considered informational systems distributed that support achieving some similar economic activities in various activities, specific to different locations of the business across boundaries.

4. Concluzion

Being subject of constant changes to keep pace with modifications occurring all the time at any level of economic and social activities, the information systems, in the

context of globalization, are perhaps the most searched because of the adapting to newest requirements imposed by this process.

The products, the clients, the activities carried out, resources available or human component are important factors for enterprises, and when we speak about global enterprises, all these factors are elements which can be influenced by information systems.

The globalization process can: obtain scale advantages, exploitation of synergistic benefits, enjoyment of geographical advantages. Aspects of globalization can be seen at the product level, sales level on market, competitive level, as well as at the level of consequences which globalization will have on environment.

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International Tax Evasion

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Abstract

In time, the phenomenon of the escapist took a special scale, both at the national and international level and it is seriously affecting the economic development of the States. However, the phenomenon of tax evasion is very hard to control and to quantify due to the imperfection of the tax legislation, the low level of living, low degree of civilization, culture and civic consciousness, aggressive fiscal policies that it promotes State and last but not least, corruption is present in the structures of the organs involved in combating the phenomenon of tax evasion. In the last decade, the actions aimed at elimination of the tax provisions have moved more and more from the national tax system to the outside, outside the field of action of the national tax law, this phenomenon is being encouraged and supported by the trends of globalization and economic, social and even political. In the light of this new context, an important criterion that can be classified as forms of manifestation of tax evasion is the reference, according to which one can identify tax evasion at the national level and tax evasion internationally.

Keywords: tax evasion, tax fraud, international taxation

JEL Classification: K34 - Tax Law

1.Introduction

Flaws and defects of an imperfect or incorrectly treated as legislation, as well as the faulty application of the legislation, represent the imperfections that are the basis of an

excessive taxation in which appears the phenomenon of tax evasion.

When burdens press too hard on the matter of taxation, as it tends to escapist realm to escape.[1]

One of them social and economic phenomenon is particularly important with facing the world States, is tax evasion. Given that halting it is still a challenge, trying to find solutions to limit as much as the unintended consequences of this phenomenon.

Doubting the negative effects they generate the phenomenon of tax evasion are felt directly on the level of income tax revenues, causing major distortions in the functioning of the market mechanism.

In time, the phenomenon of the escapist took a special scale, both at the national and international level and it is seriously affecting the economic development of the States. However, the phenomenon of tax evasion is very hard to control and to quantify due to the imperfection of the tax legislation, the low level of living, low degree of civilization, culture and civic consciousness, aggressive fiscal policies that it promotes State and last but not least, corruption is present in the structures of the organs involved in combating the phenomenon of tax evasion.

In the last decade, actions aimed at elimination of the tax provisions have moved more and more of the national tax system to the outside, outside the field of action of the national tax law, this phenomenon is being encouraged and supported by the trends of globalization and economic, social and even political. In the light of this new context, an important criterion that can be classified as forms of manifestation of tax evasion is the reference, according to which one can identify tax evasion at the national level and tax evasion internationally.

2.Content

International tax evasion is the result of national tax regimes and the onerous regulations of national tax autonomy which often generates a double taxation. International tax evasion is encouraged by the existence of free zones in terms of tax, also known as tax havens, true territorial enclaves that enjoy extraterritoriality and customs coming out under national laws, some of them having the legal status of real state entities. Tax havens are not, in and of itself, nothing illegal, because all the procedures, exemptions are provided for in the law.

The most common forms of manifestation of international tax evasion are abstinence and concealing.

Other methods of implementation of international tax evasion consist of:

- transfer of profits to low-tax States with using the method of handling the transfer prices;

- removal from the country of revenues of companies by paying fictitious services rendered by companies located in tax havens.

The transactions that exceed the boundaries of one State have demonstrated clearly the tendency of capital movements, actions and people around the limits of the taxation what they are hiding feature events tax (taxable events) and makes it more difficult to raise by the competent authorities of the amounts owed to the taxpayers of the State budget.[2]

A well regulated taxation, both in countries with a well-developed economy and less developed countries could provide multiple means to combat the phenomenon of the escapist. This tendency leads to a fight between Financial Authorities and continue the taxpayers, since continuing change and tightening of tax legislation to taxpayers to find legal means of reducing the tax burden by using the escapades, existing law breaches.

At the international level, there is the tendency of an extensive analysis of the imperfections, the forms that we provide tax evasion as well as combat techniques.

Fight in a normative framework against evasion and tax fraud, started at the european level in 1975 when it was debated for the first time in The Council Of Europe, default

Resolution, was adopted the Directive mutual assistance between tax authorities of several countries.

Special attention also given to the phenomenon of the escapist and non-governmental organizations, this being subject to a research conducted by the International Bar Association at the annual congresses in 1980 and 1981.

In general the concepts of tax evasion and tax fraud covers a large area of tax behavior headed to decrease tax pressure. Part of the sector shows no interest for tax authorities, no legislative powers.

One of the accepted definitions in the literature shows tax fraud as violation of direct tax revenues and the negative effect on the income of the State budget, by himself, with no importance as long as the share of either do not produce adverse effects on the functions of the State budget.

Excessive taxation, corroborated with the absence of policies to encourage investment, any State economy generates a culture of bypassing the budgetary responsibilities as a shield in front of a policy and a hostile economic environment.[3]

In recent years, experts have focused increasingly on identifying the characteristics of the fraud and the establishment of differences between national tax systems in its own approach to this issue.

Intent to defraud may refer to bad faith wanting the taxpayer to defraud IRS knowingly. In another situation, a deal that at first glance seems a voluntary tax fraud, if examined carefully look like tax infringement is made against the backdrop of an honest attitudes through a taxpayer's wrong guidance by incompetent people or bad faith.

An observation of tax laws in several countries (Austria, Greece, Norway, France) show that tax fraud does not require in general an intent to work on the part of the taxpayer's tax law.

In any case, the intent to circumvent the law is needed to establish the guilt of a criminal.

Where the intent is required, it is deduced from the evidence or demonstration as a fact and should manifest itself as "hiding" or "hide" (for example, in France).

If the tax debt (debt-budget) is considered as a common denominator that makes it

possible to classify the behavior of tax dodging "tax (tax avoidance) can be defined as a path, a way of removing, reducing or defer tax debt in another way than using the means and tools of tax fraud (tax evasion) and" saving "tax (tax saving), as has been described in the preceding paragraphs.

In some countries the differences between "saving" of taxes and tax evasion is not established. Anyway, it looks like it's from the scientific point of view to make the distinction between the two concepts: as shown, the "saving" of taxes is to reduce those costs by means of tax that the legislature never intended to regulate and criminalize them, while tax evasion is much exploitation of areas that the legislator intended to cover (cover) for some reason or another, failed to do it.

The previous general definition should make possible the observation of the fact how, in different countries, the legislative powers have react to those cases in which the taxpayer, without determining the current situation leads to increasing fiscal debt established by law, obtained by various means the same economic result (or similar) that the law intends to charge. So, it is possible to observe, in different countries, and how far is the tax evasion (tax avoidance) from being a legal phenomenon and distinct, with its own autonomous individuality.

It should be noted that the terminology can cause some errors, and therefore, require ratings. Large differences between fraud (a direct violation of the tax laws) and evasion (a violation of tax law indirect accepted or not) are used everywhere. However, from the point of view of legal terminology, some jurisdictions legal meaning of the term denies 'dodging' based mainly on two factors:

- there where only the direct violation of the law is punishment and violation of premium in indirect tax revenue is entirely legitimate, the term "evasion" is thus without a legal basis;

- in those countries in which the indirect tax violation of the law can be punished, the term "evasion" may be doomed to be without a legal basis, because a "illegal" tax evasion could be legally as "fraud" in the tax code includes all kinds of violation of tax laws.

The tax system of all the countries that have been studied include measures which

are not intended specifically to counter fraud or international tax evasion, but which have a strong impact on international operations. These measures are especially dodging have influence on the internal legal order, taking different forms, know the different administrative procedures or evolutions of Justice, require prior training (Basic).

Prior preparation in a country may coincide, sometimes with the evolution of a process within other jurisdictions. This is due to the fact that both of these trends are based on the same principle.

This overlap of measures based on the same principle, but taking different forms, it makes impossible the use of a classification based on the "nature" (legislative, administrative, judicial) of each individual techniques.

Of general principles relevant to General measures against evasion, interpretation and evaluation of important tax is the key point of each important element of most administrative and judicial attempts to combat decreasing tax burden (tax burden) through different means of fraud (evasion). Two different approaches can be identified, namely: legal theory and economic theory.

These two guidelines respond also to the two ways of interpretation of the relationship between private law (private law) and tax law (tax law).

Legal theory, which is the traditional, is based on the principle of dominant importance of point of law [4], and respect for the forms of law (private law), principle chosen by the taxpayer in order to drive business.

A transaction is regarded in terms of the effects it produces in private law and the fact that these forms are used to obtain a result that is different from the economic intention of the legislator.

Thus, according to this principle, if a taxpayer concludes a contract of lease (lease Marina) on five years in order to avoid capital gains taxation in the case of the average level of sales, letter of the law will be breached, but the attitude, behaviour of the taxpayer will be entirely legitimate and the effects of the transaction will be recognized by the tax authorities.

This approach is clearly a protection for the taxpayer, who conducts business on the basis of expected the judiciary and who

makes an estimate of the costs involved in the transactions that make up his affairs. On the other hand, it is also true that taking a approach classification have their own "insecurity" due to its interpretation of the Byzantine law. Certainly in this "zone" there's also a benefit for the State: when there are doubts on the estimated income, it gives stability to the national budget.

The previous theory is in violation of the economic approach which was developed by the countries that were concerned about a strong justice under economic criteria. If the taxpayer, by exploiting the formalism and leakage, obtain an economic result equivalent to one legislative power intend to tax, the law or the courts should regard them as being taxable (pay TV).

The legal approach is especially characteristic of those countries whose legal system is distinguished by a clear classification, from the point of view of the civil law (civil law), transaction and whose constitutional principles establish a "exclusive competence" severe laws on tax, accompanied by a prohibition on the concepts in this matter.

3.Conclusions

In countries with a system of private law regional (or a proper legal system of a State within the federations), preference for the effects of private law of the transaction cannot be always applied consistently.

Indeed, in some instances the application of the private law, the definitions for the classification of transactions for tax purposes proves to be useless since the different tax treatment of transactions of the same kind, if they are carried out by taxpayers that are resident in different regions (or different States of the same federations).

The Organization for Economic Cooperation and development (OECD) and the Council of Europe have reached an agreement on improving the Treaty on avoidance and tax fraud that all European countries can adopt as part of efforts to combat evasion, the OECD announced.

According to the OECD, it is a protocol that will amend the Convention on Common Administrative Assistance in respect of the fees, which follows the alignment of the international standards for the exchange of

information on tax information exchange. The Protocol could be signed at the ministerial meeting of the OECD in May 27-28.

The Lisbon Treaty could be signed by other countries who want to tax evasion, commitment to the changes envisioned "following to help developing countries to become parties to the Convention and to benefit from improved cooperation more transparency in respect of the tax environment", according to the OECD.[5]

The Protocol aims at the exchange of information, examinations of multilateral simultaneous tax and foreign assistance in respect of the collection.

Economic recession has pulled out moves billions of dollars to tax havens, which are viewed as some opaque networks of capital flows that have allowed their growing speculative investments.

OECD pressure, in many countries, including Switzerland, which has a strong tradition of banking secrecy, you needs to change the way of doing business and to offer more data partners and banks.

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Wireless Network Security

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Abstract

The idea of wireless communication sounds good. The main reasons are increased mobility and cost reduction for infrastructure development. Although in the past, securing a wireless network proved to be a challenge to which companies did not respond yet, today there are many standard protocols that are able to offer improved security. A security policy must establish a compromise between the flexibility level of the IT services and the level of security desired. Within a wireless network environment it is paramount that organizations develop and implement security policies specific to wireless technology in order to ensure optimum security. A well-planned wireless security policy is an important step in a methodical implementation of wireless networking (security mechanisms of the 802.11 standard).

Key words: wireless, AP, security risks, IEEE 802.11 standards

JEL classification: L63, L86

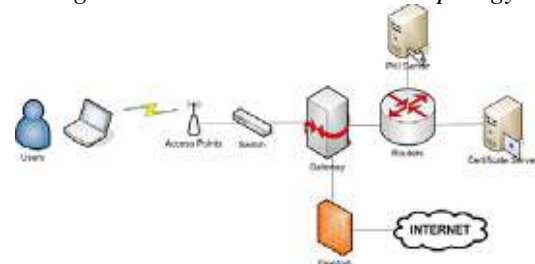
1. Introduction

The increasing need for mobility and connectivity lead to wireless communication, which recorded a great explosion in the last years. The spread of mobile devices (notebooks, PDAs or smart-phones) lead to the development of wireless communication technology, but this was not the main reason. Hardware and software suppliers offer users a variety of solutions in order to share internet access between two or more devices. In order to connect the computers together, traditionally we would need cables [9]. The easiest interconnecting option of all the IT devices, is the use of wireless technology.

The physical base for wireless communication is represented by electromagnetic waves, used in the needed frequencies for data transmission. For data transfer, the main property of the waves is the frequency. The electromagnetic waves through which the wireless signal is sent are the high frequency radio waves and microwaves. The theory behind the wireless technology is that the signal can be transported by the electromagnetic waves, which are then sent towards a receptor. In order to facilitate the communication and understanding between the two devices, a protocol is needed. The connection to the internet comes from the ISP and it is then connected to an Access Point Wireless or a Router which further sends the signal. Access points play the role of a central communication point in a wireless network.

Figure 1 shows a generic wireless topology consisting of a client, an AP, a switch, a gateway, a firewall, a router, and authentication servers (**the gateway** provides an initial line of protection to the internal wired network by separating the wireless network from the wired network; the **servers** are responsible for the authentication process through the utilization of certificates; the **switch** prevents access to the internal wired network by wireless clients until the authentication is successful [5]).

Figure 1. A Generic Wireless Topology



Sursa: http://cissr.nps.edu/downloads/techpubs/nps_cs_05_004.pdf

The problem of the wireless signal is that it can not be limited to a certain radius. If a hacker is able to have signal even from 100 meters away, then he could be able to access the system but this does not mean that a wireless network should not be used. It means that security measures must be put in place.

2. Network Security

Classifying security risks means knowing how to approach three types of attacks: attacks from the Internet (low success rate), attacks initiated from the local network and attacks initiated from the same machine – the latter having a stronger impact than the first ones [9].

Level 1 attacks (physical) represent a very small number from the total number of attacks because it needs access to the transmitting environment. In this category are included the attacks which imply traffic interception inside the network. Protection methods differ according to the transmission environment used. In wireless networks the environment being shared and easily accessible the protection method used is traffic encryption [9].

Level 2 attacks (data bond) need access to the local network. The list of these attacks include MAC attack, STP attack, VLAN modification and ARP poisoning which is hard to detect and easy to use in local networks [9].

Level 3 attacks (network) are most often initiated from the internet. From the multitude of level 3 attacks, the most common are based on flooding, DoS (Denial of Service) and DDoS (Distributed DoS). There are three ways through which a DoS attack can be initiated: exterior attacks sent from the internet, attacks initiated from the local network and attacks generated from the same machine. There are three ways through which a DoS attack can be initiated: exterior attacks sent from the internet, attacks initiated from the local network and attacks generated from the same machine [9].

Level 7 attacks (application) generally exploit vulnerabilities of the web applications. Level 7 attacks can also target technologies used for web applications, a fair amount of such attacks targeting data bases. One of the most used such attack is SQL

code insertion (SQL Injection). This attack relies on the direct interrogation of the data base [9].

WEB attacks. Because of the high volumes of online transactions, most of the attacks in the last period are concentrated on the services offered on the internet. The ports associated to them were supposed to be open all the time and the protocols used at first were not made for virtual shops or electronic payments, therefore security measures were not taken into account. There have been made many improvements in order to allow web applications to accomplish actual objectives such as communication encryption in an SSL channel (HTTPS), maintaining a session between the client and the server using cookies, animating page content with the use of XHTML, CSS, JavaScript or Flash, asynchronous communication using AJAX – leading the user to a Web 2.0 experience, patched when it comes to security. Web attacks are spread into two categories: ***attack against the platform:*** operating system, services, communications and ***attacks against the application,*** which targets to compromise the system or the user.

a. Attacks against the platform are based upon exploiting vulnerabilities in the operating system, exposed services or used protocols. These attacks target access to private data or service incapacitation. These attacks verify open ports in the firewall, active services versions, then search for known vulnerabilities, that are then used in order to gain access to the systems [9].

b. Attacks against Web application are based upon the programming mode, bugs and security breaches of the programming code or programmer's mistakes. Attacks against Web applications have two targets: compromising the system by acquiring unauthorized access on one of the application or data base servers and compromising the client by acquiring confidential information, session stealing, or code execution on the target machine. Examples: ***cross-Site Scripting (XSS)*** most frequent attack, directed towards client compromise; ***server injections*** represent a maximum impact attack which target to compromise servers inside an on-line system, malicious code execution directly in the web server by inserting SQL code (SQL Injection); ***Insecure Object Reference, or the Directory***

Traversal type of attack which is specific to web applications and it is based upon referencing to a resource based upon information which can be manipulated by the attacker; **Information Leakage / Error Handling** is a vulnerability found in the case of web applications due to server configuration errors or programming errors which can divulge too much information about the infrastructure [9].

The first step in any security solution is represented by establishing clear **security policies**. Such a security policy must take into account the following: different security area separation; defining each user's rights; defining services which need to be offered to every component of the network

We present three IEEE 802.11 standards [6] to be considered when selecting wireless broadcast devices: IEEE 802.11b, IEEE 802.11a, and IEEE 802.11g. Table 1 briefly outlines the IEEE 802.11 b/a/g maximum throughput and number of channels available from each standard to assist in the selection of the best IEEE 802.11 standard for the design [2].

Table 1. IEEE 802.11 Standard Comparisons

IEEE Standard	Frequency	Maximum Throughput
802.11b	2.4GHz	11Mbps
802.11a	5GHz	54Mbps
802.11g	2.4GHz	54Mbps

Sursa: Cooklev, T., 2004, Wireless Communication Standards, Standards Information Network IEEE Press.

Figure 2. IEEE 802.1X Technology



Sursa: http://www.cisco.com/warp/public/cc/pd/iosw/prod/it/80211_da.jpg

802.1X [3] uses the Extensible Authentication Protocol (EAP) and a RADIUS Server for network access control, see Figure 2 IEEE 802.1X Technology. EAP-TLS is selected for use as it offers a robust solution for security. In order to use 802.1X and EAP-TLS, the following components are required: Client wireless cards compatible

with 802.1X (for authentication); Client access software capable of EAP-TLS (for encryption); Wireless AP compatible with 802.1X and EAP-TLS (for authentication and encryption); RADIUS compatible with EAP-TLS (for encryption); Public key Infrastructure (PKI) (for authentication and encryption). For identification, the users must obtain a private key and a public key digital certificate that has been securely distributed to the LDAP/RADIUS server [2].

3. Methods which assure the safety of a wireless network

In the next part we will be covering the methods which are recommended to be used in order to maintain the security of a wireless network.

Modifying the wireless network's ID for the devices equipped with an SSID (service set ID) or ESSID (external service set ID). It is easy for a hacker to find out the standard identifier for each hardware producer, so it must be modified. Use something unique, not your name or something easy to guess [8].

Deactivating the ID broadcast. Broadcasting a connection to the internet is like a written invitation for hackers to access. It must not be broadcast. The user's manual must be read in order to find out how to deactivate the ID broadcasting.

Activate encryption. WEP (the equivalent of wired network security) and WPA (Wireless protected access) can encrypt data in a way which only the receiver is supposed to be able to access. WEP has many security breaches and is easy to compromise. 128-bit encryption does not have a great impact on the performance of the system but it raises the security level. A 40-bit or a 64-bit encryption on some devices is enough. For all security measures, there are countermeasures. There are ways to bypass the protection system, but using an encryption method is a step in the increase of the security level of the network. If possible, it is recommended to use WPA encryption. WPA encryption solves many problems that the WEP has but it still can be brought under attack [7].

Restricting device access at a MAC address level. Most of the access points (AP) and routers have a characteristic named MAC address filtering. This option is not usually

activated by the producer because little effort is required in order to configure it properly. Without a MAC filter, any wireless client can connect or authenticate, knowing the name of the network (SSID) and probably a few of the security parameters, such as the network's encryption key. Usually the more checks there are before connecting, the safer the network is and the probability that it will be accessed without consent drops.

Changing the default passwords. This is a good idea for all software and hardware devices available. Default passwords are easy to guess because many users do not bother to change them, and these combinations are the first ones to be tried by the hackers. The default password should be changed with a new one, which is harder to guess [7].

4. Threats and risks

The reduced costs of implementing a wireless network make this type of networking to be very attractive. Also, the availability of a wide range of cheap devices offer the attackers the needed instruments for an attack against the network.

"Parking lot" attacks. The access points emit radio signals in a circular pattern and most of the times, the waves reach beyond the physical border of the area they are supposed to cover. The signal can be intercepted from outside the building, or even from different floors of the building from which they are transmitted. As a result, attackers can use a "parking lot" attack strategy, where they literally sit in the parking lot of the organization or in close proximity and try to access different devices which are connected to the wireless network. If a network is compromised, the attacker has reached a high level of penetration of the network. He now has the same level of access just like a trusted employee or any other user which was granted access to. An attacker can also "trick" genuine wireless clients into connecting to his network by creating an unauthorized access point with a stronger signal close to the wireless clients. The purpose is that of capturing passwords or other sensitive data when they try to connect to these fake servers.

Shared authentication key weakness. This can be easily exploited through a passive interception attack of the

transmission between the access point and its client. Such an attack is possible because the attacker can capture both the client's "challenge" which is not encrypted and the encrypted response of the access point. The WEP encryption method uses as an encryption algorithm the flux cipher RC4. A flux cipher works by generating a sequence of random bits based on the password and an initialization vector. The sequence of bits is then applied to the transmission in order to produce the coded text. A very important trait of a flux cipher is that if both the text and the encrypted text is known, then the sequence of bits can be found out very easily and then can be used by the attacker to produce a valid authentication response for the access point. As a result, the attacker can connect to the access point.

Attack against TKIP protocol (Temporary Key Integrity Protocol). The TKIP attack makes use of a similar mechanism of the WEP attack which tries to decrypt byte by byte by sending the same packet over and over and observing the response received by the access point. Using this mechanism, the attacker can decrypt small data packets such as ARP packets in a small period of time. If the QoS service [1] is activated, the attacker can inject up to 15 additional packets for every decoded ARP packet. Although this kind of attack is not intended to recover the access key and it does not lead to it being compromised, it represents a serious attack and represents a risk for all TKIP implementations which use both the WEP and WPA2 standards [10].

5. Conclusion

Like most of the new things, wireless networks offer both opportunities and risks. Wi-fi technology can represent a big addition for an organization's networking capacity and it can increase productivity and reduce IT costs. In order to minimize risks, IT administrators can use a series of security measures and policies. This allows entrepreneurs to implement wireless networks in order to make use of the benefits of this more and more viable technology.

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Modeling Regional Labour Supply in Romania

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Abstract

It is well known that the labour force is a very important factor of production which influences the economic growth.

The aim of this study is to develop an econometric model for describing the labour force supply. We analyze the main indicators of labour supply in order to identify the factors that influence the employment level on the labour market, at regional level.

The data is taken from Statistical yearbooks and the databases of the National Institute of Statistics. To achieve this analysis we will use E-Views Statistical Software, version 7.1.

Key words: labour market, labour supply, econometric model

J.E.L. Classification: C2, J2

1. Introduction

In the context of the economic transition process, the labour market in Romania has undergone significant changes, especially, within the structure of the main indicators of labour. This process has been characterized by the reduction of the active population and, implicitly of the employed population.

Moreover, an important issue was the inappropriate use of the human resources, taking into account the increasing unemployment rates, especially among young people and long term unemployment.

The study of these processes on the labour market and human resources analysis is a major tool in developing programs policies and economic development strategies, employment and social protection, on both national and regional level.

In order to better understand and explain the causalities occurring in the processes and phenomena within the labour market, a series

of models have been developed to describe the relations existing between its components.

Modeling labour market is in a continuous evolution, by both the occurrence of new models and modifying and improving the existing ones. Generally, these models aim, besides highlighting the existing relations between phenomena occurring in the labour market, to outline some future developments and to anticipate the effects of certain decisions, in order to choose the most efficient economic policies.

This study carries out an analysis of the main indicators which influence the labour supply described by labour force participation rate, at regional level, in Romania between 1995 and 2011. The linkage between the labour force participation rate and the other indicators is shown through a regression model.

First of all we present a brief literature review, focusing on the main indicators which were taken into consideration regarding modeling regional labour supply. Then, after the data and methodology are described, the empirical study is made for one of the eight Romanian regions, according to NUTS II: Bucharest-Ilfov, including the capital of the country, Bucharest. The results are pointed out and interpreted, and the last section presents the conclusions of the study.

2. Literature review

In the last decades, many studies have been developed concerning modeling the labour market at a national level and especially at a regional level.

According to the American economists McConnell and Brue, the labour supply can be defined, at the same time, as: the population able to work and receiving remuneration; number of hours they want to work; the working effort.

The process of modeling labour supply involves an analysis of economic and social indicators which characterizes the labour market in terms of labour resources.

The studies carried out up to now show that the most important indicators used in the analysis and modeling labour market are: the employment rate, the unemployment rate, the labour force participation rate, the number of hours worked, the GDP per capita, the salary earnings, the labour income and the financial obligations of both employees and employers.

Most studies are focused on the estimation and the simulation of labour supply in a static framework and only a few are focused on the dynamics of labour supply (Blundel and MaCurdy, 1999).

In other studies, the analysis of labour supply is carried out taking into account the method wages are determined. Layard and Nickel (1997), Bean (1994), Scarpetta (1996) consider that the labour market is not perfectly competitive as long as wages are determined by a bargaining process between representatives of employees and employers.

Moreover, there is a connection between the labour supply and the unemployment rate, which involves an analysis on the equilibrium unemployment rate (Layard, Nickell and Jackman, 1991).

In Romania, three important variables have been selected in modeling labour market (Dobrescu, 2005b, 2006): the labour force participation rate, the unemployment rate and the labour income, per employee.

In this paper we analyze the main determinant of labour supply: labour force participation rate.

3. Data and methodology

In order to estimate a model for labour supply we will use the following indicators: labour force participation rate, average net nominal monthly salary earnings, annual expenditures to unemployed social protection, unemployment rate and GDP per capita.

The labour force participation rate (as activity rate) is defined as the ratio between the labour force and the working age population.

For all these indicators we determined growth rates indices:

$$unem = unempl_rate / unempl_rate(-1)$$

$$indemn = indemn / indemn(-1)$$

$$activ_rate = activity_r / activity_r(-1)$$

$$sal_i = s / s(-1)$$

$$salary = sal_i / cpi$$

- where s is salary earning for year t , $s(-1)$ is salary earning for year $t-1$, and cpi represents *consumer price index*. The variable sal is defined as ratio between the index of the salary growth rate (sal_i) and the consumer price index (cpi).

The statistical method used for analyzing the data and developing the econometric model is multiple linear regression.

We wish to model the dependent variable *activity rate* (ACTIV_RATE), as a function of the explanatory variables: *the logarithm of growth rate of salary* - LOG(SAL), *the logarithm of growth rate of unemployment rate* - LOG(UN), expenditures to unemployed social protection (INDEM) and the growth rate of GDP (as ratio between GDP Deflator and CPI).

The econometric equation estimated for activity rate is of the form:

$$ACTIV_RATE = C(1) + C(2)*LOG(SAL) + C(3)*LOG(UN) + C(4)*INDEM + C(5)*GDP, \text{ where}$$

-C(1) is the constant;

-C(i) with $i=1,5$, are the coefficients of the regression equation.

In order to estimate the regression coefficients we used the ordinary least squares (OLS) method. The stationarity of the series data was tested using the Augmented Dickey-Fuller (ADF) Unit Root Test and the Phillips-Perron Unit Root Test tests.

The main sources of data are *Statistical yearbooks* and the *databases of the National Institute of Statistics*. The data represents values of the indicators registered in Bucharest-Ilfov region from Romania, between 1995 and 2011.

The data was processed using the statistical software *E-Views*, version 7.1.

4. Empirical results

By applying the default procedure (OLS) for estimating the parameters of equation, we obtain the estimations of the regression coefficients, standard error, the values of the

statistics t-Student and the probabilities associated with these in the Tables 1a. and 1b.

Table 1a. Regression results

Variab.	Coeff.	Std. Error	t-Stat.	Prob.
C	0.902	0.114	7.893	0.0000
LOG(SAL)	-0.255	0.051	-4.998	0.0005
LOG(UN)	-0.223	0.040	-5.526	0.0003
INDEM	-0.115	0.032	-3.515	0.0056
GDP	0.207	0.101	2.049	0.0675

Source: Done by the author in the E-Views

We use the first or second difference to make all the series stationary.

The estimated equation is of the form:

$$\text{ACTIV_RATE} = 0.902 - 0.255 \cdot \log(\text{SAL}) - 0.233 \cdot \log(\text{UN}) - 0.115 \cdot \text{INDEM} + 0.207 \cdot \text{GDP} \quad (1)$$

We are performing the test at the 10% significance level, a p-value lower than 0.1 is taken as evidence to reject the null hypothesis of a zero coefficient.

According to the t-statistic, all parameters of the estimated equation are statistically significant, for a risk of 0.1 (all the significance levels are lower than 0.1).

Table 1b. Regression results

R-squared	0.898187
Adjusted R-squared	0.857461
S.E. of regression	0.027002
Sum squared resid	0.007291
Log likelihood	35.93460
F-statistic	22.05475
Prob(F-statistic)	0.000060
Mean dependent var	1.015082
S.D. dependent var	0.071520
Akaike info criterion	-4.124613
Schwarz criterion	-3.888597
Hannan-Quinn criter.	-4.127128
Durbin-Watson stat	2.272035

Source: Done by the author in the E-Views

For testing serial correlation we have used the classic “Durbin-Watson” statistic test. In this case Durbin-Watson (Table 1b.) is close to 2.0 (2.272035) and is consistent with no serial correlation.

In this case, R-squared = 0.898, so around 90% of the variation in the activity rate can be predicted using the model (the model has a highly comprehensive power).

The significance of the model is suggested by the F-statistic which is also high (20.05), with the Prob.(F-statistic)=0.00006.

Equation (1) represents the relation between the dependent variable ACTIV_RATE and all the other explanatory variables.

Also, as it can be observed in Table 1a. Regression results, that ACTIV_RATE is directly related to GDP (Coeff. > 0) and indirectly related to all other variable, which have negative coefficients.

For example we may conclude that, for this model, a 1% increase of the GDP is associated with an average increase of 20.7% of the dependent variable ACTIV_RATE, while holding all other predictors constant.

5. Conclusions

The results of this study show that all predictors chosen for the model estimation explain very well the activity rate as major indicator for labour supply.

As we expected, we obtain that GDP (as ratio between GDP Deflator and *consumer price index*) is directly related to the *activity rate*. Also the predictors: *salary earnings*, *expenditures to unemployed social protection* and *unemployment rate* are indirectly related to *activity rate*.

This model can be useful for a better understanding of the relationships existing in labour market between labour supply and all factors which influence it.

The results may contribute in constructing forecasts regarding future developments in labour supply and provide a crucial input for decision-makers as well as for people deciding on a future career.

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The Evolution of Car Sales in S.C. Next Automobile S.A. During the Crisis

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Abstract

The automotive industry had to withstand the effects of the economic crisis, a fact underlined by the automobile production which had a volume decrease between 2008 and 2009. The same situation occurred on the car market in Romania, with the difference that the decline began in 2009 and it has continued up to now. Regarding the car sales, the Toyota brand was negatively affected by the crisis and the number of cars sold decreased between 2009 and 2010. The same situation is specific for S.C. Next Automobile S.A., a company that provides only Toyota and Lexus cars on the car market.

Key words: crisis, automobile, automotive industry, car market

J.E.L Code: D24, E20

1. Introduction

The crisis started in the U.S.A. has spread its effects almost worldwide, influencing a wide range of areas. In 2008 and 2009, the automotive industry produced less than in the previous years, but in 2010 and 2011 there has been a revival worldwide. The significant decrease was recorded in 2009, when production fell by 12.4%, but this decrease was compensated by an increase of 25.9% in 2010.

The figures recorded worldwide were different from what was recorded in Romania. The automotive manufacturing

companies operating in Romania have achieved positive values in the first four years of the analysis, recording a decrease of 4.5% only in 2011.

Table 1. Worldwide automobile production

	Japan	Romania	Worldwide (%)
2007	1	13,2	5,8
2008	-0,2	1,5	-3,7
2009	-31,5	20,9	-12,4
2010	21,4	18,4	25,9
2011	-12,8	-4,5	3,1

Source: www.oica.net

If 2009 was a difficult year worldwide, not the same thing happened in our country since it was the year when the automotive industry production increased by 20.9%. the automotive industry in Romania overcame the economic crisis without major problems because: it usually addresses the middle class by offering products at lower prices as compared to other competitors; it has diversified and improved the offer; the economic crisis has reduced the population's income and thus it has indirectly reduced the possibility of purchasing a more expensive car; the "Ramshackle Car Scrappage Programme" in our country and the other similar ones in the EU countries have created the chance to purchase a car, etc.

Japan had to face a series of events, more or less anticipated, some natural, some economic, so that the values recorded are negative in three years and positive only in

two years. However, 2010 is characterised by a strong recovery, reaching an increase of 21.4%.

There are differences between Romania and Japan in terms of automotive industry, both concerning the production volume and the number of employees. In Japan there are 725,000 employees working in this industry, and in our country we have 59,000 employees.

The presentation of the figures related to Japan's automotive production is relevant to this study because the following case study refers to the sale of Japanese cars by a Romanian company.

Across Europe, Toyota Motor Europe coordinates the sales and marketing activities for Toyota and Lexus vehicles, spare parts and accessories, but also Toyota's production in Europe. The number of direct and indirect employees that Toyota has in Europe totals approximately 94,000 people, but the investment from 1990 to date is 7 billion euros. Toyota's activity in Europe is done through a network of 30 local marketing and sales companies in 56 states, totalling 3,000 sales centres and 9 production canterers.[7]

2. The activity of S.C. Next Automobile in the context of the economic crisis

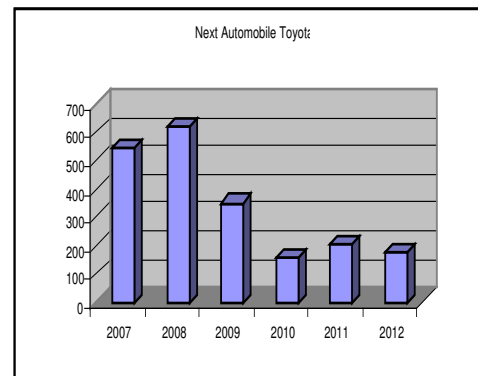
S.C. Next Automobile S.A. is a company that operates in Pitești, Argeș County. It should be mentioned that country-wide Toyota Romania is the importer of cars with this brand. Toyota Romania opened in January 2006 in Pitești the first 3S centre (showroom, service and spare parts), spacious and modern, which allows prospective customers to know the Toyota and Lexus models.[5]

Thus, S.C. Next Automobile S.A. is a young company, only seven years old on the automotive market in Argeș County. We can determine the impact of the crisis on the company's activity, because we can compare the values recorded in the sales, both before and after the crisis in Romania.

We have presented the dynamics of the sales during 2007 – 2012 in order to analyse the effects of the crisis on the company, mentioning that we took into consideration the first 9 months of last year. The evolution of car sales within S.C. Next Automobile Toyota S.A. is shown in Chart no. 1.

Chart 1. The evolution of car sales within Next Automobile

(per piece)

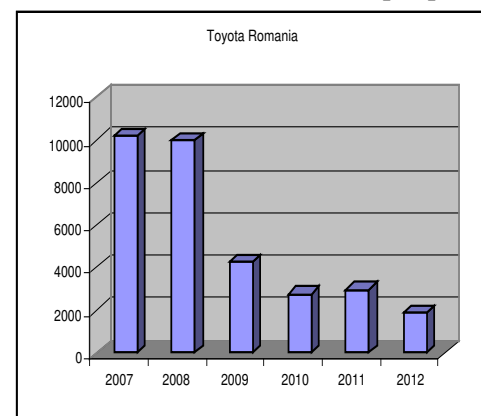


Source: www.toyotapitesti.ro

The company was in full swing when the economic crisis was felt in our country. 2007 and 2008 brought a significant increase in the number of cars sold by S.C. Next Automobile S.A. just one year after the break into the car market. In 2009 the sales decreased to almost half as compared to the previous year and the fall continued the same way in 2010. 2011 was the year when the sales began to grow and the company's forecast for this year is that they will achieve the same number of cars sold in 2011.

Chart 2. The evolution of car sales within Next Automobile

(per piece)



Source: Auto Statistical Bulletin, www.apia.ro

We present the evolution of car sales by the importing firm Toyota Romania for the same period. Chart no. 2 shows that the importing company faced the same situation as well, thus we can say that the downward trend in sales was general and not induced only by the activities carried out within the

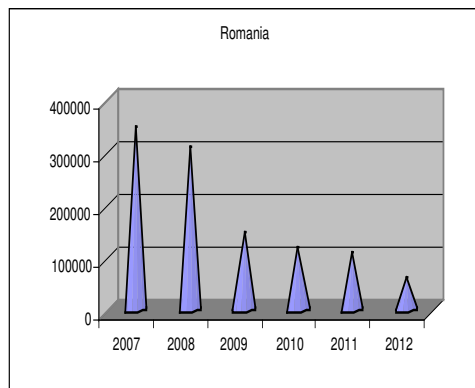
company which is the subject of our case study.

If in 2008 Toyota Romania recorded a decrease in the number of cars sold, not the same thing happened with S.C. Next Automobile S.A., which recorded an increase in the sales volume.

The presentation of the car sales evolution in the country, regardless of brand, is relevant for analysing the dynamics of sales for the Toyota brand versus the entire car market.

In presenting the car market we took into consideration only light vehicles because they are the object of the firm Next Automobile.

Chart 3. The evolution of light vehicles sales in Romania
(per piece)



Source: Auto Statistical Bulletin, www.apia.ro

The trend of light vehicle sales in Romania was decreasing even from the first year of our analysis. Chart no. 3 shows that 2009 was the year when the crisis was felt in our country, because the decrease in sales was significant. The downward trend is maintained on the car market in Romania and the figures of the first 9 months of this year do not encourage the hope of reaching the same value as in 2011.

Clearly, the crisis was felt within the S.C. Next Automobile S.A. strongly enough. The best example to illustrate the effect of the crisis (except the information previously provided, concerning the volume of car sales) is the number of cars used for test drives. Before the crisis in order to sell a car the company had 12 cars available for test drives, cars that automatically involved some costs. The crisis led to the decrease of the costs and one of the steps was to reduce the number of

cars used for test drives, so 6 cars were used and thus the fixed costs were reduced.

The decrease in the number of cars sold and the spending cuts have also affected the staff so it was decided to reduce the number of employees. S.C. Next Automobile S.A. is not one of the companies with a large number of employees, but the newly created situation on the market determined the company to dismiss 2 of the 4 sellers. In the mechanical and tinsmithing-painting workshops no changes occurred in the number of employees as they carry out repairs for the whole range of Toyota, Lexus and also for other car brands (in this case the repairs concern only the bodywork) and it was noticed that the income recorded in the workshops was not reduced in the same proportion as the one from the car sales.

S.C. Next Automobile S.A. managed to maintain the number of entries in the service, quite high to cover the expenses throughout the crisis. This was achieved by the continuous monitoring of the customers. Clearly, the firm's customers came back in the workshops during the warranty period offered for the cars purchased.

The company understood that reducing the sales revenue must be offset by the existing workshops within the centre. To increase the sales and to make customers loyal there are special offers, for cars and spare parts, depending on the season. These are posted both on the Company's website and on the importer's website, which gives transparency in the relationship with the clients.

The measures taken by S.C. Next Automobile S.A. to overcome the crisis are complemented by measures taken by the Japanese concerning the manufacturing company.

The analysis of the international trade, the emergence of the economic crisis, the record growth of the price per barrel of crude oil, stressing the importance of protecting the natural environment and many other aspects have led to a greater importance offered to hybrid cars.[1]

For Toyota Motor Corp. the technological strategy was focused on the hybrid models, out of the desire to become competitive on a market where the rival companies have opted for cars with low consumption. To this end, Toyota has relied on the Toyota Prius model,

which was imposed as the best hybrid in the world. Currently, the hybrid engine has also been extended to the class B and C models (Yaris, Auris), thereby ensuring easier access to the latest technology in the automotive field.

Toyota Motor Corp. is motivated by the Toyota Prius sales achieved worldwide, so that it planned to introduce 14 new hybrid cars until 2015, even though hybrid cars represent only 10% of Toyota's total sales worldwide.

In 2010, Toyota sold 808,311 Toyota and Lexus vehicles on the European market, 71,891 of which were hybrid vehicles.

The company does not obviously focus only on hybrid cars since in the future plans it aims to achieve the following objectives:

- a 2,5-liter direct – injection, Atkinson cycle engine, to be deployed first in hybrids in 2013;
- a 2-liter downsized turbocharged engine in 2014;
- a shift to CVTs in small to mid-sized vehicles;
- more six and eight speed automatic transmissions for larger cars.[8]

Toyota Motor Corp. aims to provide consumers better and cheaper products in this period of significant changes in the hope to become competitive on the automotive market.

3. Conclusions

The case study showed that the company presented was affected by the economic crisis, but to a lesser extent as compared to what happened in the automotive market in Romania. This overall good development was determined by the solutions applied by S.C. Next Automobile S.A. and by the quality of the cars offered for sale.

The proof that this situation is not unique is given by the Federal Chamber of Automotive Industries which confirmed that in Australia Toyota entered the 10th consecutive year for the best-selling brand of cars. In September Toyota managed to sell 17,300 cars in Australia, leading to a total of 159,111 sold cars for 2012 (the first 9 months), with an increase of 21.1% as compared to the first nine months of 2011.[9]

In the first quarter of 2012 Toyota also returned to the first place among the global

carmakers, having overcome the problems caused by the earthquake last year.

BrandZ Company has made "Top 100 most valuable brands in the world" and in 2011 Toyota came back on the first position after being deposed in 2010 (in this year Toyota ranked second). Toyota ranked first in the top made by BrandZ Company from 2006 to 2009. The first position was determined by the manner in which they managed the service recalls crisis of 2011 in North America and the innovative full hybrid system, used on a large number of Toyota and Lexus vehicles. The full hybrid system is a market leader recording outstanding performance in consumer and environmental protection.[3]

In 2011, Toyota's brand value increased by 11% as compared to the previous year being estimated at 17 billion euros.

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Measures Adopted by S.C. Ambassador Tours & Travels S.R.L. During the Economic Crisis

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Abstract

The effects of the economic crisis appeared in the services sector registering a wide spread. The services sector has been entirely affected by the crisis, but especially the field of tourism had a significant decline in 2008 and 2009. The following period offered a surprise regarding the return of tourism to the values recorded before the onset of the crisis. SC Ambassador Tours & Travels SRL managed to obtain surprising results due to the adopted decisions so that we can characterize it by the triad: availability - adaptability - dynamism.

Key-words: tourism, crisis travel agency
J.E.L. Code: D20, E00, E20

1. Introduction

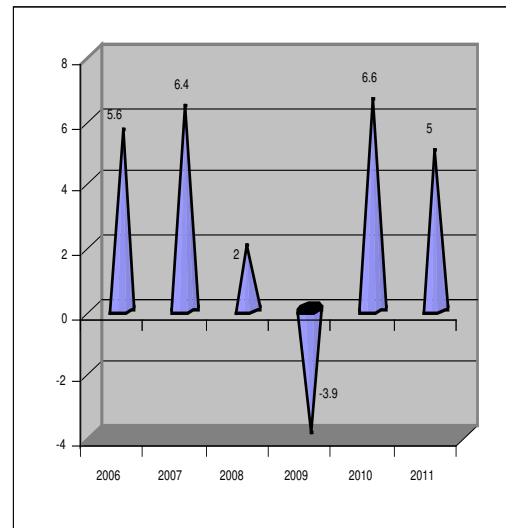
Tourism, like the other sectors, has been influenced by what happened in the world economy. With the help of the relative indicators, the evolution of the world tourism is shown in Chart 1. The emergence of the economic crisis has reduced the number of tourists starting with 2008. The year 2009 represented the strongest decline in the world tourism, achieving a level of - 4.3% compared to the previous year.[2]

Although 2009 was the year in which tourism has suffered the strongest reduction, the regional tourism registered some growth namely in Africa, where it obtained a value of 5% compared with 2008. The other

regions were marked by reductions in the number of tourists compared to 2008, as follows:

- Europe (- 6%),
- Asia and Pacific (- 2%),
- America (- 5%),
- Middle East (- 6%).

Chart 1. Evolution of world tourism



Source: <http://mkt.unwto.org/en/barometer>
UNWTO World Tourism Barometer

In 2010, global tourism began to recover increasing by 6.6%. This value registered in 2010 came as a confirmation of the upward trend in international tourism in the last quarter of 2009. We should note that the positive developments in 2010 interrupted a period of 14 consecutive months of decline.

The year 2011 registered an increase of 5% compared with 2010.

The values registered at global level in the tourism sector demonstrate that this crisis was strongly influenced by only in the first two years. 2010 and 2011 represent the years when tourism has returned to the values before the crisis.

The first eight months of 2012 brought positive percentage for the world regions:

- Europe (3%)
- Asia and Pacific (7%)
- America (4%)
- Africa (6%).

In Europe the values are different according to regions: Central & Eastern Europe (+9%), Western Europe (+3%), Southern & Mediterranean Europe (+1%), Northern Europe (+0.2%).[6]

There is an increase of 5% for the tourism in the developing countries, compared with an increase of 4% in the developed countries.

The end of 2012 is expected to increase by 3% - 4% compared to the previous year, given that there was already an increase of 4% in the first 8 months of the year compared with the same period of 2011. The forecasts for next year show an increase between 2% and 4%. [6]

2. S.C. Ambassador Tours & Travels S.R.L. during the crisis

S.C. Ambassador Tours & Travels S.R.L. is a company founded in September 2007. The company operates in Pitesti, the Argeş County.

Ambassador Tours & Travels offers its customers a range of packages in various countries, cruise services, rent-a-car (limousine), school camps in the country and abroad, airline tickets and accommodation.

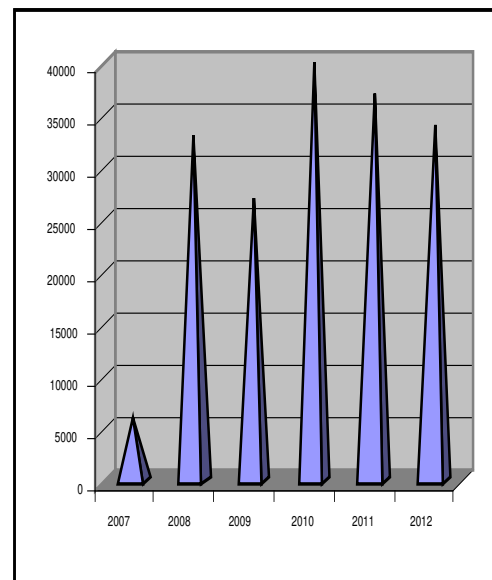
To analyze the evolution of the travel agency, we present the evolution of its turnover recorded by the company in the period 2007 - 2012 (9 months) in Chart 2.

The turnover went down both in 2009 and in 2011 compared to the previous years. The decrease in 2009 was in accordance with what happened in the world, this year also being the first when Romania experienced the strong effects of the crisis.

With regard to this company, it is interesting to analyze the way in which it managed to have such achievements taking

into account that the competition is fierce in this sector in Piteşti. The explanation was given by the person who runs the company by presenting the company measures to mitigate all possible negative effects of the crisis.

*Chart 2. The turnover of S.C. Ambassador Tours & Travels S.R.L.
(in euro)*



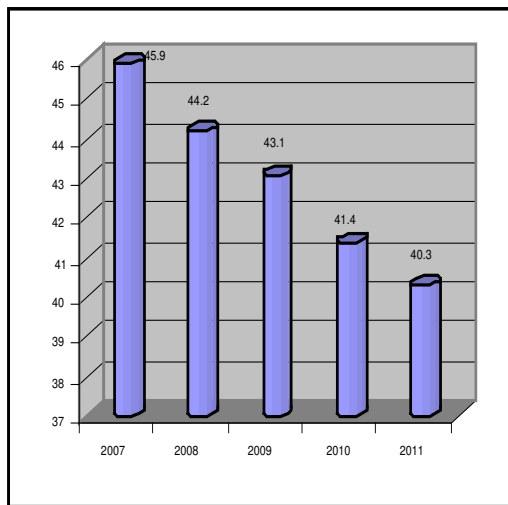
Source: <http://www.ambassador-travel.ro>

The evolution of the crisis across the globe has drawn the attention of all types of businesses. Consequently, analyzing the situation worldwide and in Romania, the company adopted various measures meant to lead to a better development of the company, but mostly to successfully overcome the crisis period.

The first step was the orientation of the tourism services to the people with high incomes because, obviously, they were the ones who could afford a vacation, given that a significant segment of the population had no necessary income to meet such needs. The measure is supported by statistics which show that in our country the people at risk of poverty or social exclusion is almost half of the population.

The proportion of persons at risk of poverty is determined compared to the entire population of Romania. In the last five years the proportion of this category of persons has decreased, but almost insignificantly.

Chart 3. The proportion of persons at risk of poverty or social exclusion in Romania



Source: http://epp.eurostat.ec.europa.eu/portal/page/portal/europe_2020_indicators/headline_indicators

Another adopted measure refers to offering tourism packages to the companies. This deal has been developed over time so that, this year, the revenue from travel packages from companies represents 60% of the monthly turnover. S.C. Ambassador Tours & Travels S.R.L. considers that they have managed to get their place on the market since the company was ready to provide the desired services at any time.

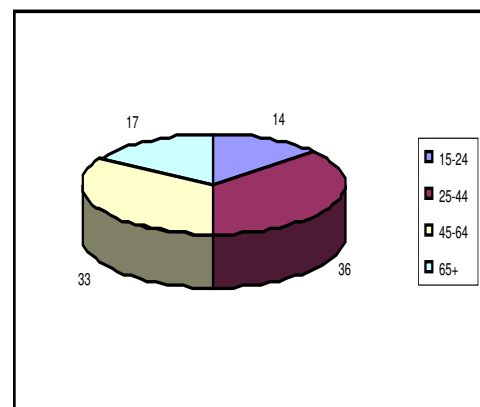
To become visible, the company has a permanently updated site and offers a database that provides an option to automatically register the existing deals.

The opportunity to have access to the company deals with the help of the Internet is a benefit to potential customers, especially in the current period when the new economy requires economic activities carried out at high speed. The usage of the Internet was also determined by the fact that the number of customers coming and soliciting offers directly from the working point of the travel agency was relatively low.

The decision of the company to provide new products to its customers caused its differentiation in the landscape of the travel agencies in Pitesti. This decision refers to the fact that the travel agency is a tour operator for India, South East Asia and America. At the same time, it offers tour packages in Asia (Nepal, Sri Lanka etc.) and in Scandinavia, including cruises in Europe.

The travel agency is also addressed to the elderly, and in this respect it has packages created only for that age group, and the site includes a section addressed to them. Choosing to offer packages for the elderly is supported by the fact that in Romania the population aged 60 and over represents 4.4 million people, and observing what is happening at European level. In the European Union there has been a 10% increase in the number of tourists aged 65 and over in 2011 compared with 2006. All the other age groups have decreased, especially the group aged 24-44 years, which decreased by 10%.

Chart 4. The proportion of tourists in the European Union by age groups in 2011



Source: Eurostat. Statistics in focus 43/2012

In 2011 the proportion of tourists by age groups shows that the age groups between 25-44 and 45-64 are twice the proportion of the age group of 65 and over (Chart 4). However, it is worth observing the growth in tourism registered by the age group of 65 and over compared to the previous years.

The forecasts regarding the number of population at the level of the European Union indicates that almost 30% of the population will belong to the age group of 65 and over in 2060. This group of tourists will rapidly increase and will spend more money on travel packages.[3]

The results are determined by the deals of the agency, the attentive choice of the customers to whom it is addressed, and especially the qualified personnel in the field. Over time, the agency set three staff turnovers of four people from which they selected their employees. The travel agency started with 5 employees, currently reaching a total of three employees considered to be

the most suitable. The efficient use of time and the human factor, together with the agency deals, helped them obtain very good results.[1]

3. Conclusions

Ambassador Tours & Travels Travel Agency has obtained good results in a difficult period for the economy of any country. Such results could not be registered unless the agency was characterized by availability - adaptability - dynamism.

SC Ambassador Tours & Travels SRL occupies a well deserved place within the travel agencies in Argeş due to their availability. This is one of the advantages of the agency in the surrounding economic reality and it represents the reason why customers choose it over the other.

The agency thoroughly observed the national economic trends, and adapted their deals to the consumers' real needs, especially directed to those consumers who have the potential and form the solvent demand for tourist services.

The company's dynamic nature was required to achieve the results in each of the nearly 6 years of existence on the market of tourism in Argeş.

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Increasing Firm's Competences through Evolutionary Games

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Abstract

The firms have different behaviors on the real market. Starting from these ideas the present paper intends to identify the main explanatory elements that show the evolution of the firm.

We study the effect of time delays in evolutionary games with one population of users and two strategies. The case where the delays, corresponding to different strategies, are not the same is considered. The local stability of the stationary state for the replicator dynamics is analyzed. The stochastic evolutionary game with delay is taken into consideration.

The last part of the paper includes numerical simulations and conclusions.

Key Words: dynamics games, evolutionary games, equilibrium conditions, stability conditions, delayed differential evolutionary games

J.E.L. Classification : C730, C620, C61, D58, D00

1. Introduction

The theory of the firm put forward by R.H. Coase (1937) is based on the generalization of organizational situations in an environment dominated by the market where transaction costs are significant. [2].

Authors like O.E. Williamson (1971), S.G. Winter (1982), S. Ross (1973) H. Demsetz (1972) developed the approach initiated by. Individual firms will, in general, follow routines described by researchers, but in fact the industry is complying with the marginal principles. The industry tends towards the optimal decision, but not because of changes occurred in the

behavior of firms, where profit maximization is the result of an evolutionary process which took place in the industry. The resource-based firm theory explains performance differences between firms. Thus, the capabilities are the firm's knowledge base (they belong to the firm and not to individual agents). The need to integrate the two approaches to the theory of the firm – the contractual perspective and the one based on capabilities – is underlined by other theoreticians on this issue stating that for a better understanding of the firm, more attention should be given to the problem of distribution of knowledge/production knowledge among companies, and especially to their character.

The corporation is not only a contractual entity, it is in the same time an entity that both learns and innovates, seeking competitive advantages from economies of scale and scope based on superior capabilities. The research of Nelson and Winter, "An Evolutionary Theory of Economic Change" (1982) is the starting point for a modern literature in the field which considers the approach of the theory of the firm from an evolutionary perspective. Nelson and Winter have shown that the "orthodox" theory is objectionable primarily by the fact that the hypothesis regarding profit maximization has a normative character and is not valid in any situation [2].

Evolutionary game theory is developed by biologists for predicting population dynamics in interaction, but has found many applications in economics, social sciences, ecology and computer sciences [5], [6], [14].

Evolutionary game theory has a long history when it comes to understanding the emergence and sustainability of cooperative behavior amongst selfish and unrelated individuals at different levels of organization. The prisoner's dilemma game in particular is

frequently employed for studying the evolution of cooperative behavior among selfish individuals [16], [17].

Evolutionary game theory studies the behavior of large populations of agents who repeatedly engage in anonymous strategic interactions, that is, interactions in which each agent's outcome depends not only on his own choice, but also on the distribution of others' choices [10], [11], [12].

A feature of the evolutionary games theory describes the evolution of strategies in time. The replicator dynamics is one of the most studied evolutionary game dynamics. Evolutionary game dynamics describe how the frequencies of various strategies within a population change over time according to their payoffs (fitness) [1]. The payoffs depend on the strategies of other players and thus on the frequencies of these strategies within a population [15].

Usually, for the evolutionary games, the conditions under which equilibrium is dynamically stable are required. In the present paper we study the effect of time delay in the evolutionary game with one population of users and two strategies. We take into account both the deterministic and stochastic cases. Delayed evolutionary game dynamics are described by a system of first order nonlinear differential equations with time delays.

A discrete approach of the dynamic replicator was presented in [1].

The authors introduce the time delay in two different ways, in a social model and in a biological model.

The stability of a mixed evolutionarily stable strategy was studied.

The paper is structured as follows. In Section 2, the delayed evolutionary games are presented.

In Section 3 we study the local stability of the replicator dynamic for the evolutionary game dynamics with two strategies.

The stochastic evolutionary games are presented in Section 4. In Section 5 numerical simulations are given and in Section 6 conclusions and future research are drawn.

2. Delayed evolutionary games

A large population of players is considered. It is supposed that there are n pure strategies. A strategy of an individual is a probability distribution over the pure strategies.

We denote by $A = (ka_{ij}), i, j = 1..n$ the payoff matrix where k is a positive parameter.

Let $x \in R^n$ be the n dimensional vector whose i -th element x_i is the population share of strategy i .

Let $f_i(x)$ be the expected payoff value of strategy i when the composition of population is x . The payoff function $f = (f_i), i = 1..n$ is given by:

$$f_i(x) = k \sum_{j=1}^n a_{ij} x_j.$$

If an individual uses at time t a strategy i then it receives an expected payoff (fitness) at time $t + \tau_i$ where τ_i is the time delay of the strategy i .

Supposing that each individual of the population only uses a pure strategy $i = 1..n$, then the fitness of an individual using the strategy i at time t is $f_i(x(t - \tau_i))$, when the state of population is $x(t)$ at time t . The replicator dynamics of $x_i(t)$ is given by:

$$(1) \quad \dot{x}_i(t) = x_i(t)(f_i(x(t - \tau_i)) - F(x(t))), \\ i = 1..n$$

where

$$F(x) = \sum_{k=1}^n x_k(t) f_k(x(t - \tau_k))$$

is the expected fitness of the population. The strategies with larger fitness are expected to propagate faster in a population.

We consider x_0 as stationary state. That means the right side of (1) is zero at x_0 . The following conditions:

$$x_{0i} = 0 \text{ or}$$

$$\sum_{j=1}^n a_{ij} x_{0j} = \sum_{k=1}^n \sum_{l=1}^n a_{kl} x_{0k} x_{0l}, \quad i = 1..n$$

hold.

For the payoff matrix $A = (ka_{ij}), i, j = 1, 2$, we have [14]:

$$(2) \quad f_1(x(t - \tau_1)) = k(a_{11}x_1(t - \tau_1) + a_{12}x_2(t - \tau_1)) \\ f_2(x(t - \tau_2)) = k(a_{21}x_1(t - \tau_2) + a_{22}x_2(t - \tau_2))$$

and $F(x)$ is given by:

$$F(x(t)) = k(x_1(t)(a_{11}x_1(t-\tau_1) + a_{12}x_2(t-\tau_1)) + x_2(t)(a_{21}x_1(t-\tau_2) + a_{22}x_2(t-\tau_1)))$$

Supposing that each individual of the population only uses a pure strategy, then let $y(t)=x_1(t)$ be the proportion of individual in the population using the finite strategy at time t .

The replicator dynamic of $y(t)$ is given by:

$$(3) \quad \dot{y}(t) = -kdy(t)(1-y(t))(\alpha y(t-\tau_1) + \beta y(t-\tau_2) - y_0)$$

where

$$d = a_{21} - a_{11} + a_{12} - a_{22}, y_0 = \frac{a_{12} - a_{22}}{d},$$

$$\alpha = \frac{-a_{11} + a_{12}}{d}, \beta = \frac{a_{21} - a_{22}}{d}$$

$0 < y_0 < 1$ and y_0 is a unique interior stationary point.

For the Hawk-Dove game analyzed by Smith and Price in [13] the payoff matrix A has the components:

$$(4) \quad a_{11} = -0.5, a_{12} = 1, a_{21} = 0, a_{22} = 0.5.$$

The replicator dynamic is given by:

$$(5) \quad \dot{y}(t) = -kdy(t)(1-y(t))(1.5y(t-\tau_1) - 0.5y(t-\tau_2) - 0.5)$$

The unique interior stationary state of the equation (5) is $y_0=0.5$.

3. Local stability and Hopf bifurcation

Let $u(t)=y(t)-y_0$. Then the equation (3) is given by:

$$(6) \quad \begin{aligned} \dot{u}(t) = & -\gamma\alpha u(t-\tau_1) - \gamma\beta u(t-\tau_2) - \\ & -k(1-2y_0)\alpha u(t)u(t-\tau_1) - \\ & -k(1-2y_0)\beta u(t)u(t-\tau_2) + \\ & +k\alpha u(t)^2 u(t-\tau_1) + k\beta u(t)^2 u(t-\tau_2) \end{aligned}$$

where

$$(7) \quad \gamma = ky_0(1-y_0), \alpha = a_{12} - a_{11},$$

$$\beta = a_{21} - a_{22}$$

The linearized equation of (6) is given by:

$$(8) \quad \dot{u}(t) = -\gamma\alpha u(t-\tau_1) - \gamma\beta u(t-\tau_2)$$

It is known [8] that the steady state y_0 is asymptotically stable for (6), when $\tau_1 = \tau_2 = 0$.

The characteristic equation of (8) is:

$$(9) \quad \lambda + \gamma\alpha e^{-\lambda\tau_1} + \gamma\beta e^{-\lambda\tau_2} = 0$$

If all solutions of the characteristic equation (9) have negative real part then the stationary point $u=0$ of (8) is asymptotically stable. Then, the stationary point y_0 is asymptotically stable. If there is a solution λ of (9) with $\text{Re}(\lambda)>0$, then the trivial solution is not stable for (8).

If $\tau_1=0, \tau_2=0$, the characteristic equation (9) is given by $\lambda=-\gamma(\alpha+\beta)$. Because $\alpha+\beta=d>0$, then the root is negative. Thus, the stationary point y_0 is asymptotically stable.

Proposition 1. If $\tau_1 = \tau_2 = \tau$ the trivial solution of (8) is asymptotically stable if $\tau < \tau_0$, where:

$$(10) \quad \tau_0 = \frac{\pi}{2\gamma(\alpha + \beta)}$$

and unstable if $\tau > \tau_0$; $\tau=\tau_0$ is the Hopf bifurcation.

Proof. If $\lambda=i\omega$ is the root of equation:

$$(11) \quad \lambda + \gamma(\alpha + \beta)e^{-\lambda\tau} = 0$$

then

$$(12) \quad \omega = \gamma(\alpha + \beta)\sin(\omega\tau), \cos(\omega\tau) = 0$$

From (12) we have:

$$\omega_0 = \gamma(\alpha + \beta), \tau_0 = \frac{\pi}{2\gamma(\alpha + \beta)}.$$

Consider $\lambda = \lambda(\tau)$. By deriving the equation with respect to τ we obtain:

$$(13) \quad \frac{d\lambda(\tau)}{d\tau} = \frac{\gamma(\alpha + \beta)\lambda e^{-\lambda(\tau)\tau}}{1 - \tau\gamma(\alpha + \beta)e^{-\lambda(\tau)\tau}}$$

From (13) we have:

$$(14) \quad \left. \frac{d\lambda(\tau)}{d\tau} \right|_{\tau=\tau_0, \lambda=i\omega_0} = \frac{\omega_0^2}{1 + \tau_0^2 \omega_0^2} - \frac{i\tau_0 \omega_0}{1 + \tau_0^2 \omega_0^2}$$

and

$$\text{Re}\left(\left. \frac{d\lambda(\tau)}{d\tau} \right|_{\tau=\tau_0, \lambda=i\omega_0}\right) = \frac{\omega_0^2}{1 + \tau_0^2 \omega_0^2} > 0.$$

Thus, $\tau=\tau_0$ is the Hopf bifurcation.

Proposition 2. If $\tau_1 = 0, \tau_2 \geq 0$ the characteristic equation (9) is given by:

$$(15) \quad \lambda + \gamma\alpha + \gamma\beta e^{-\lambda\tau_2} = 0$$

(i) When $|\beta| < |\alpha|$, the increase of τ_2 does not change the stability of the dynamical system (8). Thus, the equation (3) is stable for any $\tau_2 \geq 0$.

(ii) When $|\beta| > |\alpha|$, the equation (3) is stable if $\tau_2 < \tau_{20}$ and unstable if $\tau_2 > \tau_{20}$, where

$$(16) \quad \tau_{20} = \frac{\arcsin\left(\frac{1}{|\beta|}\sqrt{\beta^2 - \alpha^2}\right)}{\gamma\sqrt{\beta^2 - \alpha^2}}$$

$\tau_2 = \tau_{20}$ is Hopf bifurcation.

Proof. If $\lambda = i\omega$ is a root of (15) then:
(17)

$$\omega = \gamma\beta \sin \omega\tau_2, \quad \gamma\alpha = -\gamma\beta \cos \omega\tau_2$$

Then, $\omega^2 = \gamma(\beta^2 - \alpha^2)$. If $|\beta| < |\alpha|$ (i) holds.

If $|\beta| > \alpha$ then

$$\omega_{20} = \gamma\sqrt{\beta^2 - \alpha^2} \text{ and } \tau_{20} = \frac{\arcsin\left(\frac{1}{|\beta|}\sqrt{\beta^2 - \alpha^2}\right)}{\gamma\sqrt{\beta^2 - \alpha^2}}$$

In a similar way as the proof of Proposition 1 we obtain:
(18)

$$\operatorname{Re}\left(\frac{d\lambda(\tau_2)}{d\tau_2}\right)\Big|_{\tau_2=\tau_{20}, \lambda=i\omega_{20}} = \frac{\omega_{20}^2}{(1 + \tau_{20}^2 \gamma \alpha)^2 + \tau_{20}^2 \omega_{20}^2} > 0.$$

Hence, $\tau_2 = \tau_{20}$ is Hopf bifurcation.

Proposition 3. If $\tau_1 \geq 0$, $\tau_2 = 0$, the characteristic equation (9) is given by:

$$(19) \quad \lambda + \gamma\beta + \gamma\alpha e^{-\lambda\tau_1} = 0$$

When $|\beta| > |\alpha|$, the increase of τ_1 does not change the stability of the dynamical system (8). Thus, the equation (8) is stable for any $\tau_1 \geq 0$.

When $|\beta| < |\alpha|$, the equation (3) is stable if $\tau_1 < \tau_{10}$ and unstable if $\tau_2 > \tau_{10}$, where

$$\tau_{10} = \frac{\arcsin\left(\frac{1}{|\alpha|}\sqrt{\alpha^2 - \beta^2}\right)}{\gamma\sqrt{\alpha^2 - \beta^2}}$$

$\tau_1 = \tau_{10}$ is Hopf bifurcation.

The proof is similar to the proof of Proposition 2.

4. Stochastic evolutionary games

The stochastic terms arise from a variety of factors. First, there is natural variability in the payoff rate a_{ij} that results from environmental influences. Second, there is variability in the number of individuals of type i (that chooses strategy i) that actually do meet individuals of type j (that chooses strategy j) in any given time period. The relative probability that an i meets a j is of course $p_i p_j$, but the number of such interactions fluctuates.

If stochastic effects operate continually on the system, then even if they are arbitrarily small they may qualitatively change the long-run outcome. The reason is that, over the long run, it is likely that some succession of perturbations will accumulate

and kick the system out of any immediate locus of an stationary state [4].

Let (Ω, F_0, P) , $t \geq 0$ be a given probability space, and $w(t) \in \mathbf{R}$ be a scalar Wiener process defined on Ω having independent stationary Gauss increments with $w(0)=0$, $E(w(t)-w(s))=0$, and $E(w(t)w(s))=\min(t,s)$. The symbol E denotes the mathematical expectation. The sample trajectories of $w(t)$ are continuous, nowhere differentiable, and have infinite variation on any finite time interval [7]. We denote by $\xi(t)$ a stationary Gaussian white noise process with $E(\xi(t))=0$ and covariance function $E(\xi(t)\xi(s))=\delta(t-s)$, where δ is the Dirac delta function. From the theory of stochastic differential equation we understand that, formally, a white noise process $\xi(t)$ is the derivative of the Wiener process $w(t)$ [9]. The stochastic evolutionary games were introduced by Foster and Young 1990 [4].

The stochastic perturbation for the replicator dynamics (3) is given by:

$$(20) \quad \begin{aligned} \dot{y}(t) = & -k d_1 y(t)(1 - y(t))(\alpha y(t - \tau_1) + \\ & + \beta y(t - \tau_2) - y_0) + \\ & + (\sigma_1(y(t) - y_0) + \sigma_2) d_1 w(t) \end{aligned}$$

Equation (20) describes the effect of the noise perturbation on the steady state y_0 .

5. Numerical simulation

For the numerical simulations we use Maple.

We consider the replicator dynamics (5) with $k=5$.

$$\text{Then, } y_0 = 0.5, \alpha = 1.5, \beta = -0.5.$$

If $\tau_1 = \tau_2 = \tau$, we obtain $\tau_0 = 0.7853$, $\omega_0 = 2$.

For $0 \leq \tau < \tau_0$ system (5) is locally asymptotically stable.

For $\tau = \tau_0$ there is a Hopf bifurcation.

The figures 1 and 2 display the dynamics of $(t, y(t))$ and $(t, 1 - y(t))$ as well.

Fig.1 The orbit $(t, y(t))$, when $\tau_1 = \tau_2 = \tau$

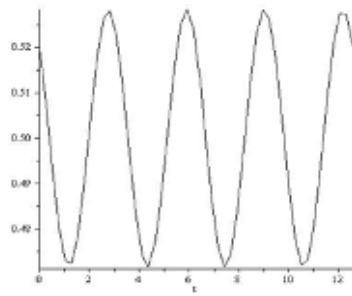
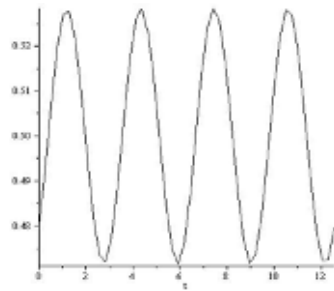


Fig.2 The orbit $(t, 1-y(t))$, $\tau_1 = \tau_2 = \tau$



If $\tau_1 \geq 0, \tau_2 = 0$ we obtain $\tau_{10} = 0.43528$, $\omega_{10} = 2.8284$. The figures 3 and 4 show the dynamics of $(t, y(t))$ and $(t, 1-y(t))$ as well.

Fig.3 The orbit $(t, y(t))$, $\tau_1 \geq 0, \tau_2 = 0$

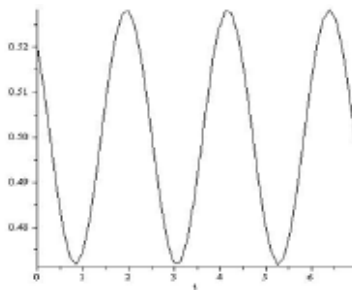
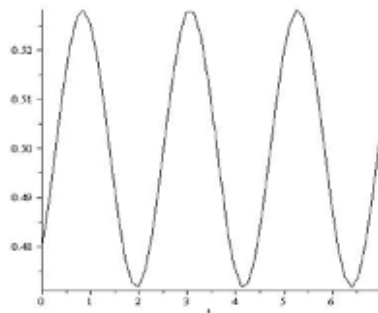


Fig.4 The orbit $(t, 1-y(t))$, $\tau_1 \geq 0, \tau_2 = 0$



If $\tau_1 = 0, \tau_2 \geq 0$, due to Proposition 2 and $|\beta| < |\alpha|$, system (5) is asymptotically stable.

When $\sigma_1 = 0.4, \sigma_2 = 0.03$ and figure 5 displays the dynamics of $(j, y(j, \omega))$.

When $\sigma_1 = 0.4, \sigma_2 = 0$ and figure 6 shows the dynamics of $(j, y(j, \omega))$ for the stochastic equation (20).

Fig.5 The orbit $(j, y(j, \omega))$,

$$\sigma_1 = 0.4, \sigma_2 = 0.03$$

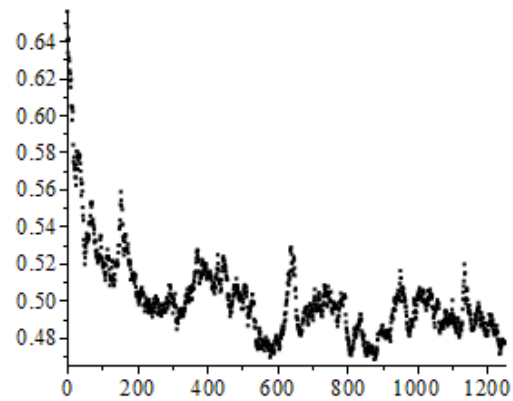
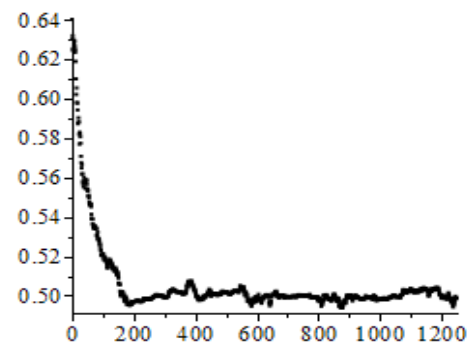


Fig.6 The orbit $(j, y(j, \omega))$, $\sigma_1 = 0.4, \sigma_2 = 0$



6. Conclusions

Delay is very important in the evolutionary game dynamics. In the present paper, we have considered evolutionary games with one population of users and two strategies and have studied the impact of the delay on the behavior of associated deterministic and stochastic systems.

We have studied the local stability and the existence of the Hopf bifurcation for the replicator dynamics which describe the evolution in the population of the various strategies. By analyzing the corresponding characteristic equation, we have obtained some sufficient conditions on the stability of the zero solution. Firstly, we have analyzed

the case $\tau_1 = \tau_2 = \tau$ and we have found the critical value of the delay when the Hopf bifurcation occurs. Then, with $\tau_1 = 0$ and the second delay τ_2 increased from zero, we have shown that there exists a critical value of τ_2 at which the zero solution loses its stability and the Hopf bifurcation occurs. Also, the case τ_1 increased from zero and $\tau_2 = 0$ was discussed.

The stochastic case was taken into consideration.

In our future paper we will analyze the effect on the stability for the trivial solution of the colored noise in the stochastic case and the uncertain case will be investigated.

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The Impact of Social Networks on Commerce Development

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Abstract

The present paper aims to underline the social impact of the on-line commerce and to analyse the opportunity for companies to develop their business on social networks. The concept of social commerce is defined in relation with the concept of social consumer. The main players in the social market share being the social networks the security issue must be analysed as well. Therefore, social commerce is the cornerstone of the new economy and social networks are the main medium through which it makes its presence felt. As regards advantages of social trade, they can be analyzed from three points of view: the company, the consumer and the society.

Key words: social ,network, commerce, consumer, on-line

J.E.L. Classification: M21, M31

1. Introduction

On the E-commerce market has emerged in recent years, marketing and social commerce. The implementation, organization and operation is based on a totally new technique for virtual world - conversation and social relations. Of course, the main player in the social commerce is Facebook.com social networking site with over 600 million users globally.[6]

However, we must remember that shopping through Facebook is a small piece

of what social media can offer.

Social commerce brings a new challenge for business in the commercial area, products being sold through recommendations and references from acquaintances of the consumers and the recipient's final decision to purchase the product will depend not only on its qualities, but mainly on the reference and experience concerning the product from those who recommended him[5,11]

This new marketing game is entirely attributable to social networks, especially to Facebook.

2. The concept of social commerce

Social commerce is derived from the English expression "social commerce" and is a type of commerce involving the use of social media, online media, which supports social interaction and user contributions to help purchase and sale on line of products and services.[11]

All these forms of electronic business have allowed significant changes in business environment in particular by removing geographical barriers and opening new channels of communication, collaboration and coordination between consumers, merchants and business partners. This context led the business to add a new prefix, becoming e-business, the trade to migrate to e-commerce and the Internet to become the scene of the so cold e-marketing.

What is trade through social networks? According to Wikipedia, the free encyclopedia "trade" social "is derived from

electronic commerce and involves the use of forms of social media and online content in order to support social interaction and user contributions." This approach should support the buying and selling of products / services in the social environment.[11]

Social commerce concept was developed by David Beisel and Steve Rubel, in order to include e-commerce tools to allow buyers to receive advice from trusted individuals that are useful in the buying decision. Social networks, using these tips have been found essential to increase customer confidence in a retailer against another.

An efficient message and an active communication with customers bring to the company involved in social trade, references and new customers, and replace the database with thousands of names and e-mails with a network of acquaintances, friends and customers whose conversion engine is in fact the conversation.[4]

Social commerce is a small part of electronic commerce, as shown below:

Fig. 1 Membership of social trade to traditional trade



Social commerce is already closely tied to traditional e-commerce and CRM (Customer Relationship Management).[4]

Briefly, social commerce represents the use of social networks in the context of e-commerce transactions.

3.Evolution

The long-term social trade was introduced by Yahoo in November 2005 to describe a set of online shopping tools for collaboration, such as pick lists, joint assessments for users or other contents generated for sharing information about on-line products and counseling.[6]

Monitoring social commerce is essential - Spinback research agency, part of the

marketing company Buddy Media's Facebook show that revenues in this trade will reach 30 billion dollars in 2015. Other information surprising: 90% of purchases are influenced by social and, on average, each site shared is visited by 3.2 unique visitors.

Online commerce has already a respectable age, almost 15 years, and now has a massive impact (and negative) on traditional retailers businesses that are not also online retailers. Studies predict that 20% of total retail sales will be done online in the coming years.

As social networking giant approaching IPO of \$ 5 billion, increases the pressure of Wall Street to find sources of profit growth and reduce dependence on advertising. Of total revenues for 2011, 85% is from advertising source segment. Some investors strongly believe that the answer to this question is "f-commerce" or virtual commerce on Facebook.[10]

Amazon.com revolutionized online shopping experience by processing large volume of information that we have about customers and their purchases that turned into personalized recommendations and therefore relevant.[3]

In the last years have occurred technologies that allow users to migrate the store (via the "Apps") on the Facebook network so users do not have to exit the network to buy products. In fact, many top brands in the world, and not only, have pages on Facebook and Twitter presence, recently Google + opened its doors to companies.[4]

A number of additional current trade related social networks were identified:

- Community buyers (GDGT)
- Community group buyers (Groupon)
- Sharing information about purchases
- Purchase products
- Social Tips
- Co-shopping (eg search engine Shop Together) [6]

Social monitoring is essential-commerce statistics show that revenues in this trade will reach 30 billion dollars in 2015 and 90% of purchases are influenced by social and, on average, each site that is viewed to give share of 3.2 visitors.[9]

4. Advantages of www as a commercial means

The tremendous expansion of the Internet and especially international network (www) has led to massive consumer participation in a global market "online". Rapid adoption of the Internet as a commercial medium has led many consumers to experiment with new types of marketing methods in computerized environments. Internet development extends beyond its use as a means of communication, going to approach it as a new market.

Popularity that holds the international network (www) as a commercial medium is due to its ability to facilitate the spread of information and resources and ability to provide an effective channel for advertising, marketing and even direct distribution of certain goods and information services.

As a commercial medium, the network offers a number of advantages from the point of view both of the customer and of the seller. Advantages are the first buyer of the structural characteristics of the environment, including access to information, search mechanisms and products online that actually lead to safety buying decision.

An important advantage for the user associated with the network marketing is to access large amounts of information that helps the buyer to make important decisions to purchase a product. Another advantage is the possibility to test the products online. There is also a choice of a large number of products due to the size of the network.

Great for business is that business concluded on network transfer to client more functions through online orders. This allows the emergence of another benefit in the form of capturing customer information. Technology gives company the ability to collect and monitor consumer choice, their preferences.

Operational advantages are: small percentage of errors, save time, reduce costs through the use of electronic databases, creating new markets and retail segments, increase sales faster entry in a markets, a shorter process purchase. xxx

Social commerce brings a new challenge for local business websites, products sold passing through a number of recommendations and references from acquaintances to reach the final recipient and

its decision to purchase the product is taken only according to its qualities, but primarily references and experience in using the product of people who have recommended. And the credit for this new marketing game is entirely attributed to the social network Facebook, which, besides being managed in record time to gather a huge global audience, brought to challenge an industry expected based on rates conversion - the art of conversation and persuasion by the client message.

Despite the huge user base, Facebook is ultimately used to connect with friends, not far from the buyer first destination online. Large retailers like Gap and Nordstrom have tried and have opened shops on Facebook, closing them because of the small number of sales.

At this moment, Facebook makes money from selling advertising to manufacturers targeting potential customers hosted by social network.

Experts believe that the day when Facebook will slice a part of virtual commerce is near, because it needs other sources of profit.

An example is the relation established of Facebook with Zynga online games maker. Revenues generated by the sale of virtual goods used in games, Facebook take 30%. [2]

Players pay for virtual goods using Facebook credits, a virtual currency, and if the situation demands it, can be used for physical goods.

The reasons for which a company wants to launch social networks are: ability to expand customers; drastic reduction of costs for distribution and customer service; better promotion and faster products and services. That's why we can tell that the advantages of social commerce, they can be analyzed from three points of view: the company, the consumer and society.

5. Features of the social commerce

Social commerce is a small part of the electronic commerce, exists from a time and was propagated by Amazon and Ebay.

In order to successfully use of social media to increase sales specific methods should be used that takes into account the six pillars of social commerce:

1. **Visibility** - social networks are an ideal environment for the submission of offers, because a strong social presence can generate more traffic.
2. **Reputation**-which means creating an image of a brand to provide an identity. Otherwise, setting up an online community requires time and patience.
3. **Proximity**- meaning that social media allows to shorten the distance between brand or products and the potential customers.
4. **Contextualization**- which means that products and services could reach the right place at the right time and for the right customers. In this context, Canon may be an example of a brand that has managed to gather members of a formal group.
5. **Recommendation**- there are many social platforms that could help accomplish the next move.
6. **Customer support**- Social Media is the best place to demonstrate customer proximity, where people meet and talk about their experiences shopping. [1,2]

6. The social consumer

The social consumer is considered the person who is susceptible to:

- consuming information and learning about breaking news via sites such as Twitter and Facebook;
- to be informed about new products and social media channels;
- not applying for promotions and trusts only the relevant information;
- expect brands to be active on the same social media sites which he frequently consults.
- brands must respond quickly to their requirements.[5]

In order to effectively sell products to consumers it is necessary a good understanding of the attitudes and behavior patterns of the target audience. A third of social network users say they would be more likely to buy a product or service used or recommended by a friend on a social networking site than to follow an advertisement.[6]

Psychologists have defined six universal

traits that have been observed at shoppers and are now seen in the case of social commerce, as follows:

- **Social Proof**- the main part of customers requesting information from friends and family members on social networking sites for advice before purchasing products.

- **Authority**: 77% of online shoppers use the opinions of other customers to make purchasing decisions

- **Deficiency**: get exclusive offers that they can redeem via social networks, like Facebook.

- **Like**: the 50% of shoppers have made a purchase based on recommendations from other people and follow them on social networks.

- **Consistency**: Purchases made by trusted brands reinforce the future shopping patterns.

- **Reciprocity**: in order to maintain social equity and to repay favors.

7. Information security

Most social networking users are skeptical about the disclosure of information on their credit cards used for payments made on a commercial site such as Twitter or Facebook.[1]

Moreover, women, that tend to outnumber men in most social networks are more likely than men and say they are uncomfortable handing over credit card information in order to complete transactions on social networking sites.

Retrieving information about the customer on site or online order processing, leads to the need to use a system of "server" security. Among other things, this allows encoding of credit card data entered in an order form. Encoding is performed before sending data to the server the client browser.

Although it is not necessarily needed a secure server to take orders on-line, however, many users refuse to buy products through a website that does not have such a system.

Conclusions

All these forms of electronic business have made possible significant changes in the business environment in particular by removing geographical barriers and opening new lines of communication, collaboration and coordination between consumers, traders

and business partners. This context led the business to add a new prefix are becoming e-business, e-commerce trade and migrate to the Internet has become the scene to develop the electronic marketing (e-marketing).

Social commerce is the factor of re-humanizing online commerce, which is a challenge for people in marketing and calls for a new approach attitude to an area that is redesigned from scratch. The main question that marketers are looking for a response is "how to use and which method to have a highest possible ROI?"

Today, the social commerce has been extended to include the range of social media tools and content used in the context of e-commerce, especially in the fashion industry. Examples of social commerce include customer ratings and reviews, user recommendations and referrals social, commercial tools (sharing the act of shopping online), forums and communities, social applications and social advertising.

Therefore, social commerce is the cornerstone of the new economy, and social networks are the main medium through which it makes its presence felt.

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Financial Innovations and the Actual Crisis

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Abstract

The paper presents the main financial innovations such as: floating-rate notes, adjustable-rate mortgages, financial derivatives, junk bonds, securitization, collateralized debt obligations (CDO). We consider that the CDO are the main responsible for the present financial crisis and this is the reason for which we devoted to them a more developed paragraph. We think that the solution regarding the banks' non-performing assets is to take a bank with problems and splitting it in two: a "good" bank, where all performing assets should go and a "bad" bank, which should contain all the others. At conclusions the paper includes a paragraph advancing solutions suggested by the author to overcome the economic crisis in Romania.

Key words: crisis, solutions, securitization, collateralized debt obligations

JEL Classification: G01

1. Introduction

The process of financial innovation has transformed the entire financial system. Like other industries, the financial industry is in business to earn profits by selling its products. To maximize their products, financial institutions develop new products to satisfy their own needs as well as those of their customers; in other words, innovation is driven by the desire to get rich. This view of the innovation process leads to the following simple analysis: A change in the financial environment will stimulate a search by financial institutions for innovations that are likely to be profitable. The rapid advance in

computer technology changed supply conditions. In addition, financial regulations became more burdensome. To survive in the new economic environment, financial institutions had to research and develop new products and services that would meet customer needs and prove profitable, a process referred to as *financial engineering*. In their case, necessity was the mother of innovation. There are three basic types of financial innovation: responses to changes in demand conditions, responses to changes in supply conditions and avoidance of regulations.

The present economic situation determines the companies to search for solutions to continue their activity in optimal conditions to avoid bankruptcy. The economic instability makes some measures necessary such as: the strict control of all the economic operations, a responsible resource management, filtering and lowering the costs within the possibilities, and the adjustment of the strategies to the new market conditions [1].

2. Financial Innovations

Floating-Rate Notes .Depository institutions, primarily banks, have been the major issuers of floating-rate notes. A floating-rate note is a debt instrument whose interest rate changes periodically according to some interest rate benchmark. A common benchmark is the London Interbank Offered Rate (LIBOR), which is an interest rate that reflects the marginal, overnight, or short-term wholesale cost of funds for the global banking system.

Adjustable-Rate Mortgages. A mortgage is a pledge of real estate to secure the payment of a loan. Prior to the 1980s, the interest rate on mortgage loans was fixed throughout the life of

the loan, typically for between 15 and 30 years. Financial institutions find that lending is more attractive if interest-rate risk is lower. They would not want to make a mortgage loan at a 10% interest rate and two months later find that they could obtain 12% in interest on the same mortgage.

To reduce interest-rate risk, in 1975 savings and loan in California began to issue adjustable-rate mortgages; that is, mortgage loans on which the interest rate changes when a market interest rate (usually the Treasury bill rate) changes. Initially, an adjustable-rate mortgage might have a 5% interest rate. In six months, this interest rate might increase or decrease by the amount of the increase or decrease in, say, the six-month Treasury bill rate and the mortgage payment would change. Because adjustable-rate mortgage allow mortgage-issuing institutions to earn higher interest rates on mortgages when rate rise, profits are kept higher during these periods.

This attractive feature of adjustable-rate mortgages has encouraged mortgage-issuing institutions to issue adjustable-rate mortgages with lower initial interest rates than on conventional fixed-rate mortgages, making them popular with many households.

Financial Derivatives. Given the greater demand for the reduction of interest-rate risk, commodity exchanges such as the Chicago Board of Trade recognized that if they could develop a product that would help investors and financial institutions to protect themselves from, or hedge, interest-rate risk, then they could make profits by selling this new instrument. Futures contracts, in which the seller agrees to provide a certain standardized commodity to the buyer on a specific future date at an agreed price, had been around for a long time.

Officials at the Chicago Board of Trade realized that if they created futures contracts in financial instruments, which are called financial derivatives because their payoffs are linked to previously issued securities, they could be used to hedge risk. The most important source of the changes in supply conditions that stimulate financial innovation has been the improvement in computer and telecommunications technology.

This technology, called information technology, has had two effects: First, it has lowered the cost of processing financial transactions, making it profitable for financial institutions to create new financial products and services for the public. Second, it has made it easier for investors to acquire information, thereby making it easier for firms to issue securities.

Junk Bonds. Before the advent of computers and advanced telecommunications, it was difficult to acquire information about the financial situation of firms that might want to sell securities. Because of the difficulty in screening out bad from good credit risks, the only firms that were able to sell bonds were very well established corporations that had high credit ratings.

Before the 1980s, then, only corporations that could issue bonds with ratings of Baa or above could raise funds by selling newly issued bonds. Some firms that had fallen on bad times, so-called *fallen angels*, had previously issued long-term corporate bonds that now had ratings that fallen below Baa, bonds that were pejoratively dubbed „junk bonds”.

Securitization. An important example of a financial innovation arising from improvements in both transaction and information technology is securitization, one of the most important financial innovations in the past two decades.

Securitization is the process of transforming otherwise illiquid financial assets (such as residential mortgages, auto loans), which have typically been the bread and butter of banking institutions, into marketable capital market securities.

Improvements in the ability to acquire information have made it easier to sell marketable capital markets securities. By dividing the portfolio of loans into standardized amounts, the financial institutions can then sell the claims to these interest and principal payments to third parties as securities. The standardized amounts of these securitized loans make them liquid securities and the fact that they are made up of a bundle of loans helps diversify risk, making them desirable. The financial institution selling the securitized loans makes a profit by servicing the loans and

charging a fee to the third party for this service.
[2]

3. Financial Innovation and CDO

Many speculative balloons start when a burst of innovation or of technological progress foreshadows the dawns of a new economy. I think financial innovation represents the most important cause of the present global financial crisis. Where did it come from? How did it determine the emergence of the present financial crisis? A possible judicial answer to this could be the Sarbanes-Oxley law, officially named „Public Company Accounting Reform and Investor Protection Act” which was adopted in 2002 in the United States in order to review the accounting practices and to rebuild the community’s confidence in the Public Companies Financial Reports. What were the events that triggered the implementation of such ruling? The answer lays in the over-displayed cases of corporate frauds as Enron, WorldCom and other famous bankruptcy scandals, all of them having the same roots into the „creative accounting” practices. This concept refers to diverse actions taken in order to bewilder, hide and embellish the economic and financial reality of the companies throughout fraud Accounting Reports. Business environment is anyway, subject to various demands to rule against sophistication of corporate frauds, thus legislation towards ethics in business was to be expected [3].

In the 1970s, the National State Association for Mortgage Loans (Ginnie Mae) issued the first securities guaranteed by mortgage loans. That is, it developed a portfolio of the loans granted, and then issued bonds based on this portfolio. Therefore, instead of waiting for thirty years to recover its money from a mortgage loan, Ginnie Mae was able to cash a significant amount of money on the spot, from the bond buyers.

In their turn, investors who were buying these new bonds got a certain share of the income flows cashed from the owners who were paying their loan instalments. This scheme was revolutionary. Thanks to this procedure, rapidly named “securitization” or “titlization”, some non-liquid assets such as

mortgage loans could now be put together and turned into liquid assets, tradable on the free market. These new instruments had a name as well: mortgage-backed securities. In time, other representative government organizations, such as Freddie Mac and Fannie Mae, entered the securitization business. They were joined by investment banks, brokerage companies and residential construction companies. But what was the investment banks’ role?

Investment banks were usually the institutions in charge of developing portfolios of mortgage bonds. In partnership with the one who had closed the mortgage loan contracts, the investment bank organized a “special purpose vehicle” (SPV). This SPV then issued bonds or securities guaranteed with mortgage receivables, which they sold to investors. In this way everybody got what they wanted. The house owner got a loan, and the mortgage broker and the assessor got their commissions. The mortgage lender made a nice profit rapidly, without having to wait for thirty years. The investment bank cashed a fat commission for the assistance granted, although it had gotten rid of the loan risk, placing it to someone else. And the investors who bought the bonds were enthusiastically waiting to cash up a constant flow of incomes, as the house owners were paying back their mortgages.

Although the securities guaranteed with mortgage loans became more popular in the 1980s, it was only in the 1990s that they started gaining momentum. The new concept was quite simple: it is much better to sell mortgages and get a nice profit in your pocket in advance, than keep them in your balance accounts and risk that one day they might become non-performing. As securitization became a very used procedure in the 1990s and the 2000s, mortgage brokers, loan assessors, commercial banks, investment banks and even public institutions such as Fannie Mae and Freddie Mac stopped thoroughly and cautiously checking up mortgage fanciers. Consequently, applicants invented inexistent incomes and brought no written proof of their salary. The most scandalous of these were named “NINJA”, by the acronym of “No Income, No Job or Assets”- (the beneficiary of the loan had neither incomes, nor job nor assets). You

may ask what rating agencies did, under the circumstances. In theory, rating agencies should have made an alarm call. But they had serious reasons to grant high ratings to the securities they were analysing. Acting in this way, they were getting a good commission precisely from the entities they were rating, plus the promise of some future contracts. Had they made a realistic rating, they could have lost the commission, plus any other future commissions. For them, it was much more profitable to grant a bank the financial equivalent of good behaviour grades and to hope that nothing wrong would happen. In the eve of the crisis, over half of the rating companies' profits were based on AAA ratings, many of which undeserved.

But how did the financial securitization evolve? Anybody who holds a normal security, guaranteed with a mortgage, naturally undertakes a certain degree of risk: the owner of the mortgaged building might not reimburse the loan. In this direction, "financial engineers" on Wall Street came up with an elegant solution: Collateralized Debt Obligations – CDO. A CDO emission was going to be divided into tranches. The simplest CDOs had only three tranches: the minimum eligible – the equity tranche, the middle tranche – the mezzanine tranche) and the first rank tranche, called senior tranche. Buyers in the minimum eligible tranche got the highest profit, but also took over the highest risk. If any debtor in the mortgage loan portfolio did not observe their obligations, the loss resulted was felt firstly by equity tranche holders. The mezzanine tranche was less risky, but the buyers also bore losses, if debtors didn't pay their loans. The senior tranche was at the top. The holders of this tranche were the first paid when the receivables were cashed, and the last that bore losses in case of payment failure.

Under this entire impressive edifice of structured financing something was rotten in the USA. It was based on a pile of substandard, dubious and risky mortgage loans, graded with BBB rating, which were put together and stuck under a mortgage security, also rated BBB. This was afterwards divided into tranches and the senior tranche – which represented about 80% of the total mortgages used – got an AAA

rating. The procedure turned some dubious assets into a gilded security, although the mortgage assets portfolio it was based on remained just as risky as before.

Securitization didn't stop here. It then continued with combining some CDOs with other CDOs, and then dividing them into tranches. These CDOs, based on other CDOs (called "CDOs square"), fade, however, compared with other products designed in Wall Street laboratories: CDOs from CDOs on CDOs, or CDO-cubed. These are joined by synthetic CDOs which put together a pile of non-payment risk insurances to imitate a basic CDO. Some of these esoteric products had more than three tranches, and sometimes reached fifty or even one hundred, each of them representing a certain level of risk tolerance.

Looking back, the danger of this kind of financial innovation is easy to understand. Endlessly dividing and "hashing" the loan risk and transferring it in all direction, the system found itself operating with financial tools that were unknown, complex, non-liquid and dangerous. [4]

Daniel Dăianu identifies the following causes for the American crisis: the failures of the rating agencies, the rise of the systematic risk, the distorted payrolls, the conflicts of interests, the casino transactions, the absence of a regulating system, the speculations, the inadequate financial system, the repelling of the Glass-Steagall Act, the securities based on mortgages, the toxicity of the packing and repacking of the financial products, the managers' irresponsible conduct, the managers' payrolls, the toxic quantitative models, the overrating of the entrepreneurial spirit, the instability of the financial markets, the Ponzi Scheme on NASDAQ; but he considers the essential cause to be greed. [5]

The experience shows that the first to react to a crisis are the local investors who tend to gather information from various sources and who also take a higher risk. They are, generally speaking, the first who sell the national assets. Still, the contamination really starts to spread when the foreign investors decide to leave the respective country, as well as other countries which are in a similar situation and which are

considered to be the virtual candidates to the next crisis. [6]

4. Solutions

Daniel Dăianu suggests three solutions: an understanding of the systemic risks at national level, of the contamination and contagion effects; the need to regulate the financial markets as a whole (including the so-called parallel banking system, of the rating agencies, of the payroll bands, and a process of securitizing the loans) and the need for common accounting standards, regulated globally.[7]

The question about what has to be done with the banks' non-performing assets has been threatening in the air ever since the beginning of the crisis. As long as there are loans not paid back, and as long as the securities derived from these loans keep losing value, banks will not be able to, or wish to grant loans. As a solution, the governments have launched a variety of proposals, all meant to extract the respective assets and dispose of them, thus giving banks the freedom to resume operations.

a) The most promising proposal asked banks to go through a radical surgical intervention which involved taking a bank with problems and splitting it into two: a "good" bank, where all performing assets should go, and a "bad" bank, which should contain all the others. The "good" bank could then start granting loans, attracting money and capital and resuming its normal activity. In exchange for getting rid of its toxic residues, the bank shareholders and creditors without firm guarantees were to take over a proportional loss to the non-performing assets disbranched from the balance and concentrated in the "bad" bank. In its turn, this was going to be managed by some private investors who hoped to make profit from a correct liquidation of its assets.

b) Another option is that the government should buy the banks' toxic assets. The price paid would be established through "reverse auction" in which the

sellers bid, by displaying the lowest price they are willing to accept in order to get rid of a certain asset. It remains to be seen whether this system manages to set an accurate price for the assets. Banks participating in the auction would have all reasons to prevent a too sharp price fall.

c) A third option for the government would be to form a sort of insurance alliance with the banks in difficulty. Let's suppose a bank has toxic assets that were initially worth about USD 50 billion. In fact, the bank agrees to pay a deductible franchise – for example, it would take over the losses of the first USD 3 billion - and the government would cover most of any other additional losses over the rest of 47 billion. In exchange for the guarantee that it will not have to pay "in advance" more than an USD 3 billion loss, the bank pays an insurance premium to the government. This method devolves upon the state to subsidise the losses registered by some private banks.

As far as the financial system is concerned, the basic idea is that the government should subsidise the private investors who accept to buy the toxic assets and thus to remove them from the banks facing difficulties. This is precisely the idea standing at the basis of the public-private system investment plan, which was launched in 2009. The shortcomings of this method consisted in the fact that these low-interest loans are without right to appeal, that is, if things don't go well, investors are allowed not to pay them, without being penalised. [8]

We think that the first solution is the best (that is, the idea of dividing and transferring non-performing assets into a "bad" bank). This approach reduces government-borne costs to the minimum, leaving the problem in private hands. Consequently, it draws the line on moral hazard and gives banks that have reborn all possible reasons to grant loans again. But it also forces investors to undertake some loss, and therefore to suffer now, not later.

For the companies that are "too big to be left sinking" there is a simple solution, and that is dividing them.

5. Conclusions

The solutions to overcome the economic crisis in Romania are:

- a better absorbtion of the structural funds,
- investments in infrastructure, education, research, health and agriculture,
- reduction of taxes and fees,
- reduction in the number of taxes, starting with those whose administrative costs are superior to effective collected ones,
- supporting as a priority small and medium private companies, applying new supporting schemes by the state in order to stimulate their production and innovation,
- awarding financial aid for investments and the introduction of a system of paying off debts accelerated for all the productive investments,
- a five percent cut for payment of taxes on term,
- both state companies and civil contributors should be equally treated regarding interests and penalties for not paying on term,
- attributing state orders by means of a transparent system of bidding, and public works performed in a public-private partnership,
- reducing tax dodging,
- privatization of several non-efficient companies such as Tarom, Oltchim, Hidroelectica, CFR,
- diminishing the number of ministries and governmental agencies,
- orientation of export goods towards the largest markets such as US, China, India, Russia, Brazil, Indonesia.

Financial globalization makes it easier for crises to propagate from one economy to another, together with the import of financial products and mechanisms and with the opening of national markets for foreign investors.

Successfully overcoming the crisis means assuming some public expense which would have the role to relaunch the economic engine, giving priority to those which are performed in sectors linked to the economic increase.

Financial markets are unstable, their rebalancing cannot possibly be self-achieved and moreover, as long as financial markets exist, expansion cycles and recession will exist too.

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Challenges Met by Romania in Overcoming the Economic Crisis

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Abstract

This paper advances general solutions that should be considered by governments to overcome the financial crisis. The core of this paper focuses on the measures undertaken by the Government Boc and also on the measures proposed by the foreign investors in Romania. The author suggests a number of measures to be taken in order to limit the effects of crisis, such as: a better absorption of EU Funds, investments in infrastructure, education, research, taxes reduction and increase of Romanian exports on the major emergent markets.

Key words: crisis, solutions, reduction, measures

JEL Classification: G01

1. Introduction

There are more causes for the economic crisis from Romania, such as: the much too fast opening of the capital account; the consumerist fever, based on the short-term external financing; the procyclical fiscal and budgetary policy, based on the flat income tax and on the very accentuated growth of the budgetary salaries, under the circumstances when the economy was still expanding; the delay of the structural reforms. Of all these, the fever of the excessive consumerism remains the main cause of the Romanian economic crisis.

The main reason for the crisis that started in the States and then extended to global level by a contagiousness effect is the excess of financial investments. The main responsible is the banking system from the shadow, which includes hedge funds, structured investment vehicles, non-banking mortgage dealers and all the derivatives associated to these, together with mortgage loans.

2. Solutions

The economic literature proposes the following solutions for overcoming the financial crisis: to raise the salary taxes for the richest part of the population; to levy taxes for the financial transactions; to reform the financial sector, including the segregation of the commercial banks and the investment banks, so that the commercial banks are limited to grant loans and maintain them in their portfolio; the innovative derivatives should be approved by a regulating body; all the operations produced in the banks should be recorded in the statements; to eliminate the off-balance financial vehicles; to create public rating agencies; a strict control for the shadow banking system; to create a guarantee fund, financed by the financial institutions and to modify the structure of the incentives which award the risky conduct, including the introduction of clauses which stipulate that the managers who are granted awards for performances which prove to be false are bond to return the prizes [1]

Further on, we present a set of rules proposed in the specific literature: individual initiative should not be instigated through bonus or incentives pay, not without the implication that if there are losses as a consequence of the risks taken, they should be paid for; (to clean the debts, to cut the debts from taxes and markets organized on derivatives, by imposing high percents of coverage from self financed capital, of about 90%; to eliminate the fiscal paradises; to ban, inside the European zone, the so-called "credit default swap" (CDS) products; to nationalize the stock exchange enterprises; to promote an anti-speculative monetary policy and enhance the application of the prudential regulations; to modify the accounting regulations in a way that allows the enterprises to renounce the actual value and correct the account value according to the

impact of the market decrease; to regulate publicly the assessment agencies; to elaborate a deontological code for the multinational companies, in order to implement the social function of the enterprise; to train the financial officers for their role; to rebuild the primary function of the futures market, banning the speculations; to favour the profession of risk management officer; to reform the financial institutions, IMF and World Bank, meaning to reinforce the financial stability and reestablish the credit flux to the member countries.[2]

Daniel Dăianu also proposes three solutions which could be counted as learning: understanding of the systemic risks at national level, of the contamination and contagion effects; the need to regulate the financial markets as a whole (including the so-called parallel banking system, of the rating agencies, of the payroll bands, and a process of securitizing the loans) and the need for common accounting standards, regulated globally [3]

In Great Britain, the government decides the state's intervention in the banks Northern Rock and Bradford Bingley and injects EUR 44.8 billion in saving, through nationalization, the banks Royal Bank of Scotland, Halifax Bank of Scotland and Lloyd TSB. Therefore, the generalised bankruptcy of the British banking system could be avoided. Gordon Brown develops a relaunch plan of EUR 24.2 billion, that is, % of the GDP, having as a main element cutting the VAT from 17.5% to 15%.[4]

Here are a few of the austerity measures taken by some of the member states of the EU – the example of the Poland: the cut of the expenses for goods and services; the Czech Republic: dismissals from the budgetary sector; Hungary: the cut of the bonuses for the budgetary sector; the freezing of the salaries in the budgetary sector, of pensions and other social benefits; the cut of subventions for heating and lodging; the cut of the allowances for families, for children, sickness and maternity leave and the rise of the VAT.[5]

It must be noticed that the anti-crisis plans in the Eastern Europe are focused on the control of the expenditures, a typically orthodox and monetarist approach. This attempt to reduce the expenditures in the budget sector during the recession

exemplifies the paradox of saving. The more a country tries to economize, the more the investments and revenues decrease, and, thus, the resources for saving drop as well. In other words, the cut of the expenses will be further seen in the diminishing of the revenue.

3. Challenges for Romania

In order to outrun the present economic crisis, a national program of investments and fiscal stimulants is necessary, to favour the consumer and the business with a low credit level.

In what concerns the loan from the IMF, the following should be stated: Romania has concluded a loan agreement in May 2009 for 12,9 billion euros, to which are added other loans from the World Bank and the European Union. This loan was more of an emergency measure than a safety measure. Without the money from the IMF, Romania would have faced the real problem of not being able to pay the overhead expenses of the state and the exchange rate would have dropped significantly. But those problems have not been solved, only postponed.

The conditions attached to the IMF Agreement were the following: the law of the single wage grid for the budgetary sector, a new coherent law for pensions, legislation concerning fiscal responsibility, tax administration reforms and institutional reforms for the local authorities, amendments for the bank law and the deposits securitization law.

The main measure against the crisis in 2009 was the "First House" program, to which a budget of 1 million euros was allotted. But this program stimulates exactly the sectors responsible for the burst of the crisis in Romania, that is the loans for population and the construction sector. As we have already seen, the old inhabitancies were sold and new apartments were not built. In order to be efficient, the program should be redirected towards building new apartments or the thermal rehabilitation of the buildings. This would also create new jobs.

As for the dismissals from the budgetary sector, we have to say that economic stimulation will be even more difficult in the circumstances of increased unemployment – one hundred thousands of budgeters laid off. We consider that the solution for a healthy

economic stimulation in Romania is the increase of the employment. If possibilities would be created for one in four Romanians to find employment, the impact would be huge – one million of four producing added value and paying taxes, consuming and economizing. But where is the money for these measures? It could be found by tax reformation and new favourable of crediting the small and middle-size business.

Following negotiations with IMF, the Government of Romania adopted a series of austerity measures, meant to limit the effects of the economic crisis and encouraging a possible economic relaunch.

Austerity measures adopted:

A) reduction by 25% of the expenses in the public system starting June 2009,

B) reduction by 15% of pensions starting June 1st;

There will be an exception for children's allocations and for salaries under RON 600.

Measures for economic relaunch:

1. the payment of government's debts to companies (EUR 1bn);

2. insuring governmental investment programs:

- investments in rural economy, support for SMEs in the rural area, rural roads, rural infrastructure (EUR1 billion);

- investments in environmental infrastructure (EUR 0.7 billion);

- continuation of investment programs through relevant companies in the Ministry of Economy (EUR 2bn);

- 4,000 ANL residential units;

- 1,000 houses for specialists;

- rehabilitation of 500 km of county roads;

- rehabilitation of 400km of national roads;

- finalization of works on ring roads: Sibiu, Cluj, Oradea, Lugoj, Iași, Constanța;

- continuation of works on the motorways: Transilvania, Bucharest - Ploiești, Constanța-Cernavodă, Arad-Timișoara;

- continuation of the programs “Scrap Car”, “First Silo”, “First House”;

- granting governmental guarantees to companies that got European financing but are not able to insure co-financiering;

- granting further support to companies that hire unemployed people.

3. Program to fight against tax evasion;

4. Limiting public acquisitions. [6]

I have to highlight that the measure to reduce pensions by 15% was declared unconstitutional by the Constitutional Court, and therefore the Government decided to increase the VAT from 19% to 24%.

The imminence of a third year of economic contraction worries foreign investors. Therefore, The Foreign Investors Council (FIC) proposes authorities a set of measures, the following of which are considered a priority:

1) Bank for SMEs. This measure would generate a 0.4% rise of the revenues to the state budget and would create 9,000 new jobs.

2) Fast privatization of the state companies. FIC proposes a transparent privatization of a share of some state companies, by listing them on the Stock Exchange and through strategic sales, including of the minority stakes. The money thus made should be redirected to agriculture. The estimated impact of this measure would lead to a 2% rise of the GDP.

3) Private security companies at the Customs. Businesspeople ask for a simplification of the tax payment methods, simultaneous with focussing checkups on companies that present a high risk rate. In addition, FIC is willing to hire, on its personal expense, a security company to improve customs checkups. By reducing tax evasion, about EUR 460 million would be available every year for investments. FIC estimates the setting up of 46,500 new jobs.

4) First House should be made possible for the second house as well. FIC promotes the setting up of a Registry of Outstanding Debts registered by the state budget. As far as European funds are concerned, the measure suggested is outsourcing or centralising fund access process management, which would lead to a 3.6% increase of the GDP by 2015. At the same time, the bank representatives in the Council claim that the project First House has to be continued, but in a different form. They are for extending it for the clients who already own a house, simultaneously with reducing the state guarantees to only 50% of the loan value.

5) Hosting the European Football Championship in 2020, chance for infrastructure and tourism. This project, in partnership with Hungary, would have a

major financial impact on the economy as there will be new airports, highways, hotels and stadiums.

FIC reunites over 110 companies. Their cumulated investments in Romania exceed EUR 30 billion and represent almost two thirds of the total foreign direct investments made since 1990 so far.

Putting into practice the measures mentioned above would lead to a rise by 11.6% in GDP by 2015. Another more important effect of these measures would be the creation of 250,000 new jobs, all at a cost that does not exceed 0.7% of the GDP.[7] This shows that, unlike the measures taken by the government so far, which lead to a reduction of the number of jobs, there are measures that can have a positive impact on the economy and jobs.

Another aspect is not being able to access a direct factor in competitiveness improvement is to ignore the very first rule of entering in a new environment: know your competitors and learn how to act in order to create a competitive advantage. For Romania, there is a significant percentage (not aggregated data available) of funds returned to the EU due to failure to absorb. This metric follows the capability of the Romanian institutions to create projects and to allot funding according to the EU regulations. [8]

4. Conclusions

Within the context of the present economy, the present crisis demands for the reevaluation of the entire body of regulations, so that the systemic risks came out of the less benign financial innovations can be controlled. This enterprise should be undertaken with pragmatism and open-mindedly; it implies for some to get away from the imprisonment of the market fundamentalism. And one more thing should be added to these: it is not the real economy that should serve the financial one, but the other way round. When the financial economy gets to serve for itself, the consequences can be harmful for the economy as a whole... The capitalist economy needs a moral compass and it should guide the conduct of those who manage the private finances. And those who have no respect for decency in business and

do not accept the responsibility of their actions should be rightfully penalized, in one form or another. [9]

In what concerns the fiscal reform in Romania, we have two propositions: taxes for property and progressive taxes for outcome. For the fiscal reformation, a proposition is to levy a tax for property (depending of the number of rooms or real estate properties of an owner) and a progressive tax for salaries, in four steps. These taxes serve the purpose to redistribute the costs of the crisis to those who have bigger financial power.

After analyzing the real situation of the Romanian economy, Adrian Vasilescu advances the following solutions:

- investments in know-how and infrastructure,
- stimulation of internal production,
- attracting foreign direct investments,
- increase of competitiveness,
- improving the work organisation,
- increase of the number of employees paying taxes.

On short, he emphasizes the triad management-leadership-collaboration.[10]

In what concerns the "First House" program, it should be improved and extended to new buildings or towards the rural area. It should be completed with the "First Barn" program, for the young persons who are willing to invest in agriculture. For the young persons under 30s with entrepreneurial spirit, an appropriate program would be the "First Business". It grants a starting capital of 5000 lei, under the condition of employing at least three people, and tax exemption for profit for 3 years. The government should also invest in infrastructure (building of highways, sewage and heating infrastructure, modernization of the railways). Also, an industrial policy for a period of 25 years, with clear stating of the objectives, opportunities and tasks would be needed. Among the envisaged domains should be the car industry, the agricultural building, and factories placed under state management should be built. Another important domain would be the software, produced with well-paid local people in Romanian companies. A group of companies could be placed in Iași, where young professionals from the Republic of Moldova and Ukraine could be also attracted.

In order that Romania should overcome the crisis we propose the following solutions:

- 1) Investments in infrastructure, industry, agriculture;
- 2) A better absorption of the structural funds;
- 3) Extending the “Scrap car” program for tractors and farming machines;
- 4) Reduction of the flat tax from 16% to 14%;
- 5) Non-taxation of reinvested profit;
- 6) Reduction of the number of ministries to 7 and of the governmental agencies by 60%;
- 7) Introduction of the fast amortization system for all productive investments;
- 8) Cutting budget expenses on public acquisitions;
- 9) The cost of the mobile telephony conversations should be paid by the holder, regardless of the position;
- 10) Reduction by 5% for taxes paid in due time;
- 11) VAT payment on collecting the invoice money;
- 12) Helping young people by reducing tax per salary by 10% on hiring;
- 13) Setting up a wholesale market network to take delivery of fruit and vegetables;
- 14) The unblocking of the armament industry;
- 15) Taxing 30% in units serving fast food products;
- 16) Institutional support for promoting Romanian products for export on other markets than the EU such as: China, India, Brazil, Russia;
- 17) Shift towards non-polluting energies (solar and wind power);
- 18) Stimulating privatization in fields such as education, health, research;
- 19) Decrease of bank interests in order to facilitate crediting;
- 20) Encouraging purchase of domestic products “made in Romania”;
- 21) Price cuts for food products made in the country from domestic resources;
- 22) Obliging local authorities, through law, to make investments, firstly in priority fields (water supply, treatment of used waters, sewage, transport, health, education);
- 23) Reduction of the tax per dividends to 5%.

At present, we are facing a cluster of crises: the financial, food, global heating, and trust in the political class crises. In order to outrun the crisis, the government should assume the spending of public money in order to re-launch the economic ship, but aimed at those sectors which are able to produce economic growth. The strictly monetarist anti-crisis recipe cannot take the economy out of crisis. It can put it back on the line, but only in time and with significant social price, without establishing any grounds for a proper long and medium term growth. In order to outrun the present economic crisis, a national program of investments and fiscal stimulants is necessary, to favour the consumer and the business with a low credit level.

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Utilization of Logic and Symbolization in Interpretation Theory

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Abstract

The present work highlights the findings of a retrospective research in studying interpretation theory; and on that basis, it suggests a general scheme of interpretation of the hermeneutic process, focused on answering the following questions: why? what caused it? The structure of the hermeneutic process consists in: proper interpretation, the purpose of the interpretation and the improvement of the interpretation. Irrespective of the selected approaches of the hermeneutic process, there are three concepts which are always present: explanation, prediction and argumentation.

Key terms: formal economic axiomatic, explanation, prediction, argumentation, economic hermeneutics.

Clasificare J.E.L.: A12, B41.

Introduction

In economics, the discipline acknowledged for the study of interpretation theory is the economic and financial analysis. Some authors consider that an extension of study of economic and financial analysis for satisfaction of interpretation theory is not proper for scientific knowledge [1]. It is argued that the economic and financial analysis must remain the subject that offer accurate information for management, based on interpretation of account situations and financial reports. This is the only way for taking instant corrective measures without much subjective interference. As broadening

economic and financial analysis functions can be made only at the expense of precision, it would deprive the management by the easiest tool for immediate decisions and relatively sufficiently substantiated.

In my opinion, a retrospective research on the study of interpretation theory leads to the following findings:

- ✓ If in philosophy, hermeneutics represents the methodology of interpretation and understanding of texts, by similarity, in economics hermeneutics can be understood as science of interpretation of economic phenomena and process.
- ✓ The universal character of hermeneutics can not be challenged. It is a subject similar to logic or psychology and its application in economics has become a necessity.
- ✓ In modern approaches, hermeneutics is not about the interpretation itself, but the science of foresight, of object and means of interpretation, of ways to communicate, interpret and apply practically. Interpretation is intransitive of recognition, the aim being the understanding of itself, transitive, having the purpose to make itself understood, and prescriptive or dogmatic, as the legal and theological one, having the purpose the regulation of fulfilment. Hermeneutics is both synchronous, when given the predominance search for the systematic character, and diachronic, when the historic character prevails. [2,3,4,5].
- ✓ For the application of hermeneutics to be successful being successful in economy, it is required an urgent construction of a semiotics of

economics. The first step could be unic symbolization of economic concepts, notions and indicators.

- ✓ Hermeneutical process is iterative: rewrite the past (make corrections on issues that currently can be seen, but in the past were not identified), interpret future (foresight approach that implies a look from the „rewrite” past to future through “corrections”) and interprets the present through options that can modife trends (visioning approach that implies a look from future to present).

Development

Interpretation theory in economics – economic hermeneutics – must account for the progress of areas of logic and methodology (logic of problems, heuristic methodology) materialized such as: structuralist model of theories (J.D.Sneed, W. Stegmüller), local inductive logic (I. Levi), institutional logic, etc. [6]. Today is much more about “previous assessment”, “preliminary assessment”, “plausible reasoning”, “explanation”, “prediction”, to describe a stage of knowledge.

All these reasons urge us to subscribe to the idea that the economical hermeneutics is the interpretation science of economics phenomena and proceses, based on: explanation, prediction, reasoning and argumentation, in a foresight and visioning approaches [7].

Considering the general scheme of interpretation focused on the question *why*, I believe that the hermeneutical process structure includes: *the proper interpretation, the objective of the interpretation and the turning account of the interpretation*, also:

- The question requires an interpretative answer: what does the economic phenomena mean? what do we want to know? who is the user of information?
- Based on responses, hypothetical judgment is issued and one or more hypotheses in order to solve the problem;
- The hypothesis is verified by analysis and value judgments ,

than the hypothesis is converted to thesis;

- The thesis is argued through modus ponendo-ponens process or modus tollendo-ponens proceses, by abduction or retroduction;
- The thesis is capitalized with explication of perspective of interpreted phenomenon and it is generalized to other phenomena.

The question must be very clear in order not to create ambiguities. By posed questions are expected answers whicjt can describe economic phenomenon: causality, behavior and dynamics. The casual analysis is made with tools of the economic analysis seeking to identify the factors of influence, their direction and size. Also, there is accomplished their grouping based on persistence over time. Predictions are made and thesis that will be argued is issued.

Neutral of the approach of hermeneutical process, there are three mandatory concepts: the explanation, the prediction and the argumentation.

The explanation has the role of making the understanding of the phenomenon easier, process or event by revealing the generating causes. Its specificity relies on the fact that it takes place after the happening of the event and consists on the reconstruction, going in the opposite direction of time passing by, or of antecedents that lead to the event that we want to explain. It occurs usually in response to the question *why*?

In case of the explanation the „C” consequence occurred, because there were initial „S” phenomena, „U” phenomena occurred further and all happened under the „L” laws. So, the result is explained by assumptions and by governing laws. With regard to time, the result is based on events that took place, even itself being an accomplished fact. Its truth depends on the ability of the interpreter to understand and assert correctly the premises. The objective existence of the consequence cannot be questioned. What can be discussed is its correct perception.

The prediction anticipates the result starting from the initial phenomena, those wich are expected to unfold and from the laws governing them. So, in terms of time, the prediction is based on something that

happened, but also on something that will happen. Its truth depends on the ability of the interpreter to understand what happened, rely on the insight regarding what will happen, and to assert correctly what happened and what is inferred.

Unlike the explanation, the prediction anticipates the conclusion before the occurrence of „U”.

From what has been presented above, results that both the explanation and the prediction have a degree of relativity. If, in the case of the explanation, the degree of relativity is given by the capacity of perceiving what has happened, in case of prediction the unforeseen occurs as well. Otherwise we would accept the existence of the absolute truth.

The level and depth of an explanation depends on both the theoretical appliance used and the fineness and accuracy of „measurements” made for setting the antecedent terms of the explanation. In the case of prediction the unforeseen occurs in addition.

Hermeneutics requires a history of the explanations as basis for predictions.

The argumentation is the logical process structured on views, rules, sources, referential and reserves. Synthetical, the five parameters of argumentation are:

- *Arguments*, respectively facts, samples, data, in general, economic events;
- *The view*, meaning the advanced thesis or hypothesis. If we have arguments “A”, we have the view “O”;
- *The general rule* represents a guarantee of the relationship between arguments and view, a thing given, validated by time and generally accepted;
- *The source*, respectively the base for guarantees, meaning further data brought to sustain the general rule;
- *The qualifier* that introduces the possibility of „could”, „maybe”, „as it seems” etc.;
- *The reserve* that points at information and data which lead to conclusion or different thesis than reached before.

Based on the general scheme of interpretation (based on the question “why”, “because”, “since”) and the argumentation process scheme (based on implication “if”, “then”, “therefore”, “having impact”, “through logical deduction”) we can illustrate the interpretation and argumentation of a phenomena:

Interpretation:

- *Why*: does turnover index growing
- *Because*: market share and size is increasing
- *Due to*: competitiveness and demand increase
- *Since*: system performance or social need is increasing

Argumentation:

- *If*: system performance or social need is increasing
- *Than*: competitiveness and demand is increasing
- *Having impact*: market share and size is increasing
- *Through logical deduction*: turnover index is growing

In the modern theory a two-way approach to argumentation has been shaped [1]:

- The tendency to overlap logic and argumentation, if not entirely, then at least partly (especially in the Anglo-Saxon literature), as well as equating the two fundamental concepts: *the reasoning* and *the argumentation*.
- The tendency to oppose the argument, the formal logic. The argumentation theory is considered more as informal logic. Argumentation cannot be understood as a strict relationship between developing speakers' evidence and taking responsibility on a thesis by the interlocutor, but as a discursive activity in the form of a multiple dialogue. „Given this point of view, the argumentation is seen as a set-up of arguments, well-ordered by criteria of argumentative efficiency, and

wich only together can provide the interlocutor's conviction (...) the emphasis falls not on the contingency strenght of each argument, but on how each argument participates in the accomplishing of the entire argumentative purpose". [8].

From an economic perspective, I consider that the argumentation must be based on a logical reasoning because any argument is an organization of reasoning. The economic arguments pursue an objective goal, therefore conected with praxis. Also, it has a predominant social function through the effects it has on individuals and groups with whom we have contact. Therefore it has moral, psychological and communication valences. Upon the economic argument the economic hermeneutics can be built as a science for the interpretation of economic phenomena.

Investigated logical reasoning is not only concerned with practical correctness, but only with the absolute. The argumentation attend about function and correctness in concrete.

In the process of argumentation we have one or more backgrounds (evidence) to support a conclusion that is called thesis.

For example I consider the following:

- When the market share increases, the competitive position of the enterprise is improving.

The market share of the enterprise increased (basis).

Therefore, the competitive position of the enterprise has improved (thesis).

- When the enterprise's competitive position is improving, the negotiation conditions on the market relax.

The companie's competitive position has improved (basis).

Therefore, the negotiation conditions on the market (customers, suppliers, banks) relax (thesis).

- When the negotiation conditions on the market relax, the terms for product and service delivery relax as well.

The negotiation conditions on the market relax (baseis).

Therefore, the terms for product and service delivery relax (thesis).

Techniques of deduction argumentation differs in two categories, by argument type: sustaining or rejection. In consequence, there are sustaining techniques of argumentation (thesis) or rejection techniques of argumentation (thesis). There are defined sustaining techniques based on implication, disjunction, implication and disjunction (dilemmas) [8]:

- *Sustaining techniques based on implication*

This argumentation technique is known as modus ponendo-ponens.

Example: it is known that if the current liquidity of the company is less than 1, the enterprise risks insolvency.

According to argumentation techniques mentioned above, if the enterprise "Banatul" has current liquidity 0,4, then this enterprise risks insolvency.

- *Sustaining techniques based on disjunction*

This argumentation technique is known as modus tollendo-ponens.

Example: it is known that the amount of profit increases if the sales or profit margin increases. The sales did not increase. Then profit margin increased.

- *Sustaining techniques based on implication and disjunction*

Example: if labor productivity increases, then turnover increases, if product quality increases then business competitiveness increases, then, if labor productivity or products quality increases then turnover or business competitiveness increases.

Conclusion

1. Economic hermeneutics can bring benefits for theory and practice only if economic science assimilates more deeply semiotics knowledge. In this way, I consider the following rules for simbolization are adequate:
 - a. For economic phenomena, pocess, notions will be used as symbols, first letter, groups of letters or other well spread signs in literature, possible symbols derived from expressing concepts in a foreign language further symbols derived from linguistic or

- semantic form of meaning of term in Romanian (e.g. E-energy, C-cost, I-investment)
- b. There are situations when certain economic concepts are made up from different elements that must be individualized by symbols. Example: production costs can be defined in material costs, wage costs, electricity costs etc. In order to delineate these by components, one has to keep the capitalized gender symbol and for species must add another specific symbol, this represents the second rule for symbols construction. For the above example, symbols are: C_m -material costs, C_s - wages costs, C_{el} -electric energy costs.
 - c. For expressed notions with closer words will be used for symbols letters or groups of letters (with or without connection with linguistic or semantic form) so that it will be made difference between symbols; sometimes for distinction it will be added an index or exponent for letter. Example: both, quality and cost of production would imply the same letters, reason for offering „k” symbol for quality and „c” for unit cost. It is proper to use simple symbols, easy to hold in mind like one letter.
 - d. Symbols in economics will be established so as to respect the established mathematical symbols.
 - e. Sometimes, economic categories will be symbolized with numeral index attached to specific notion. Example: costs from base year C_0 and from actual year C_1 .
 - f. In economic symbolics it will be kept the signs of known mathematical operations, operations with sets and prepositional operators.
 - g. Unit size of economic indicators will be kept as symbols of absolute value but with lowercase. At the same time, for medium size indicators the symbol will be used with dash above.
2. Economic hermeneutics can not develop without formal axiomatic economics. The main directions I see are:
 - a. Postulating a number of primary economic terms: increase/decrease, intensive development, lasting development, different indexes, potential, vulnerability, bankruptcy etc.
 - b. Defining these terms with the principle of maximum consensus. When points of view about defining some terms are distinct but scientifically sustainable, then there will be specified the chosen option for defining and the coverage without violating logical principles of the definition rule.
 - c. Establishing rules from which the primary terms obtain other derivatives.
 - d. Postulating a finite number of sentences named axioms in order to embrace all economic areas: the economic status of the system, the financial status, the system evolution, the production, the consumption, distribution etc. Immediate directions that I identify are: fundamental axioms of the enterprise, leverage axioms, efficiency axioms, human resources performance axioms, production-sales correlation axioms, labor

- productivity axioms, rate of financial returns axioms, rate of economic returns axioms, synthetic efficiency axioms, growth axioms etc.
- e. Deduction from the axioms of other sentences, called theorems, that provide consistent and systematic description of complex phenomena and processes. This step is completed in what is called axiomatic system.
 - f. If the primary terms and axioms do not define, meaning that detach in the current economic language, considering them simply variables x, y, z, \dots , we obtain a formal axiomatic system. A feature of this system is that it may receive an indefinite number of interpretations.
 - g. Although I think that a formal economic axioma will bring substantial progress for economics, I consider that one must begin with making an intuitive axioma (a system of truths-axioms) and continue with an operative axioma (intermediate between formal and intuitive).
3. Interpretation theory can contain at least the following subjects: explanation, prediction, argumentation, symbolization, formal logic, interpretation with rates, interpretation with Du Pont diagram, interpretation with Pareto curve, interpretation with waveforms, with diagnosis etc.

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A Brief Retrospective on Measuring Utility in Traditional Microeconomics

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Abstract

Economic science is always in search for a more rigorous, objective and accurate methods that could provide economics with a more elevated status among other sciences. In many cases the attempts to assume empirical methods specific to natural sciences (such as observation and experiment) were less able to lead the economic thought towards significant results. Nevertheless the use of mathematical language in economics as a formalizing method has proved to be successful. The large scale spreading of mathematics among economists overlaps with the so-called marginalist revolution. The proponents of marginalist theory made appeal mathematical language in order to explain and measure utility. In this context, the present paper attempts to analyze how the formalizing method provided by mathematics altered the traditional microeconomics. Thus, the paper provides a brief retrospective on the use of mathematics in utilitarian approach with a special focus on the debates over the measurability of utility.

Key words: methodology, quality of life, epistemology, utility

Clasificare J.E.L.:

1. Introduction

From an epistemological point of view, the strength of a scientific theory or a science in itself consists in its ability to transpose the specific abstract concepts in a common language that is known, accepted and used by a scientific community. The constant need to provide consistent evidence to sustain the scientific character of economics has led to a persistent quest for a tool that would allow economists to formalize their assumption and

arguments in a clear, objective and unified language. Furthermore, for many scientists, language is considered to be one of the most significant parts of the research method which, alongside with the object of study and the body of empirical or theoretical knowledge, guarantee the scientific framework of any research.

In this context, the present paper attempts to analyze how the formalizing method provided by mathematics put its mark on traditional microeconomics. Thus, the paper will provide a brief retrospective on the use of mathematics in utilitarian approach with a special focus on the debates over the measurability of utility. The main argument questioned is whether the traditional microeconomics propensity to ordinality instead of cardinality has favored the development of quantitative methods or it has removed economists from its real purpose i.e. effective measuring of wellbeing and quality of life.

2. Mathematics as an economic language

A brief retrospective on the evolution of economic reasoning reveals that economics was often inspired by natural sciences in its search for better methods. The elevated status of natural sciences, especially physics, among other sciences is provided by its rigorous, objective and accurate methods that can deliver consistent results acquired by experience and observation or tested in various experiments. Economics has always dreamed to this status thus economists have tried to borrow the same methods in hope for same kind of results. While most attempts to embrace empirical methods from natural sciences lead to unconvincing results, the use of mathematical language in economics as a formalizing method has proved to be more successful. Although the use of mathematics in economic can be traced back to the roots

of economic thought, one can assume that the second half of the XIXth Century is the real turning point. The large scale spreading of mathematics among economists overlaps with the so-called marginalist revolution where two out of three marginal schools (the Lausanne and the British marginalists) started to use mathematical language in order to explain the concept of marginal utility. The rapid integration of mathematical language in economics could be explained for at least two reasons. First, mathematics provides the necessary tools to operate and combine specific assumptions using logic embedded in mathematical rules and, second, more important, the quantitative methods derived from mathematics ensure the adequate framework for assessing economic phenomena. The opportunity to measure economic phenomena and use these measurements as arguments in the logical process opened a new path in economic thinking and seemed to provide a more rigorous character to economics as social science. As a result of this approach, economics ranks first among social sciences as the discipline which embraced on the largest scale mathematical language and its specific quantitative methods. Alfred Marshall is one of the economists who made clearer the role of mathematics in economics. According to Marshall, a good economic analysis should use mathematics as language and keep this language until the end of an inference. After that, one should translate the result in English, verify if it applies to real life and then forget that he ever uses mathematics during his reasoning. This approach was stated by Marshall as "burn mathematics" approach [1]. Marshall's statement was made on a time when mathematical economics was in blossom by the works of Pareto, Cournot, Fisher and others. This direction was also followed by Edgeworth who pointed out that mathematics can be used as a much more common and understandable language to express complex ideas about economic phenomena and their dynamics.

According to Colander, once economics has moved away from labor and cost theories of value toward utility based theories, the measurability of utility became a central topic in a new more mathematical and formalized framework of economics [2]. The

new mathematical framework was set by the works of Dupuit, Cournot, Gossen strengthened by exponents of marginal revolution such as Walras, Pareto, Jevons, Edgeworth, Fisher and Marshall. Moreover, the new marginal method emphasized the analogies between economics and physics. For example, Jevons described his approach as the mechanics of utility and self-interest [3] while Pareto pointed out that there is an acute need for economics to acquire the rigorous method of physics especially rational mechanics in order to infer its results from observation and avoid any metaphysical assertion [4]. Edgeworth also noted that to apply mathematics to economics is to look at mathematical physics to see how mathematics can aid in the construction of propositions within the science [5]. In this context, mathematics became an intellectual structure in which economic reasoning could be further developed. Furthermore, Pareto argues that mathematical argument is a formal argument, based on a structure of assumptions, definitions and laws that work to move arguments to the conclusion.

3. The assessment of utility

The term utility whether coined as ophelimity, wantab, rarite or desirability [6] is based, in its very essence, on the idea that happiness is the ultimate objective of human existence, as famously argued by Jeremy Bentham [7]. In other terms, the final goal of an individual is to seek pleasure and avoid pain. Hence, utility was perceived as a continuous hedonic flow of pleasure or pain. As Kahneman and Krueger note, this definition allows Edgeworth to define "happiness of an individual during a period of time as the sum of the momentary utilities over that time period" and to formalize this definition as "the temporal integral of momentary utility" [8].

As stated before, for the recently emerged marginal analysis, the computability of utility or the possibility to rigorously measure the economic satisfaction of each individual in each particular case and transpose it to a quantitative measure unit, became one of the most important topic. The debate was started by Francis Isidro Edgeworth who, while trying to respond to some pessimistic views about the measurability of utility that had

been expressed by William Stanley Jevons, brought to light the idea of an instrument called hedonimeter that would measure utility as this is perceived by the individual [9]. The assumption that utility could be assessed using a sensory measurement sounded very tempting because such a sensory measurement would provide economics with the so much desired status of a precise science. This idea was also embraced by Irving Fisher who attempted to provide a rigorous, quantitative, definition of utility and evidence that utility could be measured [10]. Nevertheless, Fisher's perspective was slightly different since he was trying to find a method of measuring utility that did not rely on physiological measurements such as Edgeworth's hedonimeter. On the other hand, Edgeworth assumed that "Pleasure is measurable, and all pleasures are commensurable, by which he means not only that different sorts of pleasures felt by one person can be measured on a single scale, but also that the pleasures of different persons are commensurable" [11]. The hedonimeter idea was based on Weber-Fechner law which states that when stimulus raises geometrically, sensation augments arithmetically [12]. This hypothesis was formalized as follows:

$$p = k \cdot \ln(S/S_0)$$

where p is the individual's perception of a change, S is the added stimulus, S_0 is the beginning stimulus, and k is the relationship parameter [13]. Edgeworth's profound interest in quantitative measuring of utility is rather strange as, in a different context, he pointed out that "our mathematical method rightly understood ... is concerned with quantity, indeed, but not necessary with the number. It is not so much a political arithmetic as a sort of economic algebra, in which the problem is not to find x and y in terms of given quantities, but rather to discover loose quantitative relations of the form: x is greater or less than y , and increases or decreases with the increase of z " [14]. Through this statement Edgeworth seems to eventually embrace the mainstream utility theory.

While Edgeworth was arguing that utility can be measured directly and on a cardinal scale [15], Fisher was convinced that a direct measurement of utility is virtually impossible and economics should rely on an indirect

approach. Since individuals reveal their utility through their actions we should start from individual choices in order to measure utility [16]. In this case there is no need for a psychophysical foundation for utility and economics can be freed from any psychological interference and be relied upon a "Simple psychoeconomic postulate: Each individual acts as he desires." [17]. Nevertheless, utility can be statistically measured using appropriate methods which will "prove" the law of diminishing marginal utility. [18]. These methods rely on the indifference curve analysis that could provide estimates of statistical measurements of utility at different income levels.

Despite their debate, both Edgeworth and Fisher agreed that utility can be measured; the only divergence concerned whether that measurement should be direct or indirect. On the other hand, one of the most important exponents of marginal revolution, Vilfredo Pareto stood more firm than Fisher and disagreed with the idea that utility could be measured in any way that is useful to economics. He argued that the only way to provide purity to economics is by restricting economist approaches to observation of human action in order to build theories according to this behavior. Pareto, as Fisher, aimed to rid economics of the need for psychological analysis, and instead focus on establishing its own fundamental laws. His science of 'logical action' has been seen as the initiation of a longlasting separation of psychology and economics [19]. By drawing attention on the impossibility to compare utilities among individuals, or at least groups of individuals, Pareto argued that the endeavor to find a working measure of utility for economic policy was hopeless and economics should turn to mathematical formalism paving "the way for the achievements of mathematical economics from the middle years of the twentieth century" [20]. Starting with Pareto, the whole idea that utility could be measured objectively using a cardinal scale was abandoned, and replaced with the belief that this concept is not directly measurable, but that ordinal utility can be inferred from observed choices [21]. This kind of approach was further backed up by the following assumption: there is no need for cardinal utility in positive economic analysis since

any kind of preferences that can be represented by static indifference curves can be represented in the same time by an ordinal utility function.

4. Conclusion – the revival of cardinality

However, in the last decades one can see a genuine revival of cardinal utility embedded in the more complex form of behavioral economics. According to Bruni and Sugden [22] "Behavioural economists take pride in grounding their explanations on empirical hypotheses about how human beings really think and act, rather than on deductions from a priori assumptions about rational choice, and in subjecting those hypotheses to experimental test". Moreover, as von Neumann and Morgenstern argued in 1944, cardinal utility is necessary for humans to be able to make stochastic choices. Following this argument, economists frequently choose to use cardinal models instead of ordinal models because ordinal models of behavior lack precision, detail, and tractability for describing certain classes of behavior such as dynamic choices. Even though Kahneman and Krueger argue that "life satisfaction is neither a direct, verifiable experience nor a known personal fact like one's address or age", they also conclude that "We suspect that many policymakers are more comfortable with the idea of minimizing a specific concept of misery than maximizing a nebulous concept of happiness[23]. This conclusion is very important as it allows economists to consider that although there is no reliable measure for utility, there could be an inverted scale of dissatisfaction which could give an appropriate measure of disutility.

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Discrimination on the Labor Market in Romania – Results from a Survey Conducted by Spin Project

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Abstract

Many European and non-European countries face different forms of discrimination on the labor market: it's about gender discrimination, religion discrimination, race, nationality, physical disability, age or political options discriminations. Equal opportunities and combating discrimination in any form is one of the basic principles of the European Strategy for Sustainable Development.

This article aims to present the point of view of future economic graduates on the main types of discrimination in the labor market in Romania, the degree of discrimination and the intensity of the phenomenon. This goal is achieved by conducting a survey among the third-year students of an economic university (The Academy of Economic Studies in Bucharest). The survey is developed within SPIN project, co-funded by European Social Fund.

Keywords: discrimination, migration, labor market, survey, target-group.

J.E.L. classification: I20, J31, J24, J71.

1. Discrimination on the labor market – one brief approach into literature.

Numerous economic studies deals with the existing inequalities between men and women in the labor market, in terms of payment, access to leadership positions, or the behavior. Female employees' lower wages compared to that of male employees' are associated with lower levels of education, training for women than for men in some developing countries [5]. Also, in these countries there is a striking presence of unpaid labor, informal or legal labor (dissociation between the paid and unpaid work, between legal and illegal work).

Women's position in society is considered inferior, characterized in greater measure by poverty, limited access to education, to well-paid jobs [2], [7]. Moreover, in the literature have emerged efforts of measuring the influence of employees' gender on economic growth of a country, at macroeconomic level [1].

2. Survey on the labor market in Romania, developed by SPIN project.

2.1. Presentation of SPIN project.

SPIN project creates a bridge between future college graduates who enter the labor market and the real business environment, preparing them to meet the conditions and restrictions imposed by future employers.

The project responds to the necessity of improving the insertion process on the labor market, for students from partner institutions, enrolled in the specializations of Statistics and Economic Forecasting, Economic Informatics and Economic Cybernetics. Innovative programs of practice-internship are organized through this project, using support-materials developed with information and communication technology. The project is in the range of initiatives to diversify inter-institutional partnerships, it is fully consistent with the revised Lisbon strategy, because it promotes the creation of conditions for the development of work-based learning schemes and supports lifelong learning. These are the exact elements needed to enhance a good integration of graduates into the labor market.

2.2. Evaluation of labor market discrimination level using a survey organized by SPIN project

In mid-2012 it was conducted - within the SPIN project - a survey among students in the target group of the project. The sample

was not representative, extending the results of the survey being made, therefore, with caution. The questions focused on several real problems of the labor market in Romania, but in this article the author focuses his attention on the problem of existence of several types of discrimination and inequalities.

Next we'll present some of the questions in the questionnaire and students' responses referring to this issue.

At the question: "Did you experience any form of discrimination during your university studies?" most surveyed persons (almost 90%) responded negatively. There were considered the following types of discrimination: gender, involvement in extracurricular activities, in selection for job offers. Only 5% of respondents said they have experienced gender discrimination, and another 5% - experienced some discrimination in selection for job offers.

The following sequence of questions aimed inequalities, discrimination in the labor market (gender discrimination, environmental, or depending on the type of companies).

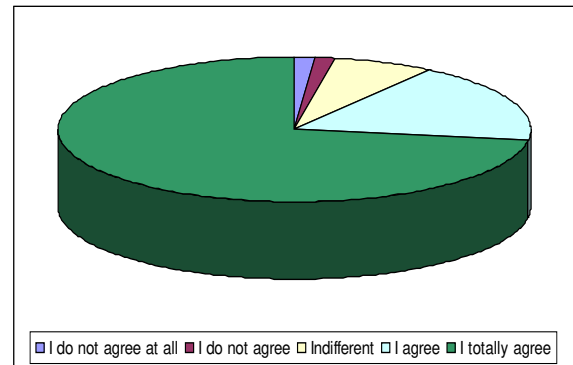
Thus, relating to the existence of salary differences (discrepancies) between men and women occupying similar positions, approximately 90% of those who completed the survey believe that there shouldn't be such differences (72.6% of the respondents perfectly agree and 17.81% of them agree that there should be no such gender pay discrimination). 6.85% of persons said they were indifferent to the problem.

Table 1. There should be no wage differences between men and women for similar job positions

	No. of respondents	Share (%)
I do not agree at all	1	1.37
I do not agree	1	1.37
Indifferent	5	6.85
I agree	13	17.81
I totally agree	53	72.6
TOTAL	72	100.00

Source: Survey, SPIN project.

Figure 1. There should be no wage differences between men and women for similar job positions



Source: made by the author based on SPIN data.

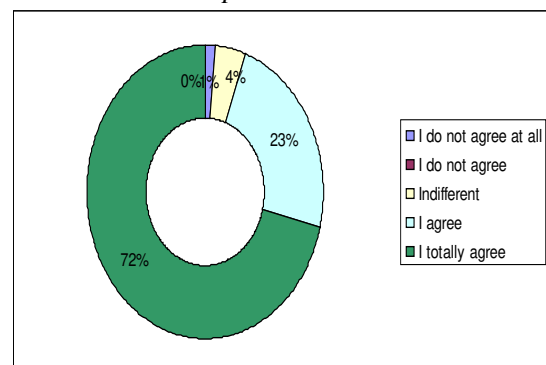
A similar attitude stands out from the respondents in terms of differences in how men and women are treated at work when occupying similar positions. 71.23% of the surveyed persons totally agree that such discrimination should not exist and 23.29% - agree with this.

Table 2. There should be no differences between men and women in terms of how they are treated at work for similar job positions

	No. of respondents	Share (%)
I do not agree at all	1	1,37
I do not agree	0	0
Indifferent	3	4,11
I agree	17	23,29
I totally agree	52	71,23
TOTAL	73	100

Source: Survey, SPIN project.

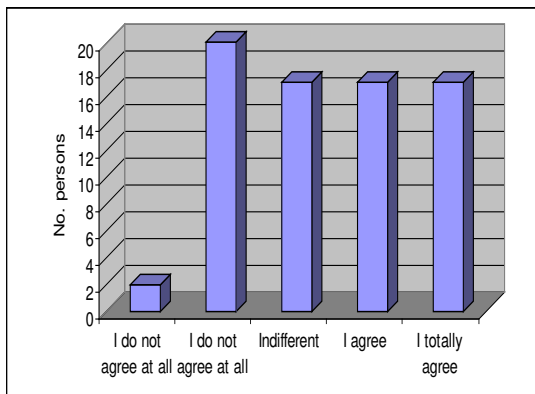
Figure 2. There should be no differences between men and women in terms of how they are treated at work for similar job positions



Source: made by the author based on SPIN data

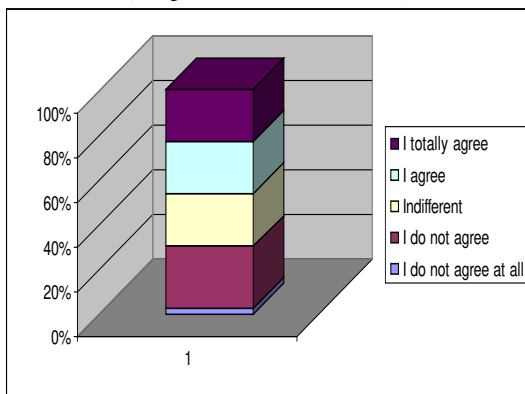
Another type of wage discrepancy is between multinational companies and the rest of the companies. Regarding this discrepancy, respondents' opinions are more equally divided. Most say they agree with the existence of such wage differences (27.4%). 23,29% of respondents are indifferent to this problem. 23.29% of the respondents agree that there should be no such discrepancies and other 23.29% totally agree with this.

Figure 3. There should be no wage differences between multinational companies and other companies for similar job positions (respondents' distribution)



Source: made by the author based on SPIN data.

Figure 4. There should be no wage differences between multinational companies and other companies for similar job positions (respondents' structure)

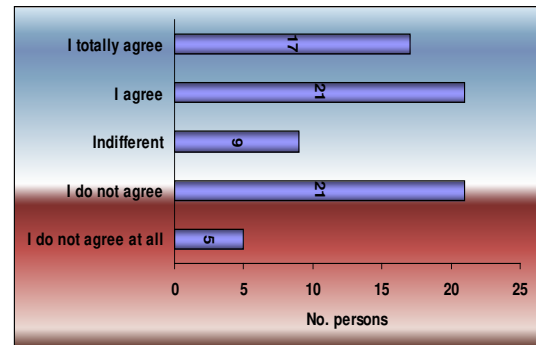


Source: made by the author based on SPIN data

Opinions are also divided on the existence of wage inequality between urban and rural areas, for similar job positions. Weights of those who agree and those who disagree with the existence of these wage differences are equal (28.77%). 23.28% of respondents

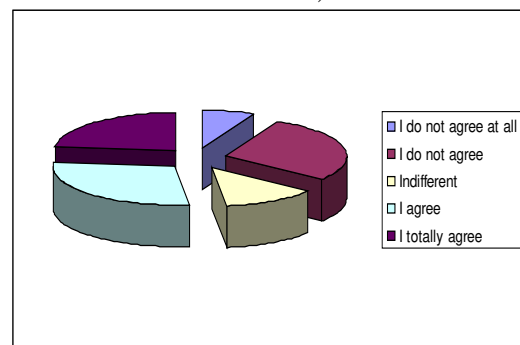
totally agree that these differences should not exist, while for other 12.33% this is an indifferent matter.

Figure 5. There should be no wage inequalities between rural and urban areas, for similar job positions (respondent's distribution)



Source: made by the author based on SPIN data.

Figure 6. . There should be no wage inequalities between rural and urban areas, for similar job positions (respondent's structure)



Source: made by the author based on SPIN data.

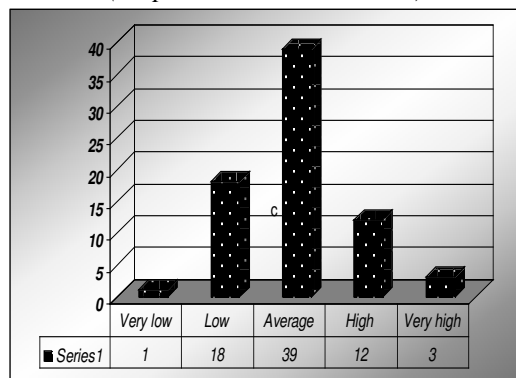
The sequence of the following two questions of the questionnaire refers to the existence of one of the most common forms of discrimination in the labor market in Romania: gender discrimination. Most people in the target group participating in the investigation consider that the gender discrimination in Romania is average (53.42%), while nearly a quarter of them (24.66%) say that the level is lower. About 20% of respondents believe that the gender discrimination in Romania is high or very high.

Table 3. Gender discrimination in Romania

	No. of respondents	Share (%)
Very low	1	1.37
Low	18	24.66
Average	39	53.42
High	12	16.44
Very high	3	4.11
TOTAL	73	100.00

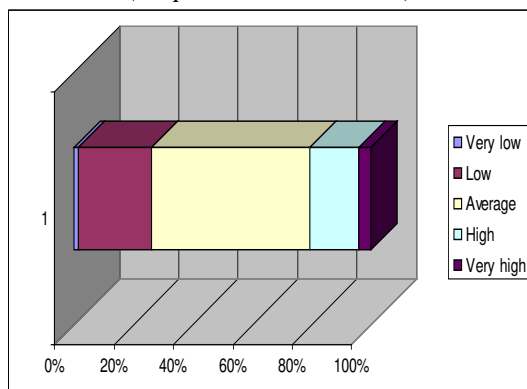
Source: Survey, SPIN project

Figure 7. Gender discrimination in Romania (respondents' distribution)



Source: made by the author based on SPIN data.

Figure 8. Gender discrimination in Romania (respondents' structure)



Source: made by the author based on SPIN data.

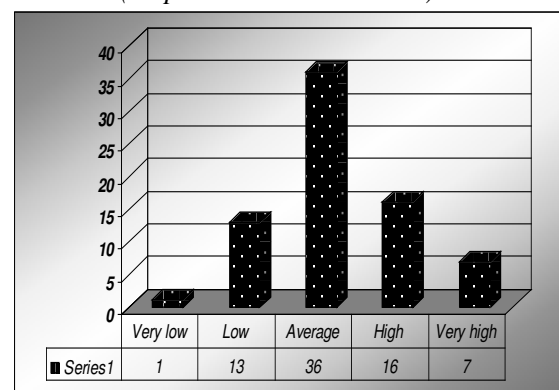
Regarding gender discrimination for management positions in Romania, almost half of those who completed the questionnaire survey find that the level of phenomenon is average (49.31%), while 30% assessed it as high or very high. 17.81% of respondents believe that gender discrimination in senior positions in Romania is low.

Table 4. Gender discrimination for management positions in Romania

	No. of respondents	Share (%)
Very low	1	1.37
Low	13	17.81
Average	36	49.31
High	16	21.92
Very high	7	9.59
TOTAL	73	100.00

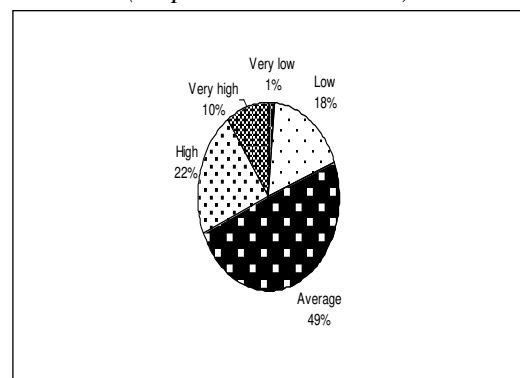
Source: Survey, SPIN project

Figure 9. Gender discrimination for management positions in Romania (respondents' distribution)



Source: made by the author based on SPIN data.

Figure 10. Gender discrimination for management positions in Romania (respondents' structure)



Source: made by the author based on SPIN data

3. Survey conclusions

Most respondents believe that there are inequalities in the Romanian labor market: between women and men, between urban and rural areas, between multinational companies

and other companies. Of all these types of discrimination, persons participating in the survey considered in greater proportion that it should not exist gender discrimination (regarding the salaries or the manner in which women and men are treated at work) (over 70% of respondents agree with this). Despite this position, about half of survey participants believe that gender discrimination is present in Romania, (including management positions), and it has an average level.

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Corporate Social Responsibility and Competitiveness

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Abstract

Corporate social responsibility helps achieving different social, environmental and economic policy goals, but it can also contribute to competitiveness. This paper concentrates on how CSR could help competitiveness at level of individual enterprises. Moreover the connection between macro-level competitiveness and CSR is presented.

Key Words: corporate social responsibility, competitiveness, innovation, human resources, risk management

J.E.L. Classification: E23, M14

1. Introduction

Corporate Social Responsibility (CSR), as defined by the European Committee, is the concept through which companies integrate, on a voluntary basis, into their activity social and environmental concerns.

Corporate Social Responsibility refers to the actions of enterprises which exceed the objective of their activity, they are duties towards the society and the environment. Regulation measures created a more favorable framework for enterprises which voluntarily meet the social responsibility.

A strategic approach to CSR is becoming more and more important to the competitiveness of the enterprises. The access to capital, risk management, human resources management, customer relationships and innovation competence can benefit from the strategic approach to CSR.

The objectives of Europa 2020 strategy are based on CSR for a smart, sustainable and comprehensive growth, including the 75% employment target. The responsible business behavior is extremely important for the private operators from public services.

Contributing to the diminution of the social effect of the current economical crisis, including unemployment, is part of Corporate Social Responsibility. CSR offers a set of values which can form the base of the construction of a much solid society and for the transition to a more sustainable economic system.

The committee played an important role in the development of public policies to promote CSR. Starting with 2001 through the Green Paper and by establishing the European Multi-stakeholder Forum on CSR. In 2006 the Committee published a new policy. This identified 8 fields of priority actions for the EU: the increase in the degree of awareness and of best practice, support to multi-stakeholder initiatives; cooperation with Member States; consumer transparency and information; research; education; small and medium-sized enterprises; and international dimension of CSR. This policy contribute to the progress in the field of CSR.

2. Evaluation of the Impact of European Policy on CSR

The European Committee identified a series of factors which will continue to contribute to the increasing impact of its CSR policies:

- The necessity for a balanced approach which would take into account the points of view of the enterprises, of the non-business stakeholders and the ones of the Member States.
- The necessity to clarify what to expect from the enterprises, also defining CSR in EU in accordance with the new and updated international rules;
- The necessity to reward the responsible behavior in business, inclusively by means of public investments and acquisitions policies;
- The necessity to consider auto- and co-regulation systems, which are an

important medium through which the enterprises are trying to meet their social responsibility;

- The necessity to tackle the transparency of the enterprises regarding social and environmental aspects from the point of view of all the stakeholders, inclusively the enterprises themselves;
- The necessity to pay a grater attention to the human rights, which became a significant aspect of CSR;
- The necessity to recognize the important role played in the complementary regulation by the creation of a more favorable environment for the enterprises which voluntarily meet their social responsibility.

3. Competitiveness Effects of CSR

CSR can contribute to a series of environmental, social and economical policy objectives. It can also make a contribution to increasing competitiveness at the level of the individual enterprise, but also to the macro-economic level.

For the enterprise level analysis, the economical effects of CSR can be examined on the base of six factors and competitiveness indicators which take into account the following: the structure of the costs, human resources, customer perspective, innovation, the risk and reputation management, but also the financial performance. This are the factors and competitiveness indicators which are considered when the CSR is more likely to have a positive impact.

Cost Structure

The grounds which could lead to the idea that CSR can limit competitiveness need to be considered as well. These kind of arguments are: CSR is a cost without any clear advantage.

The supporters of CSR motivated that a responsible behavior in business can lead to a reduction of costs. The critics claim that CSR is expensive and that its benefits are felt only in the far away future.

In practice, the nature of the CSR measures chosen, the investments cost and the time frame considered have a big impact.

In 2003, Welford noticing that only some aspects of CSR might reduce the costs suggested that the focus of the CSR competitiveness should be on „the area of differentiation where social and environmental aspects of sustainable development will have most impact”.

Human Resources

The economical investigations proved the positive effects of the performance of human resources. It was proven that the graduates of European and American business schools (Montgomery and Ramus, 2003) focus on aspects of CSR, like the relationship between the employee and environment sustainability, ethical behavior. A big part of them would be willing to give up some financial benefits for working in enterprises with a better reputation from the point of view of social responsibility.

Even if it can be proven that CSR can have a positive impact on the competitiveness from the point of view of human resources, this cannot be applied for all enterprises. In the case of enterprises which rely on reduced costs from creating and maintaining their competitive advantage, possible benefits for improving the employees motivation will not exceed the associated costs.

Customer Perspective

CSR refers to the way an enterprise operates in relation with its suppliers, customers and competition. It includes aspects like advertisement and marketing, complains, anti-corruption measures and ethical practices.

A lot of enterprises, mostly the big ones, enforce social and environmental requirements on their suppliers.

Innovation

The fact that the relation between CSR and innovation started to be more and more recognized proves that CSR is not perceived only as reduced costs, but also as a potential source of new values and development.

Innovation is not seen as a collaboration exercise, and enterprises struggle to innovate

effectively without external help. It is now usual to talk about concepts as stakeholder-driven innovation, customer-driven innovation, society-driven innovation, open innovation. In the future, it is expected that CSR will be more important to the innovation process, as CSR, by its nature, enforces enterprises to form constructive relationships with a new range of stakeholders.

The ability of an enterprise to spot business opportunities as an side-effect of social changes will be determined by the extend to which the enterprise integrated social and environmental issues into its core business strategy.

Risk and Reputation Management

Many enterprises consider CSR to be a requirement for risk and reputation management. The enterprises face more public close examination and criticism than they used to in the past. This fact enforces the business case for CSR in terms of risk and reputation management, pressuring more the enterprises to introduce CSR deeply in their values and operations, than to use it as a simple public relation tool. From a risk management point of view, being concerned with issues like transparency, human rights, supply-chain requirements helped some enterprises to find additional positive impacts of CSR.

Financial Performance

Until now, the most of the key concepts and instruments which approach CSR were developed by the big enterprises for themselves. For small and medium enterprises, CSR is less formal and more intuitive than for the big enterprises. This is due to the fact that most often there is a strong connection between CSR and the personal and ethical views of the manager of the SME. In 2001, The European Committee defined CSR as „a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.”

This definition has a number of important implications.

Firstly, the fact that CSR represents social

integration and environmental concern for the commercial operations means CSR is not only charity.

The focus is on the way the enterprises do their day by day job: the way they treat their employees, the way they produce their goods, the way they sell them, and so on.

Secondly, the interaction with the stakeholders is an essential aspect of CSR. Effective CSR requires communication and partnership with the stakeholders, like the syndicates, public authorities, non-governmental organizations and other organizations representative for their business.

Thirdly, by describing CSR as a volunteer, this definition implies the fact that CSR refers to what enterprises could do in the social and environmental fields above what they are required to do by law. This aspect of the definition works well in the framework of the European Union and in other frameworks in which the law is applied. In some countries, considering all this, CSR can, in the first place, be a way to determine enterprises to be in conformity with the law.

4. Conclusions

In the case of all six factors examined CSR has a positive impact on competitiveness at the level of the enterprise. However, the amplitude of the impact these factors have on CSR varies. Also the business case for CSR differs with the sector, size and circumstances of the enterprise.

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Graduate Employability: the Core of the Development Strategy of Ovidius University

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Abstract

The employability of graduates is a goal that every government, worldwide, imposes on the University education system. Clearly, the quality of human capital depends on both productivity growth and economic growth which ultimately translate into well-being. In these circumstances, the interest in delivering employable graduates to the labor market is immense and a policy of development based on this objective is legitimate.

Keywords: employability, Graduates, Ovidius University

J.E.L Classification: J62, E24

1. Introduction

Graduate employability is the achievement of skills, understandings and personal attributes that make graduates more likely to secure employment and be successful in their chosen occupations to the benefit of them the workforce, the community and the economy. ([1] p. 8)

Often words like "employability" and "employment" are considered interchangeable. People tend to consider them one and the same when in fact, many times, this is not true. While employability is a dynamic concept that denotes the ability to handle a job, to be employed involves a static aspect: means being paid for a particular activity. In other words, employability is the ability of a person to find a job in the area of expertise he possess in the work field he wants or where he worked, wherever and whenever it is needed.

Employability refers to the ability to get a job immediately after graduation, to keep it and obtain a new one later if the situation requires [2]. Under these circumstances, a person's employability depends on:

- Competences in terms of knowledge, skills and attitudes;
- The way in which these skills are used and displayed;
- Presentation of these competences and skills to the potential employers;
- Economic situation of the labor market, personal circumstances etc.

From the employers' point of view, employability is the propensity of the graduate to exhibit attributes that employers anticipate will be necessary for the future effective functioning of their organization [3].

Higher education must first produce employable graduates no matter what any academic subject or subjects they studied. Under these circumstances it becomes more obvious that employability depends on three essential dimensions of the process of education: curricular, co-curricular and extracurricular. If going through curricula the student obtains the necessary information to be prepared in a particular area, in addition to this he must have access to various co-curricular opportunities to enhance its ability to obtain a job, for example, to learn to work in teams, to present his work in a workshop etc. In addition, students should be provided with their various extra-curricular services to order increase their employability level. These can be provided by professional counseling centers, student associations and other specialized structures in career guidance.

Universities are required to put in the center of their development policies the need to increase the levels of graduate employability but the effort must be also sustained by students. It requires a shared commitment, university -student, regarding the acquisition of all necessary skills for a better employability.

2. What employers want in Romania

In 2010, the European Commission published the results of a survey conducted in EU Member States as well as in other countries in Europe (Norway, Iceland, Croatia and Turkey) on employers' perceptions on graduate employability. The study aimed at obtaining responses from representatives of 7,036 companies (201 in Romania) on the following aspects: abilities and competences the graduates must have, employer satisfaction level with respect to the quality of these skills and abilities, education level to fill vacancies in companies, the most important challenges facing companies, ways to boost employability of graduates degree etc.

In Romania, employers rated as very important the following skills: teamwork (80%), ability to use computer (79%), adaptation to new situations (70%), communication (70%), ability to analyze and solve problems (66%), planning and organization (61%), decision making (47%), foreign languages (42%).

In terms of employers' satisfaction a major discrepancy is noticeable.. While most employers (89%) who recruited graduates were very satisfied about their skills after employment, in Romania only 17% chose option completely agree with this statement, while 69% were relatively satisfied.

Romanian employers' satisfaction is below the average of other European countries regarding the following aspects: working with numbers, teamwork, industry-specific skills, communication skills, problem solving, the capacity to analyze, adaptation to new situations.

Top of Form

In Romania, employers expect a rate of 40% for graduates to be worked before hiring, and the studies conducted in foreign countries are not considered important aspects (33-38%) to increase chances of getting hired. When they were asked to choose an action that should be undertaken by higher education institutions in order to improve the employability of graduates, among the proposed solutions the most important were: 36% proposed to include temporary jobs in curricula and practical experience in the course, 30%, and the revision of the academic courses to match the needs of employers (18%).

It should be noted that Romanian companies are below the European average in terms of collaboration with universities to improve curricula and recruitment. 34% of Romanian employers said they prefer to recruit graduates directly from universities, 36% prefer direct discussions with teachers or directors of programs of study, 26% of career centers addresses and 30% prefer to participate in debates and seminars.

3. What students expect from universities

In general, we talk about three types of opportunities that higher education offers.

1. Chance to learn various theoretical and practical aspects and develop vocational skills. Most careers involve the acquisition of practical and theoretical knowledge necessary before the work is begun. University offers this type of knowledge and develops the necessary skills.

2. Chance to develop in general. Besides the tangible qualities, there are various less tangible skills that can be translated as: the ability to communicate, work in teams, to solve various problems. Attending university allows the development of such qualities.

3. Chance to know and understand you better. Through academic study you can know your test and your motivations, ambitions, strengths, weaknesses, etc.. You will learn what you like and what you do not like and you can benefit from the advice of other friends, teachers, specialists in career terms.

A graduate employability involves two levels of discussion:

- effective employability – the level of graduate knowledge and various skills that he has learned in university;

- perceived employability - an element of employability that comes from the hands of the student and is due to "reputation" of the University among the public (employers, other institutions, organizations, etc.). He graduated from the University of X, so he "values" about it. This is the result of opinions, judgments based on traditions, personal experiences, the perception upon the previous graduates in the labor market, etc.

Both levels are important in the hiring process and the student has expectations in both directions, both in terms of level of

knowledge, employability effective, and in terms of perceived employability.

4. What are the steps undertaken by "Ovidius" University of Constanta to increase the employability of its graduates

"Ovidius" University of Constanta focuses on the increase of the graduate employability. In this sense, the institution acts on three main directions: curricular, co-curricular and extra-curricular. Our university provides education services to approximately 18,000 students, develops 53 degree programs in 46 fields and 87 master programs, and 38 doctoral postgraduate programs and 7 doctoral schools.

The programs developed at the University include a thorough study of all fields of knowledge which are strongly connected to activities related to the practice in the real economy as well as in research and innovation. Connecting curricula and study programs on the European level is always a mandatory requirement in order to ensure comparability and compatibility with European diplomas. To meet the demands on the employability of its graduates, "Ovidius" University of Constanta has signed protocols and conventions of practice with leading employers in the local and regional market, with leading companies and local authorities and county.

The University is developing research projects with funds raised from the EU addressed to human resources that have as subject the students' skills and compatibility with future graduates labor market needs. In order to develop optimal conditions for these practical activities, specialized laboratories were built and equipped, allowing students' practical simulation of the activities taking place within firms / companies.

A mainstay in University strategy on increasing the employability of graduates is the Educational and Professional Counseling Center established in 1993 in collaboration with the Fulbright Commission in Bucharest. Objectives and purpose of educational and professional counseling services involve:

Assisting students in determining career path by choosing curricula;

Identifying training needs and organizing elective courses for students;

Compatibility with individual career profile properly;

Support coordinators to harmonize curricula graduate's skills with labor market requirements;

Training and skills development for labor market integration;

Ensure effective contact between student and university organizations;

Organization and conduct of individual and group counseling on career management issues;

Organization and conduct of individual and group counseling on personal issues and education;

Educational and Vocational Counseling Center made surveys on:

- Insertion of graduates on the labor market;

- Monitoring and analysis of students' insertion on labor market;

- Efficiency and effectiveness of education programs;

- Monitoring of student entrepreneurship;

- Causal analysis designed to prevent academic failure;

- Monitoring options on the academic route of the high school graduates;

- Analysis of learning motivation of students;

- Development of research methodology of the academic organizational culture;

- The creation, updating and managing of the databases on "Ovidius" University graduates.

Last assessment of graduate employability at "Ovidius" University of Constanta was made in 2011, a year after graduation. The evaluation was conducted through a questionnaire, graduates from all specializations being evaluated. 808 graduates were surveyed as follows:

- 89% graduate courses (day)

- 10% graduate courses IFR (time);

- 1% graduate courses ID (remote)

Study results

The time between graduation and employment

- 30.35%, of graduates are employed after graduation;

- 37.41%, of graduates are employed as students

- 32.24%, of graduates are looking for a job;

- 25.55%, of graduates say they had difficulties in finding a job;

Interpretation:

The overall rate of insertion into work one year after graduation is 30.35%;

There is a high rate of employment in jobs while still a student - 37.41%;

Percentage of graduates seeking employment one year after graduation is 32.24% and it correlates with a relatively low rate of those who had some difficulty finding a job.,

"The difficulty in finding a job" is, in fact, identifying appropriate job training and especially formulated aspirations of graduates.

Insertion rate of 18.48% of graduates in jobs appropriate training partially correlated with the rate of those who have difficulties in accessing employment;

The rest of approx. 7% may experience low social skills and / or personal marketing inability, despite counseling services that could benefit freely from the staff of the counseling centers while studying.

Efficiency of the study programmes:

- 81.52% of employed graduates practice in the areas corresponding to their academic training;

- 83.71%- of the graduates stated that the position held provides suitable conditions for career development;

- 86.01%, of the graduates stated that the level of knowledge acquired in college is appropriate to the job requirements;

Interpretation:

Insertion rate work in the field studied is also higher at the end of one year after graduation and demonstrates highly efficient curricula. The employment in the field for which the students trained is in positive relationship with the adequacy of knowledge acquired in college relative to position held, and career development prospects offered by current employment position.

The insertion level in the postgraduate programs:

- 44.77% of them graduate master programs;

84.66%, of them graduate master programs at "Ovidius" University Constanta;

- 78.25%, of graduates who do not hold a not master degrees, would like to study further the "Ovidius" University Constanta;

Interpretation:

The percentage of almost 41 of students enrolled in a master programs at "Ovidius" University Constanta shows a commitment to their own professional development and responsibility in relation to the level of competence expected.

The high rate of those holding master degrees from "Ovidius" University denotes good relations and trust in the curriculum, and good absorption of local and regional labor market for university graduates, translated into better programs adequacy of market studies labor.

5. Conclusions

The high percentage of those who would like to pursue degree programs at "Ovidius" University of Constanta demonstrates the institution's ability to maintain its beneficiaries and propose appropriate curricula to labor market requirements and specific training needs, expressed by present and potential beneficiaries.

It points out that University policy focused on increasing the graduates' employability shows its efficiency and undoubtedly must represent one of the pillars of the future strategy of the University. More graduate employees translate into a good reputation for the University, while a better reputation of the University increases the chance of graduate employability. Here's what we may call a virtuous circle!

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Migration between Positive and Negative

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Abstract

The migration phenomenon represents one of the most important issues equally for the recipient and source countries. This paper presents the effects of migration in Romania, as source country, from the point of view of market labour, education and consumption. Analysing the effects of migration we can conclude that is difficult for a country like Romania to draw a general conclusion. On the one hand, we can say that there are a lot of positive effects but on the other hand we remark negative effects also which are, unfortunately, not measurable. The paper confirms the literature which considers migration a phenomenon where the winners are in the same losers.

Keywords: migration, labour market, employment, policy

J.E.L. Classification: E24

Introduction

The economic effects of migration today are a key issue for those involved in reforming the labour market and in the educational process. Over the past 20 years and especially since 2007, for many Romanians working abroad has represented a survival solution. If at first emigration was done for political reasons, then this phenomenon was increasingly based on economic and educational reasons.

After 1989, Romania has gradually faced a surplus of labour by industry dismantling and privatization. International investments in Romania could be an alternative to attract additional labour, but, in their absence, many Romanians have chosen to direct themselves towards capital. To be an attractive area for investors to come to build from grass roots or at least use existing capacity, it was necessary for the workforce in Romania to be well qualified, cheap and the labour market

to be functional. Even in these conditions investments could remain in expectation, as they did for quite some time, due to other conditions which had to be met for them to flood the market.

The effects of migration phenomenon

In the presence of some massive economic disparities between East and West, migration was an absolutely inevitable, necessary and even beneficial economic mechanism. The beneficial potential of migration is always emphasized in public discourse, however, both in economic theory and practice, a moderate rate of migration is considered and in no way is a policy of encouraging emigration justified. Clearly, the state that will encourage emigration, for lack of programs to develop alternatives or under a so-called "reform", will face major distortions with consistent negative effects in the future. In this respect, one could illustrate the health sector in Romania which, after 4-5 years of doctors' emigration, is facing extensive problems with medical coverage positions in hospitals.

Emigration has certainly reduced tensions in the labour market and the government were facing an easier task regarding unemployment eradication and increasing employment, but this means lack of reforms, not their effectiveness.

It is estimated that in Romania there are over 3 million emigrants who produce remittances varying between 2 and 4-5 billion Euro (see data from 2008 – 2012). At first glance, strictly pecuniary, those who win are even the migrants and their families. They earn abroad, in average, four to five times in comparison with what they would have won in Romania. Unfortunately, the real winners of the migration phenomenon, with some exceptions, are the importers, many of the consumer goods purchased being imported. In this way, wealth leaves the

country, but comes back in Western countries where these goods are mostly made.

The literature clearly states that migration can be beneficial for the parties involved. At the same time, it cannot be denied the existence of the winners and losers of the process. Pritchett believes that the international labour mobility can produce global welfare. Other authors, Kahanec and Zimmermann, consider that the solution to the demographic and economic problems at the level of the EU is the free flow "brain" (brain drain). At the same time there are studies which highlight the relationships between remittances and the risk of the departure of the educated population segment.

Ratha shows that remittances inflows outweigh the losses that the country of origin has by migration, and León-Ledesma and Piracha analyse the positive effects of remittances on investment and consumption.

Obviously, remittances increase revenues from external sources with potentially positive effects on the balance of payments, the standard of living of those who receive them, the local economic development. According to empirical studies, these remittances are used to the extent of 80% of the basic household consumption, between 5-10% are used for investments in human capital (education, health, nutrition). The difference covers costs of land acquisition, housing and so on, helps pay off a loan and very little money goes to productive activities. Because most of the money goes to consumption, the positive influences on the balance of payments can be cancelled by negative effects due to increased trade deficit determined by the purchase of the mostly imported goods.

Clearly, the main beneficiaries of remittances at the microeconomic level are the migrants' families. At the macroeconomic level, there are mostly positive effects on domestic consumption, balance of payments, inflation, exchange rate, exports and imports.

However, the effects of migration in the long-term are difficult to quantify. They depend on how many go and who goes. In the first phase, migration causes a decrease in economic potential and income distribution. It can be said that the country of origin loses if the contribution of migrants was greater

than their marginal product [5]. In the long term, as mentioned earlier, there are studies which highlight both beneficial effects that are represented mainly by remittances and lower tensions on the labour market and the negative effects of reducing human capital by maintaining a low level of development, the lack of investments and dependence on remittances.

In the category of positive effects we can also include aspects of training the returning migrants, as well as the increasing level of education, as a premise for finding a job abroad. Nevertheless, it is clear that the impact of migration depends on the magnitude of the phenomenon: how many go and who goes. If migrants are highly qualified and educated than those who remain, the long-term effects are rather negative, while if those who leave have a lower skill level than those who remain, we can expect more positive effects.

A recent study conducted by Ambrosini in 2011 highlighted the fact that migrants, eventually, arrive in those countries of destination which best fit their professional qualifications. In terms of economic impact at the entry of migrants, research has shown that the experience of working abroad has as effect an increase in productivity of those returning which means a bonus of over 15% only for this experience [5]. It was also noted that, in general, migrants at entry have a much lower participation on the labour market, many of them working on their own as entrepreneurs [5].

The migration phenomenon also has implications for education. The prospect of getting a job abroad orients the educational choices of graduates. Depending on where they would like to work, they form their necessary skills to increase their chances of engaging in those labour markets. Therefore, we can speak of an economic rationality of migrants' decisions. The opportunities identified in different labour markets, the policies in the field of human resources in the countries of origin and destination, the education policies may have a major role in the decision to migrate or return. In addition, these factors influence the length of migration. If there is the possibility of obtaining higher incomes in countries of destination or at home, migration flows change accordingly.

Conclusions

Migration policies represent an interesting topic for the political factors in a country, Romania being no exception to this. However, countries of origin do not have many tools to influence the decisions of migrants, they consistently depending on the efficiency and credibility of the efforts in the field of economic reforms which also include the labour market. At the same time, the reaction of the destination countries also occurs. They may restrict the migration flows in order to protect their citizens against the effects of unemployment. Moreover, other crucial social problems of migrants may cause adverse reactions of the host countries in terms of restricting the access to certain categories of migrants. But even if most studies emphasize the positive effects of migration, yet effectively, in the long term, they are difficult to quantify. In Romania, the situation becomes even more difficult from this point of view due to the absence of significant statistical data.

Under these conditions, direct and explicit encouragement of migration is a major political mistake. Encouraging your own citizens to leave in order to build a better life is equivalent to the economic recognition in your country. The Romanian authorities have sent many times, consciously or not, such messages, which were seized and subsequently sanctioned by the electorate.

Considering the finding of a job in another country as the only solution to obtain a decent living standard creates a disheartening and demoralizing effect on your citizens, which are then required to give a helping hand with the success of economic reform. This type of policy is nonsense with devastating effects in public consciousness.

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Education and Economic Development: Evidence from the European Countries

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Abstract

This paper aims analyzing the importance of education as a substantial determinant for an individual ability to obtain income and of economic growth. The first part of the article underlines the importance of investment in education argued by the fact that abilities and knowledge tend to increase productivity, generating in this way higher potential incomes. In the second part of the paper we performed a comparative analysis of thirty – three European Countries at every level of education i.e. tertiary, secondary and primary (lower). Our analyses shows that the tertiary aptitudes are the ones which matter the most in terms of growth in the case of Central and East European nations.

Key Words: development, education, institutions

J.E.L. Classification: A1, A20, A22

1. Introduction

Starting with 1966, authors such as Richard Nelson and Edmund Phelps, inspired by the ideatical context provided by Solow's lesson, have focused on a model in which the growth determinants are endogenous and economical growth is sustainable. In the core of this paradigm lies the authors article, *Investment in Humans, Technological Diffusion and Economic Growth*, where they argue that investments in education, in human capital, bring many benefits in the long run. Thus, the disparities which separate high income nations from poor countries, through education and knowledge perspective, are tricky problems that call for special attention.

The best way by which individuals may ensure a certain degree of well-being is by investing in their own abilities and values.

2. Literature review

The hypothesis from which the authors build their theoretical and empirical framework is formed on the assumption that the production activity requires some degree of adaptation to change together with a more general belief according to educated individuals are more capable to implement new techniques. Furthermore, educated individuals are much more inclined to innovate and, as the authors point out, "speeds the process of technological diffusion" (Nelson and Phelps, 1966: 70). Richard Nelson and Edmund Phelps tried to highlight the role played by education in the development of individual capacity to innovate and to adapt to new technologies, thus increasing their diffusion into economy. Empirically, in addition to the "index" of technology in practice, $A(t)$, Nelson and Phelps introduce a new variable, $T(t)$, named "theoretical level of technology". The latter is defined as "the best-practice level of technology that would prevail if technological diffusion were completely instantaneous" (Nelson and Phelps, 1966: 71).

The technological level grows exogenously at an exponential rate \tilde{r} , thus:

$$T(t) = T_0 e^{\tilde{r}t} \text{ where,}$$

- T_0 is the initial level;

- \tilde{r} , is a positive exponential rate.

Nelson's and Edmund's analysis is based on a production function such as: $Y(t) = F[K(t), A(t) L(t)]$ where, $K(t)$ is the capital function, $A(t)$ an index of technology and

L(t) is labor. Their approach is directed towards **two models**:

The first one assumes the existence of a time gap between creation of a new technique and its implementation, being negatively correlated with the level of human capital

$$A(t) = T(t - d(h)), d'(h) < 0$$

By substituting the equation, we obtain:

$$A(t) = T_0 e^{f(t-d(h))}$$

where, A(t) is an increasing function of h and grows with a \tilde{r} rate.

The second model, Nelson and Phelps highlights the fact that the technical progress depends on the human capital and on the difference between actual and theoretical technological levels. Thus, the model may be written as follows:

$$\frac{\dot{A}(t)}{A(t)} = \omega(H) \left(\frac{T(t) - A(t)}{A(t)} \right) \text{ where } \omega'(H) > 0 \text{ and } \omega(0) = 0;$$

"The rate of increase of the technology in practice is an increasing function of education attainment and proportional to the gap $(T(t) - A(t))/A(t)$ " (Nelson and Phelps, 1966: 73).

Nelson's and Phelps's approach related on the education topic is closely related to the technological process. Their regressions manage to bring on top new results and findings, from which we mention: *first*, from their analysis one can observe the significant positive impact of the secondary and tertiary educational levels that have over the productivity growth rate; *second*, the education marginal productivity is a increasing function of the rate of technological progress, thus the gains from investments in education are much higher as a countries' economy is more technologically advanced; *third*, education should permit the poor technological countries to learn from the developed ones, increasing in this way their innovation productivity.

We are able to appreciate that both technological progress and education are considered to be fundamental *inputs* in the aggregate production function and important growth determinants that a developing country can use, in order to catch up with the high income economies. *By investing in themselves, people can expand their range of available*

options (...), a way that free people can improve their well-being (***OECD Observer No.261 Mai, 2007). For an individual perspective, there is an important motivation to invest in education argued by the fact that abilities and knowledge tend to increase productivity, generating in this way higher potential incomes.

In the same line, the studies made by Barro (1991) or Tanzi and Chu (1998) confirms the above assumptions. Hong Sang and Erick Thorbecke also suggest that "*both the size and efficiency of public education expenditures are important in improving socioeconomic performance*" (Hong Sang and Erick Thorbecke, 2001: 4). So the investment in public education represents the primary resource in the process of economical growth and development.

The educational package, as a measure of the quantity, availability and even quality of human resources is one of the possible ways to assess the impact of human capital in economic growth. Recent researches have raised the issue of finding alternative units of human capital measurement in economical analysis. The number (in percentage) of high school or university attendants, or even indicators of the educational level provides precise but limited information regarding the way in which a society can use educational package. A "decent" educational package might have a small impact over economical performances and regional disparities, if, human resources have not been used to its full capacity. Deficiencies in the framework of the educational system can be approached through attracting qualified workers from other parts of the countries or even from abroad (Andrés Rodríguez-Pose and Montserrat Vilalta-Bufí, 2008: 2). From this perspective, the indicators such as the adjustments between educational stock and labor demand, of the employment degree of the most qualified individual and of the migration level, are of much importance for the fact that they might very well be translated in the society's capacity to transform human capital in economical growth.

Sab and Smith (2002) regard development in a broader sense, in which are included besides growth of income per capita, improvement in health and education as standalone objectives. Both health and

education are seen as important inputs in the aggregate production function and determinants of growth. According to their position, the fact that the human capital convergence have not clearly transformed into a convergence of the incomes at an international stage, reflects the existence of three main factors: *in the first place*, the vast majority of the developing countries still have a very young population, therefore a significantly gap between human capital accumulation and the increase in productivity and income will persist in the near future. *Second*, education may very well be a complementary input of other factors; Romer (Romer *apud* Sab and Smith, 2002: 543-573) suggests that rapid development results from the interaction between human capital and the availability of productive ideas. Developing countries will need to enlarge the technological transfer rates, which require an increase openness of their economies as well as an improved international assistance. *Third*, the political environment is, likewise, a significant determinant of incentives for productive use of educational capital.

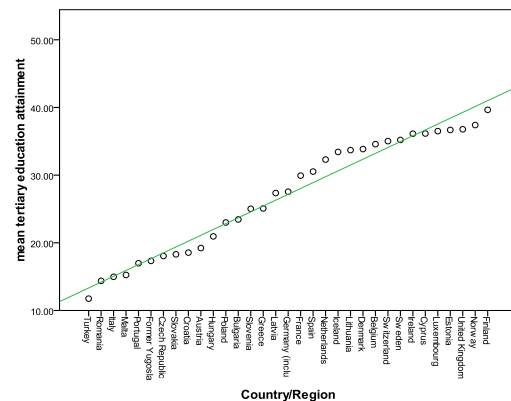
3. Education Levels in European Countries

The graphs bellow show what the literature, shortly described above, tries to argue. Based on the statistical data published by Eurostat, we made several graphs in which we took the education attainment variable and we performed a comparative analysis of thirty-three European countries at every level of education i.e. tertiary, secondary and primary (lower).

In the line with the general view of the literature our analysis shows little or no surprises, at the tertiary level the countries with high scores are mainly developed or upper developing nations, and at the bottom of the list we low income developing countries. There also are some exceptions, in the case of Italy, but that may very well be some differences in demographic and regional income distribution within a country that can modify to a certain degree the overall results. Other than that, at the tertiary level, the picture resembles the main idea according to which as a country becomes more developed, the more investment in high trained and educated individuals it has and requires. If we take the case of, say, Denmark, Finland or United Kingdom, we clearly see that these countries have a high tertiary level of education attainment which traduces itself with

a proportionate investment in higher education and for this matter, a big demand of educated and trained people, which we know that tend to innovate more, thus they are more productive.

Figure 1. Tertiary education attainment*

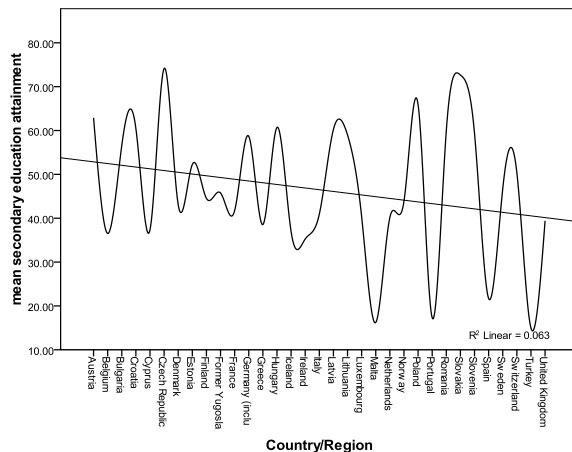


Source: Authors calculation
based on the data provided by
Eurostat

* The data is calculated as average
number of years of tertiary education
received by people ages 25 and older

If we keep the examples and go further, we see that the levels of secondary education attainment, at all age groups, are at best average, which means that their economies are based more on high technological industries sectors than other activities, such as agriculture, which requires a comparatively lower infuse of innovation than industrial sectors. The big picture becomes, in this case, self evident if we take into account the lower level of education attainment, given the fact that, in average, twenty percent or less of the population who attained to school stops at the level of primary education.

Figure 2. Secondary education attainment*



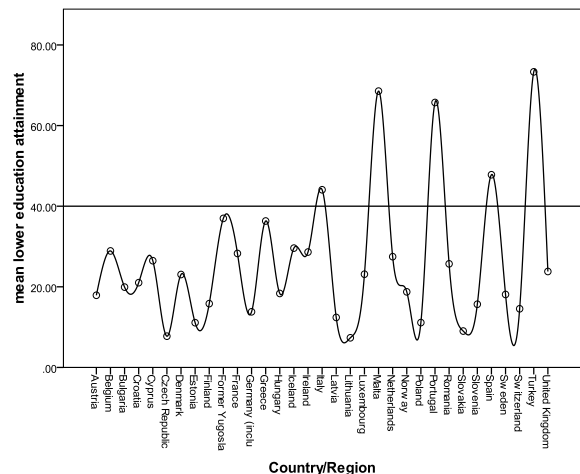
Source: Authors calculation based on the data provided by Eurostat

*The data is calculated as average number of years of secondary education received by people ages 25 and older

In the case of low income economies, the story is the same, but spelled backwards. A good example is Romania, a developing country, member of the large EU 27 family, which has a performance mirror-like compared to the economies mentioned before. In this case, the highest values are seen in the lower education attainment graphs, at all age groups, especially in the age interval of 55-64. Another finding that spreads concern is the percent of population who attained only to lower education level. A near 50% of the individuals in the age interval between 25-34, which are today's and tomorrow's tax payers and "economical force", attended only to primary school, and this, indeed, is not an encouraging fact. If we move along and look at the secondary education attainment graphs, we see that the Romanian 'average Joe' is more interested in finding a job, without much qualification and without future prospects other than a satisfactory wage. These are the economy's work force and this fact speaks for itself of the amount of investment that Romanian government is willing to make in high technological industries. Because, as stated, that qualified and educated people tend to innovate more, a government who does not have the willingness or the ability to invest in such sectors is also not interested to invest in high specialized schools. This assumption is well enforced by the numbers shown in the tertiary education attainment graphs, where, in 2011, only an average of few percents above 10% of every age-group, finished a higher

education school, with a small difference in the case of 25-34 age-interval, where we can see an above 20% score.

Figure 3. Primary (lower) education attainment*



Source: Authors calculation based on the data provided by Eurostat

*The data is calculated as average number of years of primary education received by people ages 25 and older

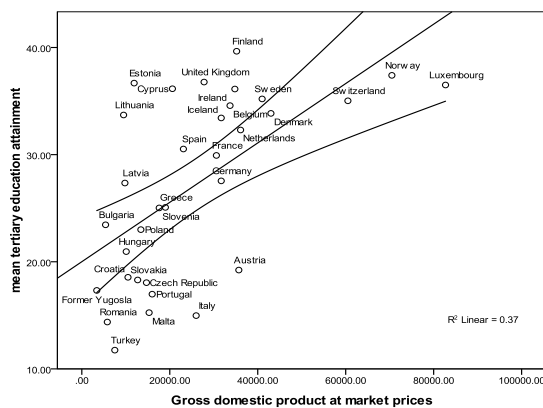
However, one must not take the education-technology-development relation as a linear-causality, for reasons easy to anticipate. For instance, we all agree that investment in education affects the economical development of one nation through better human capital input, which in turn affects the technological progress, the amount of innovation, and the development of one or more economical sectors in the long run. But this seems to direct our attention from the 'demand' aspect of human capital seen as input in the production function and different particularities that one economy might have. For example, if the main driving force of one countries is, say, IT sector, this implies that the government and other institutions have to focus on investment in human capital in this specialization, on the very simple reason that the comparative advantage principle and cost-benefit analysis might point out that in this sector the growth opportunities are much bigger.

In other words, investment in education must not follow a pattern made by present developed countries without analyzing which economical sector has a bigger chance to

contribute to growth than other sectors. If we take into consideration this aspect, we may learn that a developing nation must not necessarily invest in tertiary education sectors if its economy is, say, based mainly on agriculture. In the long run, as long as the development process continues in a sustainable manner, the high productive industries will be formed and as a consequence of this, the investment in tertiary education will follow the demand for educated and innovative people. This might be a strong conclusion, but if we look closely on the first graphs we can argue that the case of Latvia and Lithuania, two EU countries and former members of the Soviet Union, follows this assumption.

The impact that growth has over the different education levels may seem to strongly vary conforming to the level of a countries level of development. In particular, while primary and secondary aptitudes may look to be related to growth in the case of low income developing countries situated at an intermediary level, the tertiary aptitudes are the ones which matter the most in terms of growth in the case of Central and East European nations. Even if the direction of the causality is still unclear (one might expect that because superior education has the highest cost, an increase in demand for it should come along with rising income), both the initial level and subsequent growth of tertiary education have been found to be closely connected with the income growth per capita in the analyzed countries (Gemmell *apud* Sianesi and Reenen, 2000: 9-28).

Figure 4. Tertiary education attainment and GDP level



Source: Authors calculation based on the data provided by Eurostat and OECD Reports

In the case of developed countries, economic growth is influenced by the technological advance, which in turn relies on human capital. Thus the importance of human capital is fundamental, primarily because of the existing disparities between nations. Most of the developing countries still have a young population and therefore, here the significant distances between human capital accumulation and rising productivity together with income, will persist for some time. Within these there is a wide range of factors that influence education, like: endowment of educational institutions, the level of professional training and abilities of the teaching stuff, material and human resources etc. In this case, the costs for all the individuals that attend to other education level other than the mandatory one differs along the nations and are strongly influenced by political factors such as the duration of educational programs, the level of subsidies and other public financial support those willing to invest more in themselves.

4. Conclusions

No country has obtained sustained economic development without investment in education. Due to this observation, a large literature has dealt with analyzing the means by which education can and may affect development. From a descriptive perspective the paper emphasizes the impact that growth has over different levels of educations. The positive relation between growth and education tends to be more evident for the developed countries rather than for those lagging behind. Increasing the efficiency of the education system by investment in training of individuals, improving the service quality and social protection are just the primary steps that the lagging behind countries have to follow.

In developing countries education is considered a priority for poverty reduction. Different results obtained by the specialists in the field suggest the same thing: investment in education will improve social economic performance. In particular, while primary and secondary aptitudes may look to be related to growth in the case of low income developing countries situated at an intermediary level, the tertiary aptitudes are the ones which

matter the most in terms of growth in the case of Central and East European nations.

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Section II
Business Economy and Administration

Subsection 2
Marketing – Management

Difference Test Between Two Environments - Econometric Method of Substantiating the Decision

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Abstract

Business decision-making environment must integrate as a whole the experience and beliefs of the techniques makers and decision support systems used. Currently, the business information environment is becoming more complex due to the increasing volume of information relevant for business area, the number of information resources and the number of technologies used for accessing and storing data.

Decision support systems should serve as the main tool for decision makers in order to keep up with the exponential growth in size, complexity and speed with which business should be conducted. A decision support system should be an integral component of the decision-making process that extends the ability to process information quickly and to tackle complex problems, time consuming, reducing the time spent in this process. Nevertheless, it will also improve the reliability of decision-making process, encouraging exploration and learning process, thus creating a strategic competitive advantage for the organization.

Keywords: risk, decision making processes, marginal distributions, marginal frequencies.

J.E.L. Classification: C01, C12, D80

1. Introduction

Transition to a market economy of countries with central-planned economies, was a complex process that has brought significant changes to the conditions for conducting economic activities. These markets were forced to adapt their sizes, structures and in some cases, the efficiency of economic activity in a market economy.

The existence of management cannot be thought without decision and, given the role played by it, some authors consider that the core of the management activity is represented by the decision making process. Consequently, the idea that assessing management starts from the analysis developed from the results of the organization as a result of the decisions taken, the decision representing the base of the management process, contributing to performance management and the appropriateness and effectiveness of the decisions thus contributing to increased efficiency of management process.

The increasing of complexity of structured relationships, stimulating the entire economic and social system, in addition to the development of science and technology has created significant changes in the approach of the theoretical and practical concepts of risk and uncertainty.

2. About risk and uncertainty

Economic, social, political and natural environment in which people live, work and develop, it is full of uncertainties. It is now commonly recognized that a system that works to get a future result, by definition operates, in a sphere of uncertainty, even if specific situations are characterized by varying degrees of risk, uncertainty or indeterminacy. Risk and uncertainty are not the subjects of choice; they are simply part of the human condition [1].

Uncertainties incite economic agents to make their own determinations on the base of economic principles, according to their hopes, that causes them to first consider the degree of probability of achieving goals and objectives. The plan provides a picture of the future, but whose future, because the planner creates many other prospective, for example: a desired future, a possible future and a future needed. Each of these types of measurements of the future has its own determinations or indeterminations. Strategic, political and economic plan, appear as effective tools to complete the operation mechanism and evolution of the global economic system with a mechanism partially consisting of conscious levers, or help integrate present future, the approximation of the three forms of the future, which would attract ideal form if they would overlap until identification, a process currently impossible to achieve, but, however, reducing uncertainty, strategy, policy and plan contain elements which determine the economic agents to act now in the name and spirit of the future requirements, forecasting tools that inciting searches at invocation, the inventions, modernization and rationalization.

The terms risk and uncertainty are often used to express the same aspect, but there is a clear difference between them [8]. Uncertainty is the fact of not knowing what will happen in the future, and the risk is considered as a characterization of the degree of uncertainty. The higher the uncertainty the more pronounced the risk and vice versa. Most human actions have a certain degree of uncertainty and risk, which is due, on the one hand, to those acting, and on the other hand, to environmental factors.

Uncertainty is, therefore, lack of certainty, which is uncertainty, doubt, hesitation. Uncertainty induces the opportunity to reach a certain danger, to have to face danger, trouble, to support a possible loss, for instance to have a risk. The risk is, in fact, to consciously expose yourself to a higher or lower risk. To continue with, the risk is the possibility of a loss as a result of the occurrence of unpredictable events and phenomena.

The notion of risk was and is still used mainly in insurance, but lately has found increasing application in many areas of human activity, each trying to get the best performance by managing it correctly.

Essential is the fact that with the development of the economic system, with its increasing in complexity, uncertainties multiplies and, therefore, become more vulnerable. Risk is part of the economic and social life, found in the form of commercial risk - the risk of maximizing products, competitive risk, price risk - social risk and production risk.

Following present studies on the subject, it has been emphasized that the concepts of risk and uncertainty is in the middle and at the base of companies' analysis and decisions. [9]

Triumph of statistical decision theory is precisely the possibility of measuring the degree of risk in terms of objective probabilities. Statistically processing the numerical results of measurements, statisticians can communicate a company manager the probability that the decision is wrong and is less than, 0.05. Taking into account all the factors involved, the manager may decide that the risk is acceptable. If the probability that the decision is wrong is too high, the manager may request additional tests, or take into account additional parameters. When we provide numerical results of some experiments, statistical decision theory allows us to measure the degree of risk associated with a decision of objective probabilities.

Taking as a basis a certain amount, a certain structure, and a way of presenting statistical information, decision management appears as a dynamic and rational process which require manager's ability to master complex mechanism of the whole management system of the company. In this

respect, computer subsystems, information - statistical and decisional can make a fundamental contribution.

Decision making processes are based on using statistical data to develop mathematical models of economic phenomena and processes, which makes a further contribution of statistical inference as inductive research method that provides and validate mathematical criteria passage from particular to general. Inside the model presented, information circulates through exogenous or endogenous variables. Some may have a random variable and intervention model that allows this type of variable as an econometric model, as appropriate explanatory models aiming to study various functional relationships between variables that express a certain type of economic behavior. [11]

The economic model, reproducing in a symbolic way the economic theory of objective investigation, through the econometric model transformation, becomes an object of research and testing (verification) from which to obtain new information on the behavior phenomenon. In this way, econometric representations, unlike economic models, that explain economic phenomenon or process structure position of economic theory, always have a practical purpose, operational, they become instruments of control and routing, simulation and forecasting of economic phenomena. [12]

3. Case Study

Next, we present a case study testing the difference between two environments, one can use econometric methods form the basis of decision-making at the firm level.

SC Alpomob SRL, a company producing furniture, sourcing timber from two suppliers F_1 and F_2 . The company acquired in October 1900 m^3 of timber, as follows:

- ✓ 900 m^3 of timber from supplier F_1 ;
- ✓ 1000 m^3 of timber from supplier F_2 .

On the receipt of timber it has been ascertained the fact that 235 m^3 of timber do not correspond in terms of quality. Also, there has been established that trashes from both suppliers are distributed as follows:

- 100 m^3 of timber from supplier F_1 ;
- 135 m^3 of timber from supplier F_2 .

On the basis of the previous data, the office of SC Alpomob SRL decided to stop working with supplier F_1 , the reason being the poor quality of the materials provided.

The substantiation of the econometric decision adopted by the management company, we use the difference test between two environments.

First, we systematize the known information:

Table 1. Systematization of data

Suppliers (x_i)	Material Quality (y_j)		Total (N_i)
	Unsatisfactory	Satisfactory	
F_1	100	800	600
F_2	135	865	900
Total (N_j)	235	1665 (n_{ij})	1500 (N)

Source: Created by the author

$X = \{x_i\}, i = \overline{1, k}$ independent variable;

x_1 - supplier F_1 ;

x_2 - supplier F_2 ;

$Y = \{y_j\}, j = \overline{1, m}$ dependent variable;

y_1 - unsatisfactory materials in terms of quality;

y_2 - satisfactory materials in terms of quality;

n_{ij} - conditional frequencies of variable Y

After systematization of data there resulted a statistical two-dimensional series with two variables X and Y , resulting also two marginal distributions:

$$X : \begin{pmatrix} x_1 = 1 & x_2 = 0 \\ 900 & 1000 \end{pmatrix}$$

$$Y : \begin{pmatrix} y_1 = 1 & y_2 = 0 \\ 235 & 1665 \end{pmatrix}$$

Conditional distribution of Y variable depending on the suppliers is:

$$Y_{F_1} : \begin{pmatrix} y_1 = 1 & y_2 = 0 \\ 100 & 800 \end{pmatrix}$$

$$Y_{F_2} : \begin{pmatrix} y_1 = 1 & y_2 = 0 \\ 135 & 865 \end{pmatrix}$$

N_i - marginal frequencies of variable X ;

N_j - marginal frequencies of variable Y ;

The number of observations will be

$$N = \sum_i \sum_j n_{ij}$$

Observing the way of distribution of the frequencies n_{ij} following observations can be made:

i) there is a total independence between the two variables if:

$$n_{ij} = \frac{N_i}{k} = \text{constant}$$

$$n_{ij} = \frac{N_j}{m} = \text{constant}$$

ii) there is a strict dependence between the two variables if the conditional frequencies n_{ij} are distributed only on the main diagonal of the table, for the other elements of the table these frequencies are equal to zero;

iii) there is a statistical dependence if the conditional frequencies n_{ij} are distributed in a different way of the two cases mentioned above; in this case, statistical analysis will lead to one of the following conclusions:

- Acceptance of variant i);
- Acceptance of variant iii).

Analyzing the data from Table 1 we can observe that the distribution of conditional frequency n_{ij} fall into version iii).

Applying the difference test between two environments in order to analyze the decision taken by the office head of SC Alpomob SRL is made as follows:

Primarily, there will be determined the average percentage of inappropriate materials in terms of quality on each supplier:

$$f_{F_1} = \frac{n_{11}}{N_1} = \frac{100}{900} = 0,15$$

$$f_{F_2} = \frac{n_{21}}{N_2} = \frac{135}{1000} = 0,135$$

Then we will calculate the variances for each of the two suppliers:

$$\sigma_{F_1}^2 = f_{F_1}(1 - f_{F_1}) = 0,11 \cdot 0,89 = 0,0979$$

$$\sigma_{F_2}^2 = f_{F_2}(1 - f_{F_2}) = 0,135 \cdot 0,865 = 0,116775$$

We will note with α the materiality or the risk with which we choose the right decision and we will select $\alpha = 0,05$, value which is usually used in economy. For our example, the argument of the normal distribution, $t_\alpha = t_{0,05} = 1,96$.

We continue comparing the empirical value of the variable t_c with its theoretical value $t_{0,05}$.

In the case of dependent variables,

$$t_c = \frac{|\bar{x}_1 - \bar{x}_2|}{\sqrt{\frac{\sigma_{x_1}^2}{n_1 - 1} + \frac{\sigma_{x_2}^2}{n_2 - 1}}} \geq t_\alpha,$$

And in the case of independent variables,

$$t_c = \frac{|\bar{x}_1 - \bar{x}_2|}{\sqrt{\frac{\sigma_{x_1}^2}{n_1 - 1} + \frac{\sigma_{x_2}^2}{n_2 - 1}}} < t_\alpha.$$

In our study case,

$$\begin{aligned} t_c &= \frac{|f_{F_1} - f_{F_2}|}{\sqrt{\frac{\sigma_{F_1}^2}{N_1 - 1} + \frac{\sigma_{F_2}^2}{N_2 - 1}}} = \\ &= \frac{|0,11 - 0,135|}{\sqrt{\frac{0,0979}{899} + \frac{0,116775}{999}}} \cong 1,67 \end{aligned}$$

4. Conclusions

Therefore, $t_c = 1,67 < t_{0,05} = 1,96$ and we can state, with a probability of 95%, that between the quality of delivered materials by the two suppliers F_1 and F_2 there is no important difference.

We can assert that the decision taken by the company management SC Alpomob SRL to give up the collaboration with supplier F_1 due to poor quality of the timber supplied is not justified.

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Children in Family Purchase Decision Making a Theoretical Review

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Abstract

"Kids today are customers, buyers, spenders, shoppers, consumers" [1] mainly because there isn't any field or market that didn't had direct or indirect contact with children. The role of children in the family and in society has changed. Nowadays they are more involved in the consumer market than their parents ever did. Furthermore, they have been given the freedom to not be subjected to their parents choices (clothing, food), because they are now parties with full rights in the family decision-market process, whereas children are consumers in the making [3].

Keywords: child, family, purchase decision, influence.

Classifications J.E.L: M30 ; R20

Introduction

Years ago, in the existing literature, children as an important part of the family purchase decision process with power of influence was not taken into consideration [12, 13, 25, 26]

A series of foreign studies have shown that research of children's influence in the purchase decision process as not being a priority for researchers.

The purpose of this study is to make a brief review of the studies that have had children's influence in the family purchase decision process as their subject.

1. Main factors which contributes to the implication of the child in the purchase decisions

In the beginning, researches where much more focused on examining the roles of spouse-husband dyad, which have been considered as the relevant decision making unit in a family [23] and the main deciders in the family setting. Consequently they have described in an erroneous way a family's consuming behaviour where the products are bought and consumed by both parents and children.

Because of its power to make expenditure, the family is seen as the most important decision, purchase and consumption unit in society [39]. Regarding consumer's behaviour, the mother and the father enables the individual to repeatedly get in touch, with products or product categories they use and to find information about them, since childhood.

Until recently, children have used mostly products that the mother or the father bought for them. Either they liked it or not, they had to use products designed for them (clothing, food) depending on the preferences of parents or what they thought it is good for them.

Further studies have shown that the understanding of purchase decision process in the family also depends on including children in the researches made. [4, 14, 15, 25, 39, 41]. Focusing researcher's attention on considering this group also (children) as main actor in purchase decision making is due to the fact that in recent years children's

influence upon purchase decision has increased.

Current changes in social and demographic structures are increasing children's influence on both their parent's decisions and their general involvement in family decision making. Among various reasons [41] that led to an increase in children's influence upon purchase decisions in the family we can mention the following elements: need of a higher income, increasing number of monoparental households, decreasing number of children per family, postponing the decision to conceive a child and increasing media exposure of the children.

Firstly, the need/desire to have a higher income per household member, has led to an increase in the number of families in which both parents work. Jenkins [22] or Geuens et al. [17] in the studies made stated that children's influence in decision making increases with those two incomes brought by the parents, because they do not have time for their children. Various studies [7, 19, 42] have shown that mothers who work can't say "no" to their children so easily in some cases or they tolerate inadequate behaviour as a result of the feeling of guilt that they do not spend enough time with their children. More often than not parents compensate the lack of time with money, thereby giving the child the possibility to make some choices in their place.

Secondly, in recent years the number of monoparental families (mother - head of household or father - head of household) has increased with the recording a large number of divorces or women who decided to have a child without getting married, thus leaving a greater influence of children in the purchase decisions. Albert Caruana and Rosella Vassallo[8], have shown in the study that the number of monoparental families has increased, and the children personally do the shopping, leading to a greater influence when it comes to making the purchase decision. Ahuja [1] said that children within monoparental families hold more power in the family's consumption decisions, because they feel constrained to replace the absent parent and to assist in decisions the single parent.

Thirdly the number of families that have a small number of children (one or maximum

two children) has increased. Shim et al. [34] and Geuens et al. [17] revealed that in families with fewer children, they acquire consumption ability earlier and they take part in the family's purchase decision process sooner than in the families composed of more members.

Fourthly, starting a family and of course conceiving a child is delayed until the workplace provides a satisfactory satisfaction for the individuals involved [17]

Last but not least, highly and repeatedly exposure of children to mass-media led to the socialization of children and thus to the influence exerted by them upon parent's purchase decisions. Television can influence children by asking for various products, making them aware of the necessity of those products (what is its usage) - 80% of advertising oriented towards children is made for the following product categories: toys, cereals, candy, fast-food and restaurants[24]. Spungin [36] quoted by Chavda et al. [19] claimed that, through the advertising designed for the small ones, companies encourage children to ask parents to provide them with various products or services. The increase in advertising for this segment, stimulates children to "harass" their parents for purchasing new releases, with the precise purpose of keeping up with the new trends.

Schor [33] states that parents find it extremely difficult to refuse their children due to the advertising and the existing campaigns [40]. The parents' process of giving in to their children is increasing significantly with the increasing in the age of the child. The parents' have an important role in the child's development as a consumer, because they are the first to take the child to the supermarket, they familiarizes him with this environment from a very early age - two months. From the age of 18 months, they can discern brands and by 24 months, they ask products by name [39]. Likewise, from the age of 7 to 8 years they can be considered consumers with full rights, who spend their own money, coming even from their parents or other sources (monthly allowance, money from relatives – grandparents etc).

2. The child in the family's purchase decision process

McNeal [28] identifies children development stages of behaviour as consumers as follows:

- they accompany their parents and observe;
- they accompany their parents and they request various products;
- they accompany their parents and in agreement they select products;
- they accompany their parents and they make independent shopping;
- they go to store alone and they make independent shopping.

Children learn about consumption by observing and imitating their parents' behaviour [35, 40]. So, the children shape themselves into consumers firstly under the influence of parents, as agents that introduce them in the commercial environment.

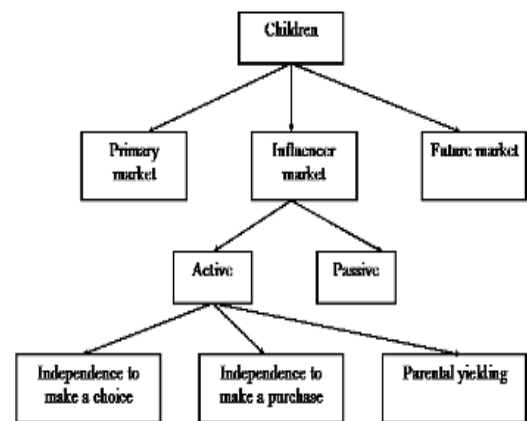
To acquire the desired products, the children resort to different strategies depending on the age. Obtaining things by toddlers (with ages between 3 and 11 years) is done with the simple gesture of asking, while teenagers use different strategies in order to influence their parents in the purchase decision making. Palan and Wilkes [31] observed that teenagers use strategies such as negotiation, persuasion or emotional strategies (e.g. pouting, flattery, negotiation, the state of guilt) instead of direct requests.

A series of studies [4,10,20,30] concluded that with the increase in age, the children exert a greater influence on their parents due to stronger cognitive abilities. At the same time one can say that the level of development plus the experience gained in time with the products make the older child hold more information about his role as a consumer.

Thus, children have become a very important consumer group in the marketplace, that influence the family's purchase decisions in many ways.

McNeal [28] states that the children are a primary market, an influencing market, and a future market (figure 1), very different from previous generations.

Figure 1 Children as Influencers



Source: Pavleen Kaur and Ragbhir Singh [23]

Thus, for certain products, the children are primary users, i.e. the product is purchased by themselves or they made a selection of products(favorites) before it is bought by parents. For the category of products for the whole family, e.g. the brand of cereal they eat in the morning, the children can play the role of influencer in the purchase decision of parents. We can speak here about a direct influence of children, namely directly expressing, out loud, their preference for certain products. Other products are purchased by parents based on previous knowledge of children's preferences, for the daily consumption as well as for the whole family [23]. In the future they are the ones who will make the purchases, based on the knowledge accumulated about products, for the whole family, once adults – they are consumers with full rights.

Therefore, the children can have both a direct influence and a indirect one regarding the decisions in their families. A direct influence is exerted when the parents choose products and services based on the requests made by children - e.g. the restaurant where they are having supper, the type of dessert they will order. The indirect influence represents the choices made by parents at shopping (children not being physically present) based on the preferences they know that children have – e.g. favorite fruits.

The influence that children usually exert upon parents' purchases may vary not only according to the product categories used by the family but also by the stages of the

purchase decision process. Thus different individuals in the family may hold different roles in different stages of the purchase process.

Regarding the decision making process in the family setting, different authors have taken into account a different number stages. The number of stages of the purchase decision process varies from nine stages [43] to two stages [32]. The first who used in the decision process three stage were Davis and Rigaux [11] or Belch et al. [5] i.e.: initiation, implementation of the choice and the final decision. Regarding the family, initiation is the process by which a member of the family proposes a suggestion or ideas. The second stage is represented by executing the choice of a certain type of product or service. The family members are searching and comparing different alternatives. The final stage is the purchase decision process. The influence and children's degree of influence in those three stages differs from one study to another.

Szybillo and Sosanie [37] in a study concerning choosing a restaurant, or choosing a family vacation, they reported that all the members of the family are involved in the stages of the decision process. In the mid '80, Belch et al [5] was of the opinion that the greatest influence of children is felt in the problem recognition stage and less in the final decision, when choosing how to spend free time or durable goods. Later, [21] ascertained that children's influence is greater in the final stages of the purchase decision process.

Based on the new existing changes in the lives of children (greater access to mass-media, free access to internet – information about markets), Belch et al [6] comes back with a new study claiming that older children are those who take purchasing decisions in families.

3. Conclusions

Actually it can be stated strongly that nowadays the children equally influence all stages of the decision process if the products in question are targeting them exclusively and have more influence over less expensive products and those for their own use [15]. Since the early '60 researchers became interested in the consumer's behavioral manifestations in children. As an important

entity in the market, the children are taken into account in researches conducted over time because of two reasons [29]. The children have a considerable monetary amount with which they satisfy their own needs and desires. Then, children's influence on purchase decisions in the family is ever-growing; the influence it is not limited only to products strictly related to children – candy, toys etc, but has been extended to the entire household products: mobile phones, computers etc. Children's different degree of influence on the purchase decision process varies and is due to the product category taken into account; decision-making stage – the child from the influencer to the decision maker in some cases; child characteristics – only child or with more siblings, family characteristics – traditional, monoparental.

The accelerated maturation of children, largely influenced by the little time parents spend with their children, by mass media which took the place of parents in some cases, as well as other factors - external and internal, led to a change of attitude in terms of their decision-making space relating to purchases made by parents and not only.

Future market – the children have their roots in childhood experiences as consumers with equal rights in the family in which they where raised.

4. Future works

Present paper is a preliminary study who support our next intended research about child in the family's purchase decision process on the romanian market.

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Resource-Performance in the Services Business

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Abstract

Resource concept seems relatively banal, the economy using the general meaning: support element to meet the needs. Resources represent the inputs to the activity of any company and refer to: properties, employees, streams of information, knowledge, cultural values, organizational capabilities, etc. By their very nature, resources do not create value, they must be processed using existing technologies to design products and services in accordance with the mission of the organization.

Key words: business, services, resource, performance.

J.E.L. Clasification: D8, D83, L2, L21, L25

1. Introduction

The emphasized dynamism of external environment significantly influences the activity of services companies. Therefore, companies need a good understanding of market changes and features, and some strategies development and implementation according to the economic context.

Services companies set their market strategy according to the objectives they pursue, their available resources and the environment development in which they operate. Nowadays, successful companies tend to be those that innovate permanently, using the new technologies, the skills and the know-how of their employees. Performance in both commercial and services affairs supposes the existence of a solid theoretical

background which entrepreneurs can apply depending on their innovative capacity. Thus, innovation and vocational training become the most valuable assets for carrying out a successful business.

2. From tangibles to intangibles

Resource concept seems relatively banal, the economy using their general meaning: support element to meet the needs. According to Business English Dictionary Online [1], resource concept is explained as follows: economic or manufacturing factor required to perform a task; means of achieving a business and get the desired result; the three basic resources are: land, labor and capital; other resources are explained in terms of: energy, entrepreneurship, information, experience, management, time, etc.

Resources represent the input to the activity of any organization and refer to: property, employees, streams of information, knowledge, cultural values, organizational capabilities, etc., allowing the company to create value for its customers. *Resources are everything the organization owns to achieve its mission and strategy arising from this* (Băcanu, 2009, p. 67) [2].

In terms of management, there are two types of resources: tangible, also known as capital and intangible resources, considered a general category, relatively uniform.

By their very nature, resources do not create value. They must be processed using existing technologies to design products and services in accordance with the mission of the organization.

Tangible resources are those that we can see, touch, measure. They can be easily identified and evaluated. We can include here the physical and financial assets the organization uses to create value for its customers. For example: natural resources (infrastructure, locations, equipment, furniture, raw materials, books, etc.); human resources (people as integrators of physical properties); financial resources (the firm's cash accounts).

At the opposite pole, **intangible resources** cannot be seen, touched, and measured directly. They do not have a physical form, nor do they hold physical properties, their features and behavior are different. For example: human resources which include staff (people as integrators of other properties besides physical properties, namely: experience, talent, skill, intelligence, knowledge, creativity); computer resources (data, workflow information, tacit or explicit knowledge); the legal basis (licenses, copyrights, trademarks); the reputation of the company (company name, brands for various products and services) (Brătianu, 2006) [3].

According to specialists, all intangible resources of a company become more important than tangible resources. Intangible assets are strategic resources in getting competitive advantages, helping to create a solid reputation for the company and also possibly leading to its expansion. If we take the example of branding the products of a company, we can acknowledge that the brand is a complex symbol representing a multitude of ideas and attributes with emotional impact on consumers, which was created over time in the minds of the consumers by: brand name, packaging, advertising, public relations, promotion, etc. When the product has a strong brand name, it provides value over time, customers become very loyal, refusing to buy the competition's offer.

In the analysis of a various types of resources, a part of literature considers their classification as: **content-** financial, human, physical resources, etc.; **their functional way used in the organization-** production, marketing, human resources, etc.

Any authors support the existence of other organizational resources (Barney and Hesterly, 2006) [4]: the organization, cultural

value system, coordination and control system of the organization.

Ghe. Holt (2010) [5] presents four categories of intangibles resources: **market resources** (trademarks, market segments, assignment contracts, franchising, licensing, ordering supplies, distribution channels, etc. These resources create for the organization competitive pluses on the market, if they are efficiently used); **infrastructure resources** (technologies, methodologies technical processes specific to the organizations, which lead to its effective functioning. This type of resources shapes the culture of the organization, its financial structure, the databases management systems; these values determine the way in which employees work, communicate and establish relationships in the organization's compartments); **intellectual property resources** (patents, copyrights, software, trademarks, manufacturing secrets, know-how, etc.); **human resources** (professional skills of employees, their experience, intelligence, talent, ability to solve problems, etc.; these are crucial values of the organization, since they are difficult to identify, measure and cannot be reproduced).

An interesting category of resources is discussed in the literature by Scholes, Johnson și Wittington (2008) [6] and refers to: threshold resources and single resources.

Threshold resources are needed by the company to meet minimum requirements of economic survival.

Single resources are those that provide a competitive advantage and are very difficult to obtain by other competitors.

Literature pays special attention to intangibles resources, to which we return to detail the forms they materialize and to emphasize their significant impact on the both commercial and services affairs in terms of business performance.

Thus, the category of intangibles resources include: licenses, patents; copyrights; trademark, service mark; brand; reputation; knowledge or business related knowledge; the organizations' external relations.

The Oxford English Dictionary [7] provides us some explanations for these categories, as follows:

Patent, license: government authority who gives someone the right to exclude others from making, using or selling an invention.

Copyright: the exclusive right legally attributed for a fixed number of years to a person has published, printed, made a film or recorded literary, artistic, musical materials.

Trademark: symbol, word or words, legally registered by use as representing a company, a product or service.

The patent protects an invention, copyright concerns intellectual creation, idea or information, and brand refers to a name, word or symbol, all these being used to create distinctiveness of a product or service and to provide protection against competitors.

Brand: type of product manufactured by a particular company under a particular name. *Brand is a name, symbol, image or a combination thereof, serving to create distinct identity of a product, organization or institution* (Băcanu, 2009, p.73) [2].

Reputation: general beliefs and opinions held by someone about something or someone else; widespread belief that someone (something), has a certain characteristic. Reputation provides a signal of organization attractiveness, reflecting its past performance. It is difficult to quantify, but it appears as a resource with a global strategic potential, which lead to a sustainable competitive advantage (Petrik et al, 1999, p. 58-69) [8].

Knowledge: facts, information and skills acquired through experience or education; practical understanding of a subject.

Relationship: the way two or more persons (things) are connected; something's effect on the relevance of something else.

3. The resources importance in market positioning of the service company:

The literature outlines a first idea which refers to the fact that organizational performance was mainly due to its internal environment after 1980, but this approach is reflected by the year 1985 under the name: Resource Based View (RBV) in the works of an important authors: Wernerfelt (1984), Rumelt (1984) and Barney (1991).

The discussion about the relationship between resources and performance is justified by numerous studies, which are

based on two basic assumptions: *resource heterogeneity hypothesis* (Penrose, 1959) [9] that each company operates with a unique combination of facilities and resources; *resource immobility hypothesis* (Selznick, 1957) [10] originates in the works of David Ricardo and refers

to the fact that certain resources owned by a company are difficult or costly to imitate.

An approach to the relationship between competitive advantage and organizational resources was begun in the literature as the '90s with a series of papers: Dierickx și Cool (1989) [11], Conner (1991) [12], Peteraf (1993) [13], but representative is Barney's work from 1991, known as VRIO framework, used since 1991.

VRIO is an acronym translated by the attributes: value, rare, inimitable, organisation to be resources associated.

Resource is valuable if it allows the company to exploit the opportunities of the external environment and to remunerate his threats; resource is rare if it is owned by a small number of competing companies; resource is inimitable if the company can pay the costs difference to obtain and develop that resource; organisation's ability to sustain these valuable, rare, inimitable resources through its policies.

As a result of the resources evaluation, the service company may be in one of the following situations from its competitors:

- *competitive advantage:* when the distinctive resources are found in a relatively small number of competitors;
- *competitive parity:* when resources are found in the majority of competitors;
- *competitive disadvantage:* when the resources do not result in the same performance as those of competitors (Băcanu, 2009, p. 78-79) [2].

The intangible resources involved in the activity of the service company must be aggregated through a proper management to the company's strategies; their absence has implications in terms of market positioning, achieving competitive advantage, building a solid reputation and growth of the company.

4. Conclusions:

As a conclusion with implications for service businesses, we can say that the success of service companies is significantly influenced by its intellectual capital. This intellectual capital contains all knowledge involved in the service company development, which can be stored to a tangible medium: the talent and experience of employees, their commitment to the institution, educational and cultural level, the value of intellectual property rights, the organization's cultural values, customer's loyalty. *Companies should be aware that their most valuable assets consist of what is in the minds of people they employ* (Pistol, Ungureanu, 2012, p.491) [14].

Intangible resources have a pivotal role in building business, their contribution is reflected in market's corporate positioning and in achieving of competitive advantage; nowadays these elements are indispensable.

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Recession of Economy and the New Aspects of Consumer Behaviour: the Case of Romania.

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Abstract

In this paperwork the author intend to have a glimpse of the influence of recession on consumer's income and in the consumer behavior, especially in Romania. Also the author want to present the case study of Romania concerning the recession of economy and some new aspects of consumer behavior. There is a strong connexion between the income and consume and the time of recession show it in the best way. In this way we did some research on the market and by some analyses in a statistical editor we conclude that there is a strong determination in the consumer behavior by the income of the population especially in Romania, a country with a developing economy. The recession influenced the consumers in their biggest concern – their income. In the same time the recession changed some important trends in consume.

Key words: recession, consumer behaviour, income, dependency

J.E.L. Classification: D 10, D 12.

1. Introduction

The current financial crisis has hit hard many countries in Europe. Economies slowed as large corporations reduced production and fired personnel, and societies worldwide experienced prosperity downturns [1].

The Greek economy was one of the fastest growing in Europe during the 2000s.

The overall effect of Greek debt crisis was considerable high and its negative repercussions were felt especially by countries in South-Eastern Europe.

Romania and Bulgaria were the most affected countries in the region; that is why the author chose to describe the relationship between Greece and Romania given the

magnitude of the current economic crisis.

The way Romanians experience and perceive the effects of the crisis is strongly influenced by the line of business, the income level and age [2].

In this paper we will try to approach the level of income in Romania and the crisis impact on the consumer behavior.

2. Some aspects concerning income and consume

Income of a person "expresses livelihood available to it in the form of sums of money, goods and services obtained from the work, property or social consumption funds, and they may, in general, the desired goal without a restriction or obligation" [3].

Depending on their source, total household income consists of:

cash income, which includes:

-Salaries;

-Income from agriculture;

- Income from independent agricultural activities;

- Income from social benefits;

- Income from property.

b) the value of income in kind obtained by employees and beneficiaries of social benefits,

c) the value of consumption of agricultural products from own resources.

Money income of the population works on the market through demand for goods, conditioning, eventually achieving the supply of goods and market relations in general.

However, progress in the overall growth of gross domestic product, national income is a basic form of insurance and increase income of the population.

However, in Romania, the money income of the population is characterized generally by a rather low level, very low for some categories of households, a phenomenon with important implications on the level and

structure of consumption opportunities savings of the population.

3. Income and consume in Romania

In Romania, although the main source of income is the total money income, there is still high share of income in kind.

Total household income structure still stands by the large share of income in kind.

In the analysis based on household income level of education of household head, is that there is a direct relationship between the size of income and education level of people without income.

Thus, household incomes characterized by a higher level of education were 2.85 times higher than those of the household head have not completed more than primary school. Even compared to situations where the household head has completed secondary education, household incomes characterized by a higher education level were 83.9% higher.

In terms of total household income level, grouped by the number of the composition is observed that in the case of several members of households, average income per person remains lower than for households with fewer people. This can be explained by the fact that many live in households usually more dependents.

We can observe that in October 2011, the average gross nominal earnings were 2008 lei (RON), decreasing with 9 lei as against September. The average net nominal earnings were 1457 lei, decreasing as against the previous month with 7 lei (-0.5%). The highest values of the average net nominal earnings have been recorded in activities of IT technology services including activities of informatics services (3688 lei), while the lowest in hotels and restaurants (872 lei).

The real earnings index for October 2011 as against previous month, calculated as the ratio between the net nominal earnings index and the consumer prices index, was 98.9% (Fig. 1).

As compared to October 1990, the real earnings index was 117.7%, by 1.4 percentage points lower than the one recorded in September 2011 (Romanian National Institute of Statistics, Romania, Press Release 267 / 2011).



Fig. 1 - Parallel evolution of Consumer Price Index and Net Average Earnings Index in Romania during October 2009 – October 2011 (Source: National Institute of Statistics, Press Release no. 267 / December 2011 Average Earnings, Bucharest, Romania.)

The home consumption of consumer goods increased by 6% in local currency in the first six months of 2011 compared with the same period of the last year. This increase was influenced primarily by the high level of inflation. In volume, the market recorded a decline of nearly 2% while the phenomenon of down-trading (migration toward products in a lower price segment) is yet recorded.

Analyzing the main categories of products, we observe that the basic food segment was most affected by the rising prices, the amount spent on these categories being 15% higher, while the expenses with non-essential food increased 4%.

From the basic food products, oil values grew by 40%, while volume fell by nearly 2%. For ground and toast coffee - also considered essential items by consumers - the expenses remained relatively stable. However, consumption fell by 7% for a constant number of consumers.

Costs to home care and personal hygiene increase of 5% in the first half compared to the previous year. Among the non-basic products, households in Romania have paid slightly less for laundry detergent (-1% in value), while for shampoo costs rose by 12%, although consumption remained about the same.

After a period in which care products were affected by lower consumption, as a result of Romanians trying to adapt to difficult economic context, in the first half of the year categories like deodorants and toilet

soap registered modest growth of 4% each, while the number of households that bought at least once these products increased slightly.

Modern trade still gains ground at the expense of traditional drawing in the first six months of the year, entailing 47% of the total households in Romania for consumer products, up two percentage points over the same period last year. Boutiques and grocery stores, the main traditional trade formats, lost 4 percentage points in value, resulting in the first six months of this year only 37% of total expenditures on consumer products compared to 41% in the same period of 2010.

At the absolute expenditure level, hypermarkets and supermarkets have growth rates of almost 15% each, and discount stores by 14% during this period. The main engine of growth for modern trade formats is the higher number of buyers, a trend explained by the dynamic territorial expansion of large retail chains.

The study is based on information obtained by monitoring the household consumption of approximately 90 categories of consumer goods through the consumer panel of GfK Romania, on a sample of 2,200 households, nationally representative.

Euromonitor International has recently published an interesting study related to consumption expenditure and disposable income in Romania.

Romania is a relatively poor country, and increase revenue and consumption expenditure tend to be moderate.

However, the country has a large middle class expanding on marketing and sales that people should focus.

Although consumption expenditure fell considerably in 2009, is expected to increase sales significantly in the health and transport between 2009 and 2020.

In this interval it is expected to increase the available income per capita accordingly to expenditures (Fig. 2).

Major discrepancies are observed between consumption expenditures in the capital Bucharest plus some major cities and the countryside.



Fig. 2 – Incomes and expenditures in Romania per capita (Source: <http://www.euromonitor.com/>)

Market in Romania is constantly expanding. According to Euromonitor International, the annual income available in Romania was about 91.3 billion dollars in 2009. The state recorded the fourth highest disposable income of all Eastern European countries, positioning itself after Russia (U.S. \$ 743.6 billion), Poland (266.3 billion dollars) and the Czech Republic (103.2 billion U.S. dollars).

Romania was hit hard by economic crisis in 2008-2009: annual income available per capita decreased by 11.1% in real terms in 2009 compared to 2008, while consumption expenditure per capita fell by 12.7%.

Long-term evolution is constrained by the decreasing number of inhabitants and a rapidly aging population, plus the effects of slow economic growth.

Persons aged 30 and 34, mainly young self-employed enjoyed the highest average gross income in 2009. The capital, Bucharest and its surroundings experienced the strongest growth in consumer spending across the country in 2009.

There continue to be major social and economic differences between urban and rural areas, where most of Romanians live.

In 2009, the richest 30% of households were responsible for more than half of total consumption expenditure on clothing and footwear, transport, communications, entertainment and recreation, education, hotel and catering.

Another survey conducted by ING show that the Romanians save the lowest part of their income from the ten countries included in the survey.

“ING Consumer Resourcefulness” survey offers relevant information about the

consumers' behavior and attitude from ten countries from the entire world (the Netherlands, Belgium, Spain, Romania, Poland, the USA, Mexico, India, Korea and Japan) in relation with their personal finances and solutions used in every analysed country for their administration.

Out of the ten countries included in ING survey, Romanians save the lowest part of their monthly income – only 7% as compared to the global average of 12%.

By comparison, in Holland, Belgium and Mexic the consumers allocate savings 10% from their monthly income, in Spain – 11 % in Japan, 14% and in India and Korea over 20%.

In Romania, the highest monthly expenses are allocated to food (32% of the monthly income as compared to 26% at global level) and the products for the house maintenance (28% in Romania vs. 25% at global level).

Romanian consumers are more exposed to financial risks for short-term too since 42% of the Romanian households do not have an emergency fund.

However, according to GfK survey from august 2011, the technical consumer goods market has recovered from the fall that intervened right after the crisis started and *-followed the trend set in the first quarter and continued its recovery in double digit figures. The market grew 12.4% in Q2 compared with the same period of 2010, while the growth for the first six months of the year is 11.6% [4].

The total market for technical consumer goods was EUR 306 million in the second quarter of 2011, and EUR 613 million for the six months ending in June. The IT sector was again the best performing market (+27.5%). Small Domestic Appliances (SDA) and Photo also had double digit growth rates, at 17.8% and 17.7% respectively. Telecommunication, Consumer electronics (CE) and Major Domestic Appliances (MDA) increased by single digit figures. The Office equipment (OE) market is the only one still in red but the decline slowed down in Q2 to only -3.6% (Fig. 3).

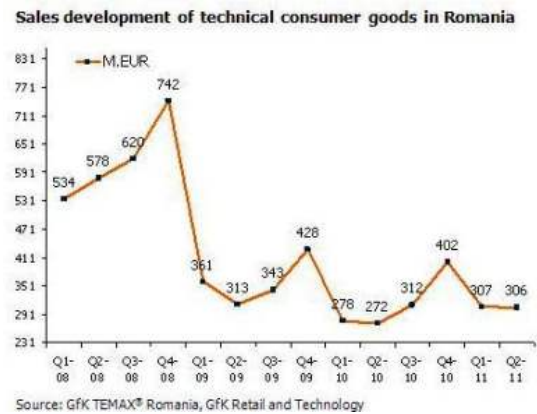


Fig. 3. – Sales trend of technical consumer goods in Romania (Source: GfK Retail and Technology, <http://www.gfk-ro.com>)

Also, according to GfK, the second quarter of the year witnessed the Small Domestic Appliance (SDA) market increase by 17.8%, EUR 4 million more than the same quarter last year.

Leaders, such as hot beverage makers and food preparation, left their mark on the Q2 2011 sales. Hair care appliances continued to struggle while traditional products such as irons and vacuum cleaners recorded double-digit growth.

The food processors category, which used to contribute to the decline of the sector, now changed its trend into an ascendant one and together with all food preparation markets has boosted sales within the sector.

Espresso machines sales are becoming stronger and had an important contribution to the overall positive evolution of the sector. Fully automatic, the most expensive category of espresso machines, had a remarkable performance and became the most important segment within espresso machines. Consumers are showing great interest in "fully automated devices" and in new innovative appliances, therefore, this market experienced a solid growth.

The first five SDA product groups out of eleven monitored by GfK TEMAX represent three quarters of the total sales of the sector.

This quarter showed that the purchase behaviour moved from personal care to traditional goods used for "in-home" activities of cleaning, ironing and preparing food or beverages.

Knowing the level of income and total consumption expenditure structure of the Romanian households, it requires as a fundamental requirement, identifying the link

that is established between these two variables. Thus, the relationship between income and consumption expenditures of the population can be highlighted using simple linear correlation coefficient.

Bravais-Pearson correlation ratio (or Pearson coefficient, or simply 'correlation coefficient', as it is called by those who use it frequently) is a method of measuring the intensity of linear association between two numeric variables

The correlation coefficient can range between -1 and 1, that satisfies the inequality:

$$-1 \leq r \leq 1 \quad (1)$$

Where r – Bravais-Pearson correlation ratio

Specifically, using our statistical data from the Romanian Statistical Yearbook, 2009 and 2010 editions, with correlation coefficient, we highlight the intensity of the relationship between the two variables considered (income and consumption expenditures). [5]

To do that we used a statistics editor called SPSS.[6]

The results of the modulation are shown in table 1.

Table 1. – Pearson Correlations – General

		VA R1	VA R2
VAR 1	Pearson Correlation	1,0 00	0,99 9
	N	10	10
VAR 2	Pearson Correlation	0,9 99	1,00 0
	N	10	10

Where VAR1 – total income,

VAR2 – consumption expenditure

As shown, $r = 0.999$, which indicates a very strong connection (relatively deterministic) between total revenue and total expenditure Romanian household consumption during the period 1999 to 2008. Thus, the size and structure of consumption expenditures of households are direct function of income level, which shows that currently the main focus is the consumption expenditure of households.

Calculating the correlation coefficient (r) for the two variables (total income and total consumption expenditure) for each type of household, we get the following results:

a) For households of employees - $r = 1,000$

Table 2. – Pearson Correlations – Employees

		VA R1	VA R2
VAR 1	Pearson Correlation	1,0 00	1,00 0
	N	10	10
VAR 2	Pearson Correlation	1,0 00	1,00 0
	N	10	10

b) For households of farmers - $r = 0.993$

Table 3. – Pearson Correlations – Farmers

		VA R1	VA R2
VAR 1	Pearson Correlation	1,0 00	0,99 3
	N	10	10
VAR 2	Pearson Correlation	0,9 93	1,00 0
	N	10	10

c) For households of unemployed - $r = 0.999$

Table 4. – Pearson Correlations – Unemployed

		VA R1	VA R2
VAR 1	Pearson Correlation	1,0 00	0,99 9
	N	10	10
VAR 2	Pearson Correlation	0,9 99	1,00 0
	N	10	10

d) For households of pensioners - $r = 0.999$

Table 5. – Pearson Correlations – Pensioners

		VA R1	VA R2
VAR 1	Pearson Correlation	1,0 00	0,99 9
	N	10	10
VAR 2	Pearson Correlation	0,9 99	1,00 0
	N	10	10

It becomes obvious that between the development and evolution of consumption expenditure and income, there is a very strong connexion. As the correlation coefficient calculated for these two variables recorded positive values very close to 1 ($r = 0.99$ for households of farmers, unemployed and retired) and even equal to 1 ($r = 1$ for households of employees), we can say that between total revenue and total expenditure Romanian household consumption, regardless of their type, there is a deterministic relationship, even fully functional.

4. Conclusions

The nowadays economic crisis is an unprecedented situation for the entire world if we consider its global dimension and the severeness of its outcomes. The negative economic evolutions of all national markets conducted to important changes in people's way of thinking, or behaving as well as in their system of values [7].

Romanians experience and perceive the effects of the crisis according to variables among which the income level is highly important. Romanian consumer behaviour has been analyzed accordingly.

The crisis has reduced the comfort and quality of life of middle to low and low income segments, and thus they adapt using strategies like reduce the purchased quantities of products, they buy what they need and only as much as they need, they choose cheaper products within each category, etc.

The consumption behavior has not changed significantly concerning middle to upper & upper income segments, the most affected areas being savings and holidays.

Opportunities for growing within the crisis context should be based on the fact that In the crisis context, price has certainly become more important. Utilities and food are the categories that are expected to grow the most.

However, in conclusion, the main focus of Romania's current household expenditure is consumption of goods and services, whose order of magnitude in the last decade, has covered about three quarters of total expenditure.

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Influence Factors over Human Resources Management Practices within Romanian Companies

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Dumitrescu Mihaela

Brăiloiu Liviu

Abstract

Human resources management within Romanian companies requires a complex process of renewal and development of specific practices.

A better understanding of this process will be possible as the influence factors are identified and analysed.

This paper aims to present the level of development for human resources management practice in Romanian organizations. The influence factors are presented both from an institutional and cultural perspective.

A clearer image on this issue could be achieved by conducting the analysis separate covering each perspective and could represent the subject of a future research.

Key words: human resources management practice, institutional factors, cultural factors, Romanian companies

JEL classification: M12

1. Introduction

Human resources management has constantly evolved, reaching the level of development that is well known and accepted in the specialized literature. There are still different debates upon certain issues concerning this domain. Such a debate that proves to be actually is the one regarding the human resources management practices and the elements that determine and explain their evolutions.

Considering the case of Romanian companies that are involved in a process of development of their human resources management practice such an approach proves to be useful. In this context a review

of the main theories is necessary and will be presented in the next section of this paper. These theories are presenting different models of human resources management.

2. Human resources management models

Specialized literature indicates that various human resources management practices based on the economical, political, social and cultural diversity of each country. Despite of these evidences two main categories of human resources management have been identified[4]:

- calculative practices – aiming the increase of human resources efficiency;
- collaborative practices – concerning a process of convergence between company's objectives and the ones of its employees.

Starting from these two categories of practices, two models concerning human resources management have been indicated by the specialists:

- calculative human resources management model;
- collaborative human resources management model.

The calculative model – promotes those practices that aim to enables the accomplishment of the company's activities in an efficient manner. The human resources are seen as any other economical resource that is assessed by the efficiency of use.

Therefore, this model proposes some practices such as: the individual performance assessment (for managers and different professional categories), the reward system tightly connected with the performance assessment, the estimation of the training programs efficiency etc.

Such a model is based upon a substantial

autonomy of management within the company that should be not restrained by specific legal norms or union pressure movements.

The collaborative model – that involves some practices that are focused more on the people. This way, the value of the employees for the company, ethic issues concerning the contractual relationship are pointed out. The employees are seen as an active partner within the organization, due with a high potential of creativity and innovation that should be properly used.

These practices are based on mission statement, the official report on the company's strategy at all its levels, the existence of an employee's communication policy.

It has to be noted that are differences that could occur in each country due to the specific legal framework regarding employment practices [3].

Another model, such the one proposed by Brewster, brings into discussion three level of analysis regarding the human resources management practices within European space[1]:

- international level – marked by international organization such as European union;
- national level – represented by culture, legal systems, economical system etc.;
- national framework of human resources management – consisting in labour market, industrial relations, educational system, trade unions etc.

Such a model proves actual and the influences presented should not be ignored considering the European membership of our country.

This brief review of these models points out various factors that could exercise different types of influence over the human resources management practice within a specific country.

3. The development of human resources management practices within Romanian companies

The status of human resources management practices within companies located in our country was subject of different studies and surveys. The results of

the most significant are presented and analysed below in order to point out a clear image over this particular field. In the same time, the elements that are exercising influence over the domain are to be identified.

Several studies have indicated that within Romanian companies were functioning and still are traditional personnel departments fulfilling administrative tasks.

According to the results of these studies one major difficulty pointed out by human resources managers is the bureaucracy occurring in the relationship with authorities. Such a situation could easily represent an obstacle for a development process regarding the specific practices.

The decision process regarding human resources field in the company is usually the responsibility of general manager. This proves a restrained authority of human resources manager. Therefore, decisions meant to improve the specific practice are not taken by the specialised people, which could affect their efficiency [6].

Other studies have identified the same situation as the one presented above, but have underlined an improvement of human resources management strategic role within the companies.

Another improvement refers to the fact that the human resources managers became on a larger scale members of company's board.

Payroll issues are the responsibility of general manager and chief accountant. The lack of implication on behalf of human resources department could create a gap between the level of performance and payment.

In order to achieve a greater efficiency at the company's level, human resources management involvement in compensation matters should be increased.

The development of human resources management practices, specialized training should be considered as a priority. The results indicate that are still a reduced number of human resources managers that are viewing this situation as a priority. The area identified to be covered by training are[5]:

- conflict management – 34%,
- personnel motivation – 28%,
- interpersonal communication – 25%.

The level of development for human resources management practice and achieving greater efficiency are strictly determined by the level of competence among the human resources specialists.

Another solution for improvement at the level of human resources management practice within local companies is represented by the outsourcing process. Although, the human resources management professionals are aware of it, there is still a reduced usage. Whenever it is used, such a solution regards especially the recruitment and selection activities or the training process.

One issue that has to be considered when we take into discussion the matter of human resources management practices within Romanian companies concerns the cultural influence of our society upon this domain.

There is a study that has established the main cultural dimensions of our society based on Hofstede methodology. Starting from these results some predictions were made regarding the human resources management practices within Romanian organizations. [2]

Human resources planning should be based on a thorough analysis of positions and should avoid frequent changes within organizational structure of the company.

When the recruitment and selection process is considered it should be noted that the Romanian employees are more concerned with the job security than with promotion opportunities or job nature.

Moreover, Romanian managers tend to appreciate more loyalty than the level of performance when recruitment and selection are involved.

Considering the cultural influence the performance evaluation proves to be no easy task. Using clear objectives and a tight correlation between the level of performance and the level of payment could generate anxiety among employees.

It is recommended a system that will not generate competition or adversity between company's employees.

The reward system should consider the fact the Romanian employee proves a greater appreciation towards the level of salary, job security and working conditions.

A bigger fixed salary is considered very attractive. The system should consider also

the annual bonuses and benefits packages (health care, child care etc.).

Training and development practices should be based on the assumption that the employees are expecting the company to offer them training and protection.

The training programs are in their majority very complex and theoretical oriented. We can note that the situations when the employee is preoccupied with the development of his skills level are rare.

One major problem of these training programs remains the lack of feedback between managers and employees; in order to assess on a real base their efficiency.

4. Conclusions

The development of human resources management practices within Romanian companies represents a complex process.

A better understating of this process requires an analysis of elements that are influencing upon it. This approach implies the use of different points of view such as the institutional one, the cultural perspective and also the rational perspective.

Specialists have argued over the right approach when the matter of human resources management practices is discussed. As a result different models of human resources management have been proposed. Each model underlines various factors of influence over this domain and indicates several categories of practices that can be used.

In our country case we can assume that a complete approach on the subject could be realised starting from the model Brewster proposed.

It is clear, that as a member of European Union, our country will suffer the influence of legal framework regarding human resources field.

In the same time, we should consider the institutional influence existing at our country level. We are talking about institutions and legal regulations (such as Labour Code) that have an important role in human resources management practice within Romanian companies.

Another valuable perspective is the one based on cultural specificity of our society. Cultural dimensions exercise a great deal of influence over the human resources

management practices.

In this context some practices are suitable for our companies, while others are to be rejected by employees or managers. We remind that the Romanian employees are more concerned with the job security than with promotion opportunities or job nature.

Romanian managers tend to appreciate more loyalty than the level of performance when recruitment and selection are involved.

Considering the above mentioned elements we appreciate that a better understating of this issue could be realised based on a thorough analysis from institutional perspective or cultural one.

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The Improvement of Human Resources Management through the Development of Best Practices

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Abstract

Human resources management practice has been subject of numerous studies. Specialists have brought into discussion the concept of human resources management best practice.

The issues related with this concept have generated intense debates among specialists.

This paper aims to present the theoretical background of the concept and the influence that could exercise upon the level of development for human resources management practice.

A clearer image on this issue could be achieved by discussing the model offered by the multinational companies in the development and diffusion of best practices related with human resources management domain. A through analysis of this issue could represent the subject of a future research.

Key words: human resources management practice, best practices , multinational companies

Jel classification: M12

1. Introduction

Human resources management evolution has brought into attention a new concept related with specific practice, the best practice. It generated intense debate among specialists.

It proves to be actually, especially in a larger context regarding the human resources management practices and the elements that determine and explain their evolutions.

Specialised studies have analysed the role of multinational companies in the process of

promoting best practices related with human resources management field.

2. The best practices in human resources management

Human resources management has evolved constantly towards its present level of development. Such a process has involved the concept of **best practices**. According to this the models offered by the top companies in the world can be use in any other company with necessary adjustments to their particular context. We can discuss the degree to what these practices are fitting to an individual (company) case.

There are various definitions of this concept in the specialized literature. One clear and suggestive definition presents the best practices such as specific methods, approaches on human resources management practices that positively affect organization's level of performance, due to the improvement of employee's level of satisfaction, customer's satisfaction and the development of the key areas of the business. [3].

The best practices allow an optimal usage of human potential of a company in order to improve its performances. It can be used in various areas such as: reward, personnel motivation, recruitment and selection, human resources planning [www.hrvillage.com].

For example, in case of reward system, salaries and other benefits that a company is offering should be covered by its budget. In the same time those elements should be incentive in order to attract and maintain valuable human resources for the company.

Another example refers to the legal regulation usage. In such case the experience of other companies proves to be very useful, considering the importance of this issue.

The necessity of this concept in practice can be justified by the following aspects [4]:

- they offer a framework for human resources specialist despite the specific area of activity;
- could be identified those practices that are leading to the best results within a company;
- strategies concerning human resources can be developed establishing a correlation with cultural values, the goals and objectives of the organization.

Related to this concept has evolved and it is used widely another one – **benchmarking**. It could be defined as process that involves a continuous comparison of similar areas of different organizations in order to establish those best practices meant to improve the company's level of performance.

Such a process supposes a measurement of company's performances, identification of best practices on a regular basis, an analysis of top companies experience and adjustment of these practices to the specific context of each enterprise.

Throughout the benchmarking process could be identified and spread out the best practices emerged from the most efficient companies. This could represent a solution for the improvement of human resources management practice.

The benchmarking process implies a continuous analysis of ones company practice, comparing with the model offered by top companies in particular field of action. Therefore, several stages have to be covered [5]:

- problems identification – evaluation of company's own practices regarding a functional area;
- identification of top companies in their domain – which companies are the best;
- documenting – implies the study of reports or visits in order to establish exactly what are the practice of these companies;
- best practice implementing – considering the specific context of the enterprise;
- results evaluation – establish to what degree such practices have been integrated and the effects that are

generating.

The use of such a system could bring major improvement to a company's level of performance in any functional area and especially in human resources management field.

3. The development of human resources management best practice throughout the multinational companies' experience

There are many studies that have analyzed the issues regarding the human resources management practices within multinational companies towards and their subsidiaries placed in different countries around the globe.

In most of the cases, the major fact that has been considered was the degree of centralism regarding the human resources management practiced within the multinational companies.

The parent company plays different roles in the process of establishing the policies and the specific practices

Considering the case of the American companies, presented in most of the specialized studies, it was pointed out that these organizations manifest a high degree of centralism in this field. Thus, the parent company set out a general framework that has to be respected by all the subsidiaries. This framework could be, in some situation, adjusted to the local conditions. The procedures regarding the human resources field are in the majority standard.

For example, the surveys regarding employee's opinion are compulsory for the most companies.

The issue of the degree of centralism within the management of the American multinational companies reveals some particularities concerning the control that the parent company manifests towards its subsidiaries [1]:

- the control process shows a higher flexibility of the American companies to the changes within the context in which they operate. Comparative to this situation the the german system is more institutionalized and relatively rigid;
- there is a trend of developing centralized policies regarding human resources field;

- in the same time the management of the subsidiaries tries to exercise its own influence taking into account their knowledge and the experience related to the local background. Therefore, the local managers need to act very diplomatic in relation with the parent company.

There is also necessary to determine the content of the practices proposed as a model and the way they will be operating in the new context (in the original form or an adjusted one).

Considering these issues a comparison between the American model and the British proves to be useful. The analysis identifies many similarities due to the fact that the two systems are standard ones.

The usage of practices and knowledge from the parent company to its subsidiaries is a complex process that aims different domains such as: reward and performance, workforce diversity issues, the management of the managerial carrier etc.

The integration level of the activities within the international context has a great deal of influence over the formal character of these processes. Even the most standardized practices and procedures are adjusted to the local real conditions.

Therefore, a study regarding these issues related to American companies and their subsidiaries in Great Britain has revealed the following matters[1]:

- the human resources management practiced within the American companies is different from the one of the other organizations. The trend is to use a centralized approach toward this domain. This could be explained by the fact that the American organization have always had a stable managerial system, that has represented an important condition for their competitiveness;
- in the same time there is a certain open attitude toward changes and innovations (opposite to the German system, for example). However, there are a lot of constraints regarding their adoption due to the existence of some models;
- there are differences between the companies from these countries due to the lack of any institutional constraint

in the American business environment and also to the strategical option that is primary set to the company's level. Such differences show up at the sector level, too;

- the practices tend to be modified in contact with the host country legislative background, resulting combined forms that are reflecting both the origin background characteristics (American context) and the ones of the host country's background (British context);
- subsidiaries management could have an important position in establishing the policies and practices regarding human resources, if it proves able to compel the parent company regulation combined with the specific objectives of the subsidiaries (business case).

Another approach of best practice issues reveals the **convergence/divergence** problem in human resources management practice within organizations in different countries.

The convergence issue implies that the best practice can be applied in any organization, despite the country. In this context, the economies of different countries will evolve toward similar structures – the concept of **competitive isomorphism** (the companies will assimilate the same best practices within similar economical background).

Another approach that has imposed itself is the one that assumes the national differences, based on national culture and its representative elements. The companies and theirs practices cannot be separated from the particularities of the cultural environment 2].

4. Conclusions

The development of human resources management practices represents a complex process. It raised different debates among specialists.

Such a debate was the one regarding the concept of best practice in human resources management field.

This approach implies the use of different points of view such as the rational perspective and the cultural perspective.

Specialists have argued over the right approach when the matter of human resources management best practices is

discussed.

Such practices emerged from top companies' experience covers various areas of human resources management field.

These practices could generate major improvements at company's level of performance.

The development of best practices involves a continuous process, known as benchmarking. It offers models of practice developed by the top companies.

Another discussion regarding the best practice matter has been centred on the way a company should adopt such practice. It was pointed out that adjustments are needed accordingly with the specific context of each company.

Moreover, there are specialists that are arguing that the diffusion process of best practice could be blocked by the cultural background of each country.

Specialised studies have pointed out that the multinational companies are to be considered important model for the development and diffusion of best practice in human resources management field.

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The Bank's Success through Optimisation Promotion Strategies

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Abstract:

Banking success is conditional on compliance with certain requirements of communication from the institution, the consumer must send financial confidence - which leads to a relationship of authority to the target segment; to be attractive - identification mark is very important; and not in the least credible: messages must match the entire value system of banking institution. We believe that success in banking will be influenced by redesigning and diversification of services and products that will lead not only to obtain customer satisfaction, but also to attract them by using carefully designed marketing strategies and applied in practice.

Keywords: marketing; marketing strategies; efficiency; banks

J.E.L. Classification: M1; M3

Introduction:

In globalised conditions, designing their institutions policies and strategies, through which outlines the objectives and directions of development in the future, but also the ways of achieving them, to ensure permanence in the market and overall development. Because of the multiple changes that occur in the marketing environment of the institutions, they exhibit a particular behavior, a certain attitude, which completes in shaping the strategic directions and of the ways of achieving that are reflected in the contents of the marketing policy of the institution. *We believe that marketing strategies that lead to success are those that emphasize market opportunities and competitive advantages in their stand based marketing control results highlights: risks, favorable situations, strengths and weaknesses of the institution, marking the*

defining periods in the institution. Such strategies emphasize what follows in essence the period, followed directions, targeted objectives, marketing mix strategies outlined can all be put into practice if they answer the following questions:

- *What are the needs and desires of consumers?*
- *What new services and products will be launched on the market?*
- *What market segments to be targeted?*
- *What are the weaknesses of the competition and their use in favour of the institution? Study of the competitive environment and the key issues;*
- *What are the objectives of the institution?*
- *What is the mix of marketing strategies to most effectively attain the objectives? (product strategy – defining the product; price strategies – establish attractive prices to customers; distribution strategies-choosing the most cost-effective distribution channels; promotion strategy – which will be transmitted message clients).*
- *What are the campaign results?*

The answers to all these questions materialized in the main forms that you dress up marketing strategies that mirror all functions of marketing.

We believe that in order to successfully promote products and services, banking institutions must communicate clear and honest information to clients about existing offer, so customers can take a decision regarding the purchase process. Some banks in Romania have chosen to promote their image, products and services with the help of celebrities from the world of music, sports etc. The strategy consists in the fact that public figures have a great effect on consumers. (example: BRD-Groupe Société Générale is associated with big names in the sport: Gheorghe Hagi, Nadia Comaneci, Ilie Nastase; Millennium Bank chose the

Holograf promoting mortgage loans and refinancing etc.).

Banks performance are visible when you know customers tender, purchase, and have confidence in that institution and thus in their offer. Figures and a display picture have no value unless they are part of an integrated marketing communication, supported by an appropriate budget. Creating a powerful images, positioning in the minds of consumers, the differentiation of the competitors, customizing products and services according to customers, all this implies a great effort on the part of all employees of the Bank.

Bank offer on the market differentiation is manifested by the quality and reliability offered by the institution, which leads to satisfying customer needs. Building a strong brand is the essence in winning the notoriety of a Bank and a large number of consumers. Banks are today in a position to seek various ways to enhance efficiency, replacing some tools with new ones, modern to offer them better economic benefits. Each tool used and cost characteristics. Therefore, marketers must be familiar with these features when choosing promotional tools. In the continuous development of the banking market, will be promoted new banking products and services, the aim being one – maximizing profit, which will foster the emergence of new banking operations that will inevitably lead to the development of operating systems. Communication with current customers or potential customers is taking shape through the transmission of information about the Bank's activity, the offer of services and products, but also receiving instruction in which they are received and appreciated by potential customers. Thus, the Bank is an open system to its environment, external source of messages aimed at strengthening the image and reputation of the services and products on the market that unfolds. Achieving such an objective implies the selection of information to be aired because the use of inefficient assets can lead to unpleasant situations with negative effects on the image of the institution.

The highlight - success is conditional on compliance with requirements communication from source: thus, it must be strong - which leads to a relationship of

authority to the target segment, attractive - brand identification is very important, and not least Credit: messages must match the entire value system of the bank. We believe that the success of the banks will be influenced by redesigning and diversifying services and products so as to converge not only to obtain customer satisfaction, but also to attract them using well thought out marketing strategies.

The mix of marketing strategies - As a member of the European Union, Romania is trying to keep up with Europe, not only in the services offered to customers, but also to marketing strategies and promotion related to the banking system. In the banking sphere, marketing came later than in the field of industrial products and consumer. The environment in which enable banking institutions affect their decisions affect their services and products as well as how they are promoted on the market. Marketing services and banking products tries to take into account both their market, but also the impact that regulations and competition may have on the activity of the institution.

Market study highlights the advantages of the Bank's competitive market, as well as developing marketing strategies, based on these advantages. Bank marketing strategies are developed taking into account the following factors environment. (Odobescu E., Marketing bancar, Editura Sigma, Bucuresti, 1999):

- *regulatory factor-includes the legal framework for economic activity in general, and to the banking business, in particular, as well as BNR regulations;*

- *political factor refers to the macroeconomic policies and strategies adopted and implemented;*

- *economic factor-refers to the State of the economy, inflation, interest rates, changes in consumers purchasing power, customer requirements relating to banking products\services;*

- *the social-demographic changes, cultural and lifestyle changes, changes of attitude and perception of consumers;*

- *technological factor is usually associated with new information technologies;*

- the "competitive environment" refers to the analysis of activities, performance and competition reactions.

Environmental factors are factors related to purchasing behavior of customers.

Placing on the market of a new service/bank product involves a marketing strategy which should fix at least the segment of the market concerned and the position you want to be obtained within it.

Marketing strategies in banking is based on the quality of services and products, the value and importance of consumers and stimulate the creativity of staff.

Devising such strategies involve finding answers to the following three questions. (Berry, L.L., 1995):

- *What attributes\characteristics of the service\product are considered to be most important for the segment\target segments?*
- *Which of these attributes of services\products are weaker competition?*
- *What is the present and future capacity of the company?*

The answers to these questions find their resolution by performing a thorough analysis of the needs of banking services and products of the current or potential consumers, who are not satisfied by the competition and which could be provided by the institution through a marketing strategy well made point.

Any coherent marketing strategy and complete presumes the following stages:

- *Market analysis;*
- *Consumer Analysis;*
- *Competition analysis;*
- *The choice of the most appropriate distribution channels;*
- *Development of marketing mix;*
- *Evaluation and control strategy.*
- *Banking strategies targeting objectives: positioning on the market of the institution; appropriate banking policies aimed at streamlining the activities and operations of the Bank; central and local management that gives safety, stability, efficiency in carrying out the activities; indicators of efficiency and profitability (is carried out permanently comparisons with the evolution of competing banks); the structure of the Bank (territorial network, staff, information and technology investments in buildings and upgrades); Bank resources; placements; the range of services and*

products; relations with other international financial bodies.

Under the conditions of a strong competitive environment, development of marketing strategies leading to increased efficiency, diversifying the range of banking services and products, and choosing the best distribution channels.

Product strategy - the first component of the marketing mix, and the most important is the underlying strategy and market is dependent on and linked to the strategy of price, distribution and promotion. Has all options in the institution relating to dimensions, structure and dynamics of the range of services\products. In shaping the product strategy and the evolution of institutions have in mind: internal factors: we refer to the expectations of shareholders and management, objectives and utility firm leadership, resources available, the potential human, material and financial institution, technologies; external factors: Dynamics and market structure, level and characteristics of competition, consumers demand expectations; the market positioning of the institution and the overall profile of it. Product strategies are developed over long periods of time and reflects the main directions of action, the institution's attitude toward those kinds of services\products offered on the market in order to achieve certain objectives. Once adopted, the product strategy is very much influenced by market segment used. Depending on the goals of the institution, it can through product strategy to address the overall market (what is called the undifferentiated strategy), i.e. to try to meet the needs of diversified categories of consumers. After choosing the target institutions segment, product strategy, you need to keep in mind:

- *size range of services\products offered on the market;*
- *strengthening the position of the product and within the current consumer segments;*
- *increase in consumer penetration of a particular product;*
- *quality of services\products;*
- *enhancing the spread on the market by attracting new customer segments;*
- *the degree of selling of the services\products*

- permanent monitoring of the competition;
- differentiation of similar or closely related products of other manufacturers or distributors;
- best positioning within the range and increase the market share of the product.

Product strategy influences much success and the image of the institutions, for which reason particular attention should be given to all the stages completed in shaping this strategy. Brand and positioning are major elements in the strategy of product, influencing the "lifetime" of the services\products launched on the market. These two elements are closely related, i.e. a strong mark without a positioning on the market, properly designed, can lead to success.

The conclusion that emerges from those shown is that product strategy is followed by the successful when: the institution he outlines a clear idea of the conception of a new product based on the needs and desires of consumers; stripes carefully; Choose the target categories of consumers; determines the desired marketing positioning on the market.

The next component of the marketing mix is the **price Strategy** – important factor of global marketing mix. Each institution (organization) sets the single price of services\products. Fixing of competitive prices for services\products banking institutions require the elaboration of a policy for price, that translates into pricing for all services\banking products and their modification in line with the market situation. (the price of services and financial products is represented by: interest, fees, premiums, different rates etc). In practice, price strategy is defined in connection with the product strategy and the quality of the offer. Thus, according to Ph. Kotler may identify more variants (Kotler, Ph, 2001):

- *maintaining price and perceived quality – the consequences are smaller market shares, and lower profitability, but helps to maintain loyal clients. In the long term this approach is not recommended due to the spectacular evolution of the market and competition;*
- *the rising price and perceived quality – beneficial over the long term; lower market share and profitability unchanged;*

- *the drastic reduction in price and maintaining quality perceived – is not recommended over the long term; However results in discouraging competition in price and increase sales volume;*

- *drastic reduction of price and decrease the perceived quality – the consequences are a smaller market share, keeping the profit margin, reducing the long-term profitability.*

The price is conditioned and consumer reaction to the level and form of the price. For efficiency, price strategy of banking institution must be appropriate consumer profile. Factors influencing the formation of prices of services\banking products are:

- **External factors**, here we mean: the price charged by banks competing for a service\product similar or identical; economic climate: economic growth, recession etc.; customer feedback: acceptance or rejection, satisfaction or dissatisfaction from consumers;

- **Internal Factors** are: financial factors: banks are considering covering expenses and getting profit; marketing mix: the influence of other elements of the marketing mix on the fixing prices; the institution's objectives: increase profit or acquiring a top positions (i.e., able to fix some lower prices to attract new customers) or defending the service\product to counteract the actions of competitors.

From these there are several possible strategies for pricing for banking services and products. Regardless of the strategy chosen by the Bank, the pricing policy must have as a starting point the client's ability to pay up to a certain level for the services\products you receive. New services\products launched on the market faced mostly with problems in attracting new customers. To avoid this unpleasant effect for the Bank, launching on the market of services\products with promotional pricing may be used as a method of stimulating test. The Bank must be perceived as a successful, offering safety and confidence in consumers using the services\banking products. Many of the reviews have in mind the price level of services/banking products before using them; that's why price policy constitutes a very important tool available to the institution.

In our opinion, the success of the price policy is conditioned by:

- *defining the strategy of the price that must be correlated with the other components of the marketing mix and to convey all the same message;*
- *the prices charged (should be accepted by your target customers);*
- *attention to constructing messages conveyed through price;*
- *flexibility and customising prices according to consumers.*

The Conclusion is that the price strategy is based on the definition of value as an expression of what awaits the current or potential customers of the Bank's products. Correct and complete formulation of the strategies of price is the result of the merge of all factors arising from the objectives and policy banking institution.

Distribution strategy - distribution is to determine ways in which consumers accessing banking services and products. Advanced technology and business development banks have led to rethinking the distribution systems used by banking institutions. Today, more and more banks put the emphasis on improving the relationship between the client and the Bank by introducing advanced technologies allowing access to bank services 24 hours a day, and the desire to reduce the time of serving the customer. To meet the increasingly complex customers, banks have established a joint venture distribution strategy. The responsibility of the personnel in charge of marketing, in a bank doesn't stop when they have been identified those services and products which meet the needs of consumers. Following the identification of the most effective channels of distribution of the Bank's bid to be accessible, where you want and at the right time. Establishment of distribution strategies in the context of globalization must take into account the characteristics of each segment of consumers. Distribution channels to deliver services and products to customers and communicate with the market. In the conditions of competition on the market, choosing the most effective distribution channels still raises issues banking institutions. The success of a quality management is found in the combination of distribution channels to ensure that costs generated by service or product development (promotion, delivery etc) and getting profit.

The income that you get Bank are generated by number of customers, market share, number of uses of the product or service person and marginal income on each product.

Distribution channels management has turned into a main task for the banking institution due to further globalization. Technology development has led to fundamental changes in the system of distribution of services and banking products through the creation of new distribution channels. Fierce competition for customers, the use of new distribution channels are essential for banks because they want to increase the quality of services rendered, increase market share, reduce costs, and last but not least maximizing profit.

Today banks are faced with numerous challenges in the globalized economy of the 21st century, mainly strong competition and the danger of diminishing market share, what requires: *trying to abandon reagent management style and adopt a proactive style that anticipates the changes and is innovative; desire and concern for the development of new services and products; positive attitude for seminars involving market studies; building of comprehensive databases and updated with current customers and potential customers; financial efforts to use new technologies.*

Promotion Strategy involves choosing an effective communication channel for sending and receiving messages between consumers and the banking institution. We mean not only the physical channel through which to communicate, but also how effective implementation in practice.

Promotional activity sets it apart from the following, on the basis of which criteria will be formulated the following specific strategic:

- *Depending on the objectives of global promotional activity, there are: the global strategy to promote the image of the institution; exclusive promotion of the product; image enlargement strategy of the institution.*
- *Depending on how you progress over time, we have: promotional activity and permanent strategy strategy promotional activity flashing.*
- *Depending on the role of promotional activity, distinguish: offensive strategies; defensive strategies.*

- *Depending on the location of market structures, we have: concentrated strategy; differential strategy.*

- *Depending on promotional activity based: promotion strategy developed with forte's own or through specialized institutions.*

Developing communication techniques lead to shaping a new model of communication which, out now in full affirmation is based on an increase and even acceleration: *interactive procedures, especially through the expansion of the Internet; to the individualization of practices, including in the case of forms of work organisation more socialized.*

Communication made between the Bank and its current or potential customers takes a variety of forms, many of them extremely original. Under stiff competition, effective communication has an essential role in the marketing strategy of the institution. To inform and advise clients in future options are essential aspects for the Bank, because it contributes to add value to products and services. By communicating with customers create arguments to persuade consumers to purchase products and not on the institution of the competition. Strategy to promote modern banks involve the use of media and consumer incentives so that the banking institution, product/service cause favorable changes in mentality and their consumption habits, also important is the establishment of a communication actual employees, shareholders, competitors. Strategies presented take into account the profile of consumers, their needs and wishes, but also the reactions of the competition. The use of consumer segmentation models lead to offering products and services to banking and to ensure that the needs of the consumers, not only by achieving the goals they have set them, but also by providing a psychological comfort when I use financial products and services. Strategic marketing decisions, to generate success on the market must be focused on the development, maintenance and communication of competitive advantage.

We believe that successful strategies are those with which market opportunities are determined, based on the results of the marketing control which put out the following elements: the risks, the favorable

situations, the strengths and weaknesses of the organization. Through their implementation in practice has to create a well defined system of links between the organization and external environment, so as to ensure placing them in a better position in dealing with the other competitors.

Conclusion

Getting performances in the financial-banking sector is conditioned by knowledge and understanding consumer behavior in the context of the competitive environment, technological, economic, political, demographic and socio-cultural. Marketing planning purpose consists in identifying and creating a competitive advantage. Marketing goals must be in accordance with the overall objectives of the Organization, which are defined for each product and for each target market. Thus, the objectives of marketing concerns only MARKET and PRODUCTS. Thus, at the functional level, marketing goals will keep track of what products are to be sold and in which markets. In the new economy, built and developed on the basis of information technologies and communications, in establishing marketing strategies the starting point must be the consumer and its needs. Through Bank marketing strategies, marketers follow so choosing the best combinations between the various distribution channels, but the share of each in the whole distribution system. This choice depends on several factors, among which: the market; financial culture; the financial possibilities of the reviews; the financial possibilities of the Bank; the benefits that can be obtained from the use of a particular distribution channel.

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Guidelines on the Implementation of the Decentralization Principle in Local Public Administration Management

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Abstract

Are of recent date the multiple attempts of reformation and modernization of the public administration. An important objective of the process of reformation oversees the implementation of the decentralization measures to make the public administration in general more efficient. The current article brings to the attention of the readers the pros but also the cons that the application of the principle of decentralization may bring.

As a basic rule in the organizing function of the local administrative system, the decentralization presents a series of advantages that we've highlighted in the content of our study.

However the decentralized administrative model brings with it a series limitations that must not be ignored.

Based on this study, we strongly think that implementing the decentralization measures can not be considered an good option or a less good option, but essential is the way in which this process is translated in the practical field, to limit the risks raise the winnings that such a administrative model offers.

Keywords: local public administration management, decentralization, local community, public authorities

J.E.L. Classification: H83

1. Introduction

In the current reforming context that aims the entire society, the public administration reform and modernization is put with more and more acuity in an attempt to optimize it

on the whole. From this direction, we believe that the decentralization of local public administration constitutes a reality of the present and future society, with important implications for economic and social plan. Decentralization is a long and continuous process which requires the creation of a stable and coherent framework for supplying and financing the local public services [4, p. 3]. Applied judiciously, it can contribute to a significant improvement of the efficiency concerning the resource allocation and of the public service quality provided to the local community. For this, however, local authorities must be able to take the new responsibilities and to meet them from the managerial, institutional, as well as the financial point of view.

The correct application of the decentralization principle in local public administration management ensures the growth of the administrative capacity at the local level, the improvement of local service delivery and the citizens' more active participation at the life of the communities they belong.

An important element in achieving democracy on the local level, decentralization is seen as a solution to improve the quality of public services delivered to local communities and that a centralized system couldn't provide.

Decentralization offers different advantages, as a model of administrative management, capable to bring many challenges and new trends, ensuring the approaching of the decision right from the center to local human communities. Decentralization represents a system of administrative organization which enables

human communities or public services to manage themselves, under state control, which confers legal personality, allows the establishment of their authority and endows them with necessary resources.

2. Conceptual determinations on decentralization – the basic principle in the organization and functioning of local public administration

The principles underlying the organization and functioning of public administration in administrative-territorial units are formulated specifically by the constitutional provisions as well as by the provisions of the Law regarding local public administration. Among these principles decentralization is part of them, as a fundamental rule without which the efficient functioning of local public administration wouldn't be possible.

The legislative background is filled in with the decentralization framework-Law no. 195/2006 which prescribes through art. 2 letter l) that decentralization is the transfer of administrative and financial powers from the central public administration level to local public administration level or to private sector.

By interpretation, we note that decentralization involves the transmission of tasks and skills from the center to the authorities of the territorial-administrative units, while passing on the local level the financial resources necessary to the accomplishment of these transferred skills. If the conferred responsibilities aren't accompanied by resources appropriate to their exercise, we can't speak of a real decentralization. In other words, the financial component is essential in implementing the decentralization process, the local authorities are the most entitled to decide on the allocation of local funds, as they know more closely the needs of the community whose interests they serve.

The transfer of responsibility refers to planning, decision making, (finance, taxation), legal responsibilities (issuance of regulations, legal decisions) and the management of public services for which the transfer [7, p. 33] is being made.

The relevant literature in this area [8, p. 3] recognizes three types of decentralization:

- political, providing local community and its representatives more power in decision making;

- administrative, concerning the redistribution of authority, responsibility and resources between different levels of governance, adequate capacity and institutional power are the conditions for the efficiency of the decentralized system.

- financial, involving responsibility for revenue growth, access to transfers and decision making on current spending and investment.

In the practice plan, the implementation of the decentralization principle is about to lead to a greater concern for the needs of the local public environment, while ensuring a match between the administrative decisions of local authorities and the requirements of the members of the community in whose name they are acting.

In the system of administrative decentralization, measures and decisions can be made more quickly by local authorities, as they no longer have to wait for approval from the center, and material and financial resources can be used more efficiently in response to priority needs, that local authorities know better than those from the center [1, p. 10].

On the whole, the implementation of the decentralization principle will provide the premises for a better functioning of local administration that, in this way, they will respond and correspond, through their entire activity, to the requirements of the local community members.

3. Advantages and risks of implementing the decentralization principle in local public administration

Seen through the benefits that it provides, decentralization takes the form of a powerful, autonomous and participative model of local administration, that has broad and real powers for local self administration and for supporting the process of local development.

We can say that the process of decentralization facilitates and stimulates local development. Decentralization provides the appropriate climate for local interests to settle on better terms, according to local conditions and in line with their real needs.

Local authorities have to be more efficient in allocating resources, to provide local community better and more appropriate information and to better understand better the local needs, to be more receptive to them than the central authorities.

The central authorities don't know the specificity of local problems as well and especially that these problems differ from one area to another and may be only partially reflected in the measures taken by central authorities. No one knows more closely and in detail the needs of the locality than local authority itself and also, no one could find and identify the most appropriate means for satisfying them. In this way, the local interests [3, pp. 10-11] can be satisfied in much better conditions. Decentralization facilitates the adaptation of the solutions for local problems to local conditions. Since each community is empowered to manage its own affairs, they will be able to adapt their programs or solutions to local problems that reflect the special or preferential conditions of those localities.

At the same time, at local level it can be realized a more strictly evidence of money, this thing representing a potential for generating local income. As funding the responsibilities is very important, financial decentralization was and is a major component of the decentralization process [4, p. 4].

Fiscal decentralization will reduce the current practice of extracting resources from the periphery and to concentrate them to the center. Thus more resources will be retained at local level and will help to stimulate the local economy and to support the local development initiatives. Only if a transfer of resources takes place, decentralization can produce economic and social benefits.

Another advantage is that decentralization determines a greater participation of the population in government, bringing government closer to people and thus it allows the citizens to be better informed, facilitating the accomplishment of a closer relationship between those governing and those governed [6, p. 343].

In a decentralized system it will be easier for communities to pursue their development objectives and to get support from local government through their participation as a real partner in the local administration

process. The residents' participation, through election, to the designation of local authorities emphasizes their spirit of responsibility and initiative, motivating them to find their own solutions for solving local problems. Thus, the elections constitute the criterion of decentralization which is based on the free exercise of citizens' rights and freedoms at local level [2, p. 183].

Decentralization can ensure judicious administration of localities, using nothing else but the strict, necessary number of officials for satisfying the local interests, while in the centralized regime the number of civil servants is much greater, and their working time is consumed for the preparation of the materials required by central authority and for the implementation of the orders they receive from this one, in the regime of administrative decentralization, civil servants remove, to a greater extent, the bureaucratic phenomena in local activity [3, pp. 10-11]. Citizens can influence the decisions regarding public services through mechanisms which make them capable to indicate the type, level, quality and quantity of services they want and the cost they are willing to offer for such services. Local public services can be managed more efficiently by local authorities, in a regime where they do not have the obligation to comply with orders and instructions from the center [6, p. 343]. Thus, another advantage of decentralization is to increase efficiency in establishing the nature of public services needed by community members.

Decentralization leads to a better division of labor in public affairs administration. Creating strong local governments, with the ability to effectively manage local businesses enables central government to focus on high level duties. Decentralization generates a sense of local freedom, the interest in the benefit of the locality, fact which determines a special development of human communities in the administrative-territorial units.

The listed benefits presents decentralization at a maximum potential, which unfortunately is very rarely encountered in practice. With all these mentioned advantages, it should be remarked the fact that decentralization has certain limits that reduce its efficiency.

From the perspective of the risks entailed, decentralization can't be considered a universal option. Reducing the force of the central power, the decentralized administration model gives priority to these local interests over the national interests [3, p. 11].

Decentralization creates the potential for the existence of a conflict between local and national interests, but this thing may serve to identify local problems and to take them into consideration. But if they are not treated properly, they could become a destabilizing factor.

The interregional inequalities may increase and thus the level of poverty is increasing in some localities, because regions are endowed differently in what concerns the natural resources, the level of economic activities, etc., in some areas there will be more revenues than in others and this will allow their citizens better services than those offered in poorer areas.

The transfer of tasks to local authority isn't often doubled by a fiscal decentralization also, and the local management systems often have insufficient resources, unlike the central governments which continue to retain much of local funds. For a local government to accomplish effectively the decentralized tasks it should have an appropriate level of revenues locally collected or transferred from central government, as well as the authority to decide on spending.

Corruption is a phenomenon frequently met in the local elite, people elected in local positions by allocating resources in order to benefit themselves and their relatives. Abuses in terms of decentralization are aimed at the overbid of local peculiarities, which may extend to endangering national unity.

According to the opinion of the Professor Tarangul, quoted by M. Preda, the choice of decentralized authorities introduces, in local administration, the party politics that engulfs and vitiates everything. The lack of competence and responsibility, the demagoguery, the servility are some of the biggest drawbacks of this mode of recruitment of the decentralized authorities [6, p. 344]. However there is the danger of monopolization of resources by local elites. There is the risk that local elites to use the local resources in their interest. Local

authorities may adopt solutions influenced by the policy of some pressure groups, whose interests are in contradiction with the national ones.

A decentralization in the true sense of the word requires a strong support from the part of the central governmental institutions. This would mean the development of the legislation in order to provide the local governmental units the ability to act autonomously and independently, and also the ensuring of the revenues necessary to an adequate management of local services [5, p. 17].

We don't have to ignore the problems surrounding decentralization, their solving entailing much more responsibility from the part of local authorities and the communities they represent, as well as from the part of central management which will have to find a solution for that money raised locally is allocated at local level, too. At the same time, in the decentralization regime, local authority may find a solution and operatively satisfy the local requirements, unlike the centralized regime, where central authority is acting from the distance, delaying the problem solving.

4. Conclusions

With the support of the above mentioned, we can conclude that decentralization constitutes a solution of improving public administration with important implications in the economic and social plan. A correct transposition of it in the practice plan is likely to contribute to a significant improvement of the quality of the services available to the community, as a whole, and to each of its members individually.

We believe that the success of the decentralization process depends on the capacity of local authorities to assume the new transferred responsibilities and to cope with them from the managerial, institutional and financial point of view. In addition, the existence of a strong center concerning the reconfiguration of the relationships between the central and the local level of administration depends on the success of the decentralization.

As we presented in the content of this work, the benefits of decentralization are not few in number, but this model of

administrative management will always have a series of possible risks. If the measures aren't adapted to local conditions they may prove inefficient, and the community members won't feel any improvement.

We have the right at this point to emphasize the fact that decentralization isn't a universal solution, but it has its limits, reason for which the authorities at the center and those at the local level should make considerable efforts in order to reduce or even to eliminate them with the aim to improve the administrative work and to satisfy at the highest rates the community needs.

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Services Economy in the Context of Globalization

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Abstract

Development of services in the current context of globalization, through efficient allocation of resources, will provide a higher volume of services with increasingly less resources.

Free movement of services requires a general abolition of restrictions, non-discrimination on grounds of nationality or residence and their liberalization by all countries.

Keywords: services, economy, globalization, circulation, regionalization

J.E.L Classification.: L80, L90

1. Introduction

Free movement of services requires a general abolition of restrictions, non-discrimination on grounds of nationality or residence and their liberalization by all countries. The share of traded services across borders, in the last decades, was reduced in the whole trade and regional harmonization was seen by most economists as extremely difficult because of the national peculiarities of regulatory and supervisory regimes.

2. Globalization

Similar to major historical transformations that open new paths to the future globalization is accompanied by disturbing changes in all forms of existence of human society.

Two major features accompany debates everywhere on globalization: on the one hand, their vast load of anxiety and dilemmas about the fate of countries and their national sovereignty, especially of the smaller and economically weak ones and on the other hand, is the assessments paradox - some only

laudatory, others only negative - that make globalization when a panacea when a general danger.

There are at least four reasons justifying the historical importance of globalization (Belli, N., 2001) [1]:

First globalization causes a real assault on the nation-state. This attack starts from the assumption that the national sovereignty and state borders are concepts outdated by history and, as such, must be removed.

Second, globalization requires the creation of a new economic and political world order. Coming on the wave of the information revolution and reflecting the new global power relations, globalization involves restructuring the entire system of relations between the countries of the world, according to new historical conditions.

Third, globalization commits in its course, all countries, regardless of size, scale and profile of their economic and political development: it is therefore a universal problem.

Fourthly, globalization, envisioning a new historical reality brings into the socio-economic and of the historical experience field a new value system.

Different from the one created by industrial development of human society, this new system of values calls into question not only the concept of nation-state, national sovereignty and national borders, but also many other concepts that made the era in the economic theory.

It is obvious that the new realities created by globalization through joining national markets into common or sole markets without national borders, cannot be explained by the old notional instruments of knowledge of the economic theory and policy. It requires restructuring of these instruments through reconsideration of concepts and notions, or also creating new one, therefore asking for a

new social economic thinking of the development.

In contrast, globalization is global, i.e. a situation in which markets transcend national boundaries. Trying to conceptualize the global economy, the authors conclude that it involves two approaches: one radical and the other more nuanced, namely:

The radical definition of globalization takes into account a global economy "in which the markets transcend national borders in such a way that individual nation-states lose much of their economic and even cultural significance". It is clear that this vision is of a radical nature: it assumes that the most important economic decisions are now taken not by sovereign governments or by their agents, but by transnational corporations, monetary speculators, those who operate on the non-governmental markets of the finance capital.

Nuanced definition of globalization suggests that while the markets growingly become global and therefore threatening national sovereignty, it is still possible for the states, through recognizing their growing interdependence, to work collectively to solve economic problems.

Another problem that still bears controversies is the clarification of the two concepts, namely globalization and mondialization. Some authors consider that the two words are synonymous, but from different backgrounds, so the concept of globalization has a francophone linguistic origin, while the concept of mondialization has an Anglophone linguistic origin. Economic globalization means closely connecting the national and regional economies in order to achieve a world economy governed by rules established by international and bilateral- or multilateral agreements between companies, countries or regions.

Globalization complexity results from its adjacent reasons of political, economic and socio-cultural nature. Usually globalization is associated with its implications.

It is not seen as an irreversible process, but rather in its dynamic perspective.

One of the most commonly used definitions of the concept of globalization is the following one: "Globalization is the process by which geographic distance becomes a less and less important factor in the establishment and development of cross-

border economic, political and socio-cultural relations. Global networks of relationships and dependencies acquire a growing potential to become international and global. "(Bari, I., 2001)[2].

Importance of transnational corporations is a key element of the globalization of the world economy. However, views on the importance of globalization of corporate work for national and international economic affairs differ greatly. According to some analysts companies believe that today multinational corporations have freed themselves from the national economy and became a powerful and independent force, decisive both for international economic affairs, as well as for the political ones. Other analysts reject this claim and believe that transnational corporations remain a part of the national economy.

The role of multinationals increased significantly with the integration and organization of the global economy. However, it is important to appreciate that most economic activities are still mostly based on nationality. Often, the idea that multinationals are intended to govern the global economy may prove to be incorrect. Global politics and economy are based and must continue to be based on a safe social and political foundation and there is no guarantee that these foundations will survive for years to come.

The size of multinationals, their power on the market and tracking their global strategies have raised concerns for many groups of countries of not to be subjugated and exploited by the globalization of production and services of multinational companies. These concerns are not without foundation, because transnational companies are indeed a concentration of economic power and frequently political one.

Transnational corporations are a pioneer in the process of globalization which, in fact, is the expansion of free market capitalism.

3. Global economic integration

The relationships existing between the global economic system and national economic entities reveals one of the trends of the global economy: global economic integration. It is observed thus a complex process based on an increased international

economic interdependence due to the complexity of the distribution channels of consumer goods, investment, goods, and commercial services. In other words, the prosperity of a country is closely linked to global development, because of the existing relations between trade policies of various partners.

4. Globalization of the services market

Intensification of the harmonization and mutual recognition process led to the progress of the free movement of services. It is obvious that in the services area, which became majority in Gross Domestic Product (GDP) of developed countries over the past three decades, however it had a slower progress on the line of cross-border free movement compared to the free movement of goods, though it was positively influenced by it. Integration of the services market depended quite strongly on several factors, including the free movement of goods, free movement of some productions factors such as capitals and labor, and harmonization of policies, extremely difficult to accomplish, especially on the main components of the labor force. Because the service sector has expanded and diversified continuously, both the commercial one and the one of the social/public, in this process having an increasing role the storage, processing and transmission of information, and their share in the GDP and international trade has increased appreciably, the issue of liberalization and integration of national markets services was more insistent stressed. To what it concerns the globalization of the circulation of services, some conclusions are formed from the experience of the European Union (EU), which highlights both the necessity and advantages offered and also the difficulties encountered in its implementation.

4.1. Financial Services

Financial and banking services, of insurance and investment raises the question of their proper establishment and operation regime, but the creation of a single market involves harmonization and centralization in some financial areas, which has implications in terms of economic, fiscal and monetary

policy. In our view a wide unique global financial assumes: the single market in financial services, free movement of money and financial capital, a common currency, tax and accounting harmonization. Financial services have developed on a regional scale as cross-border movement of capital has grown, in the postwar period, which is a dominant feature of globalization of the world economy. Free movement of goods, whether goods or services, can't be fully achieved without free movement of financial capital, which is undoubtedly one of the factors that determine comparative and competitive advantages of products.

In what it concerns the transnationalization, the financial-banking sector has lagged behind the industrial one because, at an international level, the free movement of goods was easier than the free movement of services, the first being strongly promoted by the international trading system. If in the industrial sector, where mega-mergers mirrored some deepening of specialization in production at the expense of too severe diversification that caused difficulties in the line of production and research, in the banking sector strategic alliances and cooperation agreements were a good way to get to new markets or to provide cross-border services. In what it concerns the insurance area, here the liberalization has progressed steadily, reaching full size in the reinsurance area. A single insurance market requires a unique authorization and financial supervision of insurance companies by the Member State of origin. This licensing system allows insurance companies to operate in any country under the regulations on establishment or under the freedom to provide services, but complying with the conditions governing the insurance business in that country.

4.2. Transport services

Applying a common global policy to road, rail, river, sea and air transport requires a program for the creation of a free market in transport services through their progressive liberalization and the elimination of competition distortions. The major problem in the integrating sphere of transport is the modernize and compatibility of the transport infrastructure that assumes: improving

transport by corridors, reducing transport costs in the transit countries, integration of peripheral regions in community networks, special links between major cities (A. Cociuban, 2003) [3].

4.3. Telecommunications services

In the telecommunications area, the infrastructure was increasingly open to competition in the 90's. Information technology revolution has created the conditions for the construction of the information society and of a huge information market dominated by electronic commerce.

4.4. Audiovisual services

In the audiovisual services area, the focus is on their free movement and promoting their production. The public broadcasting service must be organized. An example at the European level would be the MEDIA programs where the European industry of film and television programs is supported, because in the General Agreement on Trade in Services (GATS) has been expressed the strong position to conserve European cultural and linguistic diversity and to exercise full freedom of action in the audiovisual sector.

4.5. Advertising services

In the advertising area, in recent years has been seen an obvious trend towards standardization of advertising campaigns to promote products and services, as well as targeting a particular activity or service.

The proliferation of television programs has encouraged advertising activity, but it was also a handicap for the development of the pan-European advertising type, due to excessive fragmentation of mass-media.

With the popularization of the internet network, online advertising is growing like never before.

4.6. Public utilities

In the public utilities area liberalization was expanded particularly in the early '90s, especially in the gas and electricity market liberalization. In this area we believe that is necessary a greater price transparency and

facilitating transit through distribution networks, as well as gradual abolition of the monopoly over the production and distribution of gas and electricity.

5. Conclusions

Development of services in the current context of globalization, through efficient allocation of resources, will provide a higher volume of services with increasingly less resources. By developing and implementing effective strategies, global and mondial development of services will evolve and will experience significant growth.

Globalization of services is a step that will not have barriers and restrictions for the pursuit of the activity of all countries of the world, regardless of their location world-wide.

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A Theoretical Approach on Entrepreneurship in Knowledge-based Society

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Abstract

Entrepreneurship is a process that requires innovative and flexible educated personalities with a vision oriented towards quality, individual responsibility, rewards, and realistic system of alliances with a turbulent environment.

The phrase knowledge-based society call in question the aims and content of higher education, which graduates gain the knowledge, skills and competencies that help you face new challenges related to research, innovation and exploitation of knowledge, especially in the context of the European Union by the Lisbon Declaration (2000) and Barcelona (2002) aims to become the most competitive area with economy based on knowledge.

Keywords: entrepreneur, entrepreneurial education, knowledge-based society

J.E.L. Classification: L26

1. Introduction

In the present period we can speak of a new economy in which the fundamental change is the transition from economy to economy, entrepreneurial management. In this context, entrepreneurship is a fundamental component of the knowledge-based society because the potential value of new research ideas and results of knowledge can best be harnessed by SMEs (Andretsch, 2002).

Great thinkers of the classical R. Cantillon, J.B. Say thought is the main figure of the entrepreneur economics and economist J. Schumpeter (1883) stated: "there is an understanding in the entrepreneurship that we do in connection with a particular type of

behavior and cognition, including: organizing initiatives and reorganization of socio-economic mechanisms, acceptance of risk and failure."

In the literature, there is no consensus regarding the definition of entrepreneur, this varying depending on the theoretical approach. So its historical evolution (Marian, 2007) a contractor is:

- Beaudou (1797): the person who bears the risk, which plans, organizes, supervises and controls business;
- Jean-Baptiste Say (1803): profits entrepreneurs separated from capital gains;
- Joseph Schumpeter (1934): the entrepreneur is an innovator and develops new technology;
- David McClelland (1961): the seller assumes risk, is energetic and moderate;
- Peter Drucker (1964): contractor maximizes opportunities;
- Alberts Shapero (1975): take the lead contractor, organizes socio-economic mechanisms and accepts the risks of failure;
- Karl Vesper (1980): contractor saw different economists, psychologists, businessmen and politicians;
- Gifford Pinchot (1983): the manager is an entrepreneur in an organization has already received;
- Robert Hisrich (1985): entrepreneurship is a process of creating something different, adapted to the change.

We can conclude (Boldureanu, 2012) that the developer so any person who initiates and carries out a set of activities involving risk and innovation with the aim of obtaining material and personal gratification.

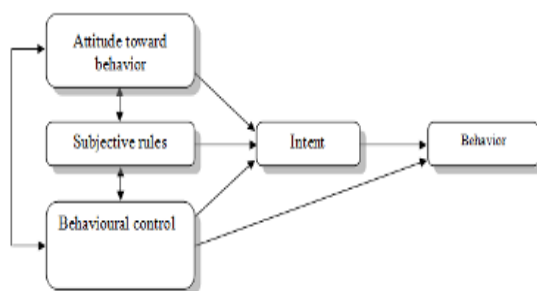
2. Models of entrepreneurial of intent

The main model in use today is the development of two basic models (Pintea 2007). The first is the one built by Ajzen (1991) and that is a general model of human behaviour prediction through specific intentions toward those behaviors. The second Shapero's belongs to and has been produced specifically for entrepreneurial intentions prediction, being in good measure similar to the first.

a) Model of planned behavior (Ajzen)

Ajzen's theory has inspired numerous researches on entrepreneurial behaviour. Planned behavior theory identifies three factors that precede the intent to perform a specific behavior: attitude toward the behavior, subjective norms (including social norms and pressures) and perceived behavioural control, as shown in figure below:

Figure 1 Ajzen's model



Although Ajzen has not designed the model to explain entrepreneurial intentions, a series of subsequent studies have applied this model in research of entrepreneurship, in particular for predicting behavior showed through entrepreneurial intentions.

b). Perceived feasibility model (Shapero)

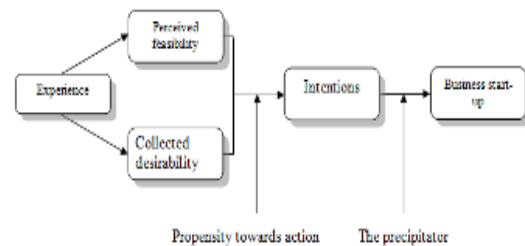
Unlike Ajzen's model, the model developed by Albert Shapero is one entrepreneurial intentions explicitly dedicated to prediction. He is in many ways similar to the one launched by Ajzen, but presents several specific elements and.

Thus, Shapero's model is a model of adjustment to the issue of entrepreneurship but Ajzen a refining it. In this idea are worthy to note the two variables in the model

introduced by Shapero: precipitator and natural event available to action (Pintea, 2007).

Thus, for entrepreneurial intentions Shapero (1982) are determined by three factors: perceived desirability and feasibility of certain behaviour, as well as its propensity to act on the basis of the opportunities.

Figure 2 Shapero's model



The models presented here have in common the following elements:

1. a previous entrepreneurial event sequence
2. include elements of social learning theory, mainly variations of the concept of auto-efficacy,
3. contain the cognitive dimension (ways in which information, interpretation) as the central element of the model, so go on size rather than on attitudinal traits of personality.

Accordingly, the decision to start a business is a rationalized or planned behavior and intent to this conduct is a good predictor of behaviour showed itself (Ajzen, 1991; Krueger et al., 2000). For example, Krueger (2000) believes that entrepreneurship is a planned international behavior, arguing that starting a business always involves a project, even if the moment of actual new business (Organization) is relatively unplanned, and may appear on an unexpected opportunity.

3. Towards an entrepreneurial education

A number of researchers and experts in the field of entrepreneurship (Fayolle, 2003; Watson, 1998; Timmons, 1999) through numerous studies have shown that the creation of new businesses is a key element in the process of development and economic revitalization. The newly created firms generate jobs and contribute to the development and implementation of innovations with a positive impact on economic growth in general.

In terms of the factors giving rise to the phenomenon of entrepreneurship, research or define in detail globality in a number of aspects: while Timmons (1994) insist on psychological factors which justify the first appeals of entrepreneurial motivation, Shapero (1982), analyzes the contextual factors of the primordial that the new deal should benefit, Fayolle (2003) insist on economic factors, technological, financial and secret, Watson (1998) outlines the major role that education and a study on final results but all reveal that besides the major interest of the person to develop a more relevant knowledge is required in the field of innovation and entrepreneurial education.

In the knowledge-based society, it reconfigures the objectives and content of higher education graduates, the way you gain knowledge, skills and competencies that help you face new challenges related to research, innovation and exploitation of knowledge, especially in the context of the European Union by the Lisbon Declaration (2000) and Barcelona (2002) aims to become the most competitive area with economy based on knowledge.

About the leading role of education entrepreneurial University attention a number of specialized research, work (Veciana, 2005; Sany Lee, 2005; Franke, 2004) stating that the development of SMEs, which requires specialized knowledge and technical frameworks in the field of business, cannot be made without a solid business education to students and graduates.

From statistical files of the European Commission (European Innovation Scoreboard, 2009) has shown that the European companies there is a reduced capacity for innovative ability of main competitors to customers in the United State and Asia. For this reason it is necessary to analyse how students perceive the phenomenon as potential entrepreneurs, innovative, trying to pinpoint where they accuse of entrepreneurial education gaps and offers educational or training programmes, stimulate new ideas that lead to the creation of enterprises.

In this respect, a number of research carried out in Europe (Sánchez-Escobedo, 2011; Pagliacci, 2006) were focused on highlighting the effects of education on the theme of modernizing and entrepreneurial

skills of young people by higher education, trying to carry out a regular evaluation of the differentiation between the educational process or courses taught and practical effects of specific programs on entrepreneurial education inclination by the students.

4. Conclusions

In the knowledge-based society is reconfigures the objectives and content of higher education graduates, the way you gain knowledge, skills and competencies that help you face new challenges related to research, innovation and exploitation of knowledge, especially in the context of the European Union by the Lisbon Declaration (2000) and Barcelona (2002) aims to become the most competitive area with economy based on knowledge.

Thus, the main challenge to the institutions of higher education is to develop entrepreneurial capacity, because young people by creating new businesses are given vocational integration opportunities for students and graduates, representing a major challenge at the professional level, and the development of young people and the creation of new enterprises.

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Analysis of Private Health Units through Management Functions

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Abstract

Along with the health system reform it has been developed the private health institutions. The article explores the private health institutions through management functions.

The case study was conducted at the “Arcadia” Hospital in Iasi, the largest private medical institution in the Northeast region.

In the paper are analyzed the management functions: planning, organization, coordinating, control and evaluation at the “Arcadia” Hospital, focusing on the Swot analysis.

Keywords: management functions, health units, swot analysis.

J.E.L. Classification: M1, I12.

1. Introduction

In an organization's performance is done through functions of management: planning, organization, coordination, training, monitoring and evaluation [1]. The common characteristics of management functions are [2]:

- specific activities only managers;
- shall be exercised in all organizations, regardless of their size and profile;
- different functions as a form of expression and content;
- functions have a different weight in the organization;
- the functions differ from one compartment to another.

2. The case study presentation

The case study was conducted in the

private hospital "Arcadia" Hospital Iasi in September-October 2012 and was aimed at evaluating management functions within the institution, as well as the development of solutions and recommendations in order to improve and optimise the management activity.

The private hospital "Arcadia" Hospital is a medical centre complex, offering integrated health services-consultation, investigation, diagnosis, treatment in over 35 medical and surgical specialities [3]. The main activity of the company is "hospital service activities" according to CAEN classification.

3. The planning function at "Arcadia Hospital"

The **missions** promoted by “Arcadia Hospital” are as follows:

- Innovation: meeting the needs of patients;
- Quality: fulfilling the promise of bringing private medical apparatus market of the highest quality;
- Safety: ensuring the high level of standards for patients;
- Respect for people, the community;
- Open: to dialogue and to hearing the needs of patients.

The **values** promoted by the “Arcadia Hospital” are as follows:

- Performance: both technical and vocational training;
- Tie: the same attention and care to each patient;
- Privacy: keeping strictly to medical information and data that they provide the patient at the time of the call to hospital services;
- Bioethics: the medical staff shall comply with the code of professional ethics;

- Commitment: to craft and science, as well as to the patients;
- Integrity: in any situation, even outside working hours, the medical staff has the responsibility to maintain personal integrity to conduct as their image is not affected, and especially to affect the image of the hospital at which they work.

The institution itself through staff and politics adopted complies with the core values of bioethics and organizational cultures, values which allow patients to obtain public/service, secure unconditional and none of the risk factors (e.g., disclosure of a diagnosis, of the identity or Catatonic data individually and confidentially).

Otherwise the values/rules lay down by the Arcadia Hospital, medical staff comply with the moral code of conduct, which does not allow yellow and the image of the institution, in the spirit of protecting hospital and guarantee the best services offered by an honest and personal integrity.

None of the doctors did not suffer any serious misconduct or are not charged in any part of the process of corruption or malpractice.

4. The organization function at "Arcadia Hospital"

A. Marketing Department

The Marketing department deals with strategic planning that aims at promoting the hospital and the services it offers, market research, setting prices for products/services they offer. It handles the communication between the departments and the institution, internal communication between employees and external.

B. Human Resources Department

The Human Resources department is in close liaison with the marketing staff is selected in accordance with the strategy proposed by the director of marketing.

C. Medical Department

Medical department includes staffs that deal with the performance of the main function of the hospital, the medical emergencies, receiving treatment of patients, setting schedules and other medical needs. It includes: teachers, doctors, practitioners,

doctors, nurses are the primary crews for emergency service.

D. Financial Accounting Department

Financial accounting department shall develop and implement economic policies in line with the objectives of the organization, manages the accounting documents, report the results of the financial institution.

E. Administrative and Technical Department

Administrative and technical department deals with the functioning of hospital equipment, updating the site, the creation of programs or databases, the coordination, organization and operation of the department. It includes: computer scientists, site administrator, engineers, administrators and apparatus responsible.

5. The coordinating function at "Arcadia Hospital"

The current structure of the "Arcadia" Hospital includes:

- a multidisciplinary hospital (Arcadia Hospital);
- a polyclinic (Arcadia Polyclinic);
- an investigation unit (Arcadia medical imaging Centre);
- a mobile medical services
- an interventional cardiology (Cardiovascular Arcadia).

The "Arcadia" Hospital in numbers means:

- a total capacity of 220 beds;
- 4 operating rooms-one with additional facilities for Paediatric Surgery;
- 4 intensive care units (General, Coronaries, Neonatology, Paediatrics);
- 1 laboratory and interventional cardiology;
- 2 rooms of natural childbirth;
- more than 80 reserve standard and VIP.

Currently Arcadia Hospital has been ranked by the Ministry of health, depending on the facilities and medical services they offer patients in level 4, that is, the level of competence in which are included the units serving the administrative-territorial unit and is limited to diseases with low degree of complexity.

The hospital has six majors' clinics: Maternity and Neonatology, Paediatrics Surgery, General Surgery, Gynaecology, Gynaecological Surgery/Orthopaedics and Traumatology, Cardiology and Interventional. Holding facilities the performance data for the convenience of patients and visitors.

The "Arcadia" Hospital was certified according to the quality standard SR EN ISO 9001: 2008 by consulting firm and international certification TUV Austria.

The SR standard E NISO 9001: 2008 is an international standard governing the organization and management of the activities of a company, applicable to companies that provide services and medical services which are carried out in accordance with the customer requirements and regulatory requirements (laws, national and international standards).

The "Arcadia" Hospital was certified for:

- services of general and specialized medical assistance (this certification is valid until the date of 12.05.2013);
- for the management system applicable to the work of the hospital established in accordance with the EN ISO 9001: 2008 (this certification is valid until 12.05.2013).

6. The control and evaluation function at "Arcadia Hospital"

The control and evaluation of the sanitary unit studied was conducted through Swot Analysis [4].

Strengths:

- the largest private medical investment Romania during the crisis (12.5 million euros, with more than 250 employees);
- the first private multidisciplinary hospital in the Northeast region;
- gathered specialists from national and international scale, a very well bred and very well prepared;
- have technical features and performance equipment;
- special conditions for the comfort of patients and companions: a full service personalized medical care, hospital-based, full-service food for patient care products and accessories and personal

hygiene for the patient, medical accommodations in standard or VIP;

- offers patients effective prevention, early diagnosis and treatment, health education and information continues;
- contract with the National Health Insurance House ensures that cost-cutting procedures, but also the ability to attract patients from all over the country, the population served from a large territorial area
- availability management team and the entire staff for the change;
- pleasant, warm, highly trained staff, with emphasis on both the physical wellbeing, and the good psychic
- potential major Community (can become an emblem for the city, for the region).

Weaknesses:

- services of general and specialized medical assistance (this certification is valid until the date of 12.05.2013);
- the lack of a means of transport directly to the hospital;
- unfavourable geographical location, which limits the access by car in the Hospital just one Street, which bypasses the hospital;
- relatively high costs: accommodation, administrative, maintenance, surgery of the hospital, etc.;
- insufficient funds offered by the House Health Insurance House (HIH);
- lack of Emergency Unit (EU);
- inpatient are usually flat on Friday, the weekend is working only if they are patients with outstanding issues, with a serious situation, come in, or complications;
- the period from the opening of the hospital makes people not yet familiar with the existence of the hospital or have reservations about the competence of the staff;
- small number of beds for internment requires the establishment of a schedule before coming to the Hospital (except for emergencies).

Opportunities

- expansion of the hospital: currently is working on the establishment of the two Clinics at Arcadia, which is a part of

Arcadia Imaging Clinic Medical Centre

- has an ambulance in which patients can call at any time;
- the existence of stem sure system through which it can conserve the stem cells;
- the location of advertising panels, promotions, sampling, both within the city of Iasi (Iulius Mall, Palas Mall), and other surrounding counties (Neamt, Suceava, Botosani, Vaslui), which can attract patients from different areas of the country;
- installation of traffic signs throughout the city to facilitate the access to the “Arcadia” Hospital;
- the development of a human resources policy, based on attracting both young staff with higher education, as well as more experienced staff, allowing a selection based on competency.

Threats:

- the establishment of private hospitals and the like;
- competition with other private hospitals and clinics;
- the possibility of losing/to reduce the contract with HIH Iasi;
- reduce customer by maintaining high prices and offers and to bring potential customers to share their own experience through;
- lack of mutual promotion win contracts end win (for service) or services that may benefit patients (e.g., to order a taxi, patients must turn to the reception without a phone made available direct);
- getting a lower level within the classification of hospitals approved by the Ministry of health, which will have the effect of lowering the funds received from CNAS. Therefore, the patient will have to pay more for investigation;
- trust in a new drive on the market (which still does not know too much information) compared to State hospitals which have already recognized with the passage of time;
- information insufficient patients linked to still offer medical services;
- the economic crisis and job cuts in the last period, the unfavourable economic situation negatively influences the addressability hospital.

7. Conclusions

Analysis of the hospital management Arcadia highlights an industry which is growing, requiring the hospital to focus on strengthening its market position through the development of strategic objectives, such as: opening of new specializations that will significantly broaden its sphere of attendance; increasing labour productivity; continuation of the contract with national

House of health insurance that will ensure lower costs and procedures will increase the population to be served; completion of the work to the highest standards which will make “Arcadia” Hospital to gain fame in a relatively short time.

Although it is the first on the market, and the patients are not ordinary with his name, as well as with the private hospital, private hospital can earn through: professionalism, modern equipment, speed of the investigation, the quality of the medical act and by the attention given to patients by all staff.

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New Types of Romanian Energetic Small and Medium Enterprises Under Crisis

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Abstract

Century-network, emerging company, virtual enterprise is key words in the recent debates on SMEs. In this context, this paper wants to present some relevant aspects regarding the Romanian energetic SMEs forming networks which can improve the efficiency and effectiveness absolutely necessary to win the globalization battle.

Keywords: fair value, convergence, market
J.E.L. classification: H12, J54

1. Introduction

In the field of energetic SMEs, specific to the end of the second millennium and the beginning of the third millennium, is the shaping of a new type of energetic SME focused on knowledge. Its main features are: the predominance of intangible assets, the incorporation of activities involving a high density of knowledge, using a strong specialized workforce, intensive development of research and development of highly innovative products and services, using cutting edge technology, offering products and services likely to be exported, the short life of products and services [9].

Business network or networking consists of a set of firms legally independent, which develop between multiple, complex and permanent human, informational, commercial, technical, and financial, etc. relationships, which enable them to achieve and commercialize jointly market products and services on a superior price / quality ratio, based on more efficient capitalization of knowledge and resources available to component organizations.

Connected through a complex and dynamic system of formal and informal relationships, the members of the network

appear as a single entity during their performance. Each component of the network focuses on those segments of the value chain to promote its maximum contribution to it. The network is based on cost-effectiveness, without constraints on size, geographical location or technology used by its members.

Acting without a common legal framework, directives or instructions, the network members assume roles successively in order to achieve network's goals. Each member, with specific objectives and different end therefore, contribute to its expertise and resources at the time and manner agreed within the network. Organizational culture and individual reciprocity, trust and loyalty between members are absolutely necessary conditions for the survival of the network.

Contour of network is often difficult to determine, its structure and functioning having their developments. Areas that comprise the network continuously transform both the form and the area, while being able to expand by attracting new members (which can add value through their skills), or compress when these skills are useless. Also, some areas can swallow the others, when such adjustments are imperative.

2. New types of Romanian energetic SMEs in the current economical context

Successful companies increasingly manifest themselves as true open systems, whose position in the market depends not only on their internal resources, but also their relations with configuration and external entities with complementary skills. External network of the company is basically an extension of the internal borders between the two types of networks becoming increasingly difficult to identify.

External networks of companies, based mainly on cooperation, may develop

spontaneously with operators working in the same territory, usually in close proximity and belonging to industry, or suppliers, specialized service providers, distributors etc. to rationalize the various phases of production and distribution of goods. Integration into external networks such as synergistic effects materialized in generating competitive advantages for its members.

Competition is increasingly manifesting, not in terms of quantity and quality of resources owned or higher powers, but in the plan of the ability to quickly and efficiently find partners who have complementary skills and resources. Increasing consumption of specialized services (marketing, applied research, specialized sales, financial services associated with management services etc.) constitute an added value difficult to copy [6].

The basis is the principle stakeholder networking, networking incorporating all or part of stakeholders considerable specialized or focused on specific products and / or services, and operations on the same market and / or in the same area. Characteristic network knowledge economy is the incorporation of innovative companies.

Without claiming a comprehensive approach, in Table 1 it is provided a summary of the main forms of networking, indicating some of its most dominant features.

Table 1. The main forms of entrepreneurial networking

No. crt.	Forms	Predominant size	
		Formal	Informal
1.	Relations with co-owners at the same firm entrepreneurs		x
2.	Relations with customers	x	x
3.	Relations with suppliers	x	x
4.	Relations with the bank	x	x
5.	Relations with their business managers		x
6.	Relations with employees own company	x	x
7.	Family relations		x
8.	Relations with local government	x	
9.	Relations with competitors		x
10.	Relationships with consulting firms	x	x
11.	Relationships with training companies	x	x
12.	Relations with SMEs and other business organizations		x
13.	Relations with chambers of commerce		x
14.	Social relationships with the local community		x

Examining the items listed in the table we see the complexity of most forms of

networking, for the purposes of combining strong formal elements with the informal. Specific relationship is informal networking them on human contact, which has a major role in their implementation. It is noted that informal elements tend to be more intense than the formal.

Network-like structure can take many forms. Strategic alliances, for example, are an association between two or more companies to obtain a more collective performance by coordinating the resources and means necessary.

Strategic alliance can be a goal of reducing transaction costs, strengthening the strategic position of firms on their markets, or the transfer of know-how trading among allies [1]. Partnership is another viable form of association for energetic SMEs, which includes interest, by exploiting common resources and skills complementary results. Network members' contributions can take, if necessary, form: material contributions (commercial, land, capital, etc.) and / or intangible (expertise in a field - managerial, commercial, organizational, etc., Licenses, etc.).

Among the many advantages of networking small and medium obtained that have emerged recently noted: enhancing access to markets and resources, providing superior full product, including the service required, reducing unit costs of production, reduction of the manufacturing and marketing and risk reduction for each participating company.

According to literature [2] a cluster is a network of companies using all forms of sharing knowledge. So, the very decisive factor in defining clusters is knowledge, while considered as key resources and product group of companies involved.

Cluster is a mechanism which intercorelates companies at high level components, causing them to act as an integrated, cumulating to a higher plane the advantages of diversity and addition of the network, and the intense interpenetration of the activities involved, largely similar with the larger organization. Proper functioning of the cluster depends on a key element around which decisions and actions of its components. This key can be a company or brand name of a product. The whole process of knowledge generation and treatment is

modeled and exploited in this light.

With regard to cluster development, notes that this type of organization is in the forefront of trends and academic schools of thought, current efforts to Alferd Marshall and growing. Before 1990 few researchers applied mathematical modeling for the formal economic geography issues. Models show that the formation of geographical clusters for energetic SMEs occurs when income growth is very large scale, companies have the ability to set prices, transport costs are low, customers and suppliers are geographically mobile.

Clusters offer energetic SMEs stable relations between producers and users vertical chain between producers and suppliers or distributors, which reduces the flow of information costs, risk of introducing new products or services and time to transfer knowledge from research institutions to companies that can turn into marketable products. Also, horizontal relations of cooperation between enenergetic SMEs in the same sector creates "collective efficiency" [8] form of reduced transaction costs, more direct access to the market and increasing innovative capacity in the exchange of knowledge between firms. Additionally, due to agglomeration of firms and institutions in the same location, clusters provide so-called "positive externalities" [5] easier access to employment, infrastructure, and services.

In recent years [12] there has been a strong tendency to proliferation of clusters, because of the many advantages presented in Figure 1.

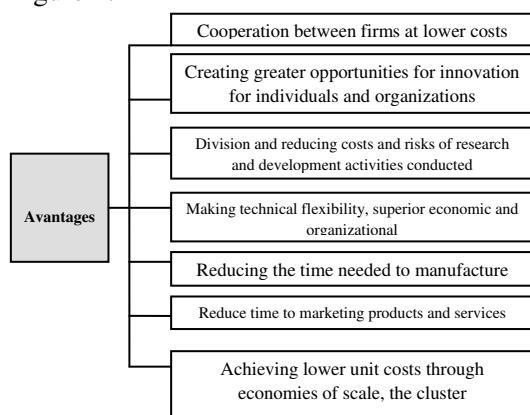


Figure1. The main advantages of cluster firms

Today, however, the existence of clusters began to be felt in traditional sectors,

accelerating technological progress and give energetic SMEs the opportunity to become part of the innovation process [13].

In Romania, according to economic cluster analysis is not mature, and those that have been identified are at best protocusters or emerging clusters, which present only a low level of cooperation between firms and between public and private sectors. Another feature is the distinction between natural and public clusters. In the series of interventions unproductive sector, the Romanian state has tried to promote agglomeration of firms through public policy. These policies have given rise to public clusters, by law; have the status of industrial, scientific, technological and a limited degree of success.

However, only 3% of small and medium enterprises are 21% of innovative SMEs share of cooperating with foreign companies is less than 3% for small firms, 4,6% for medium and 16% for large firms.

Although it appeared from the ninth decade of last century-network company is not manifested only sporadically, especially in the U.S. Company-network shows the following [7]: setting up a small company whose main activities are manufacturing and marketing a product, which runs only through other firms, incorporation into the company of a small number of people - usually three to ten - which, except for one to two officials, former managers and professionals are all reputed in the field or fields of activity involved in the manufacture and marketing of the product; possession, as the main resource of the founders, of all knowledge management, legal , commercial, financial and related essential technical product or group of products that are the object of activity, business activities mainly based on intellectual capital represented by the knowledge, relationships, reputation managers and professionals established company, other forms of capital with a role of adjacent, complementary, development of company-network to a rigorous project finance, manufacturing and marketing, which is expected to be achieved through the participation of several companies that perform necessary activities based on very detailed and rigorous controls; conclusion by the company-network long-term contracts with companies that compete with parts of product, services marketing, sales,

distribution, etc. to conduct business, business-networking components work focus on coordination, supervision and reward participants in the project, without interfering in the actual conduct of the activities of production, human resources, marketing, marketing, etc., maintaining control of the business by protecting thorough knowledge of key up vector value. Only they possess and manage their entire company-network managers, network focusing on business-management firm, recovery and renewal of knowledge concerning its objectives.

Company-network, which has the configuration shown in Figure 4, will proliferate greatly in the future, as more and more very good managers and professionals will want to capitalize knowledge independently, on their own, become entrepreneurs and managers, creating -and a greater freedom of decision and action in the generation, use and management of their knowledge, in terms of obtaining higher incomes.

Structural-organizational group focused on innovation - so generating and using new knowledge, emerging company has crystallized in the U.S. in the past decade, the peak areas of science and technology such as biotechnology, microprocessors, etc. synthetic chemistry [1]. Emerging companies are characterized by their focus on generating new knowledge, with a marked originality and the use of them commercially on complex design and implementation of innovative mechanisms and management, technical and human resources.

Mention of specific elements of their large share of research and development, rapid changes in size and dynamics of their appeal to particular forms and management which in turn has a strong dynamic.

The management of stage technology and emerging companies, particularly in the marketing stage is essential to their technical and economic position in an environment with a strong dynamism [4]. At the beginning, the management company is able to innovate effectively in that niche related technology, and development firm subsequently survival depends on access to the entire chain of complementary assets required for marketing the new technology. Positioning the company involves the adoption of four key decisions as shown in

Figure 2.

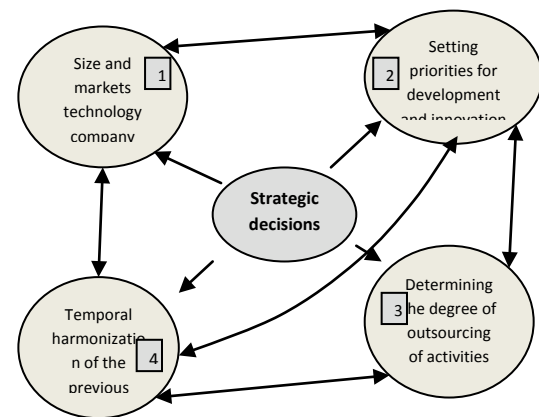


Figure 2. Technical and strategic positioning decisions of the firms emerging

Given accelerating the transition to knowledge-based economy, there will be a multiplication of both emerging companies and a substantial shortening of the duration of the three stages that are specific. Emerging companies, although it will be very numerous, representing a low share of total firms will have a major impact on technical developments, economic, commercial branches of art.

Electronic commerce has become an indispensable way of doing business. The most important benefits offered by e-business activities are related to reducing costs and increasing volume and speed. The European Union has focused on building a functional basis for the digital economy. The new Member States would be beneficial to existing catch “the evolution of the e-business is not just the technology, [...] but also refers to structural changes in the economy, both within companies and the relationships between companies.” [10].

The literature [3] is unanimous in defining the virtual enterprise. A virtual enterprise can be described as an opportunistic temporary alliance of several companies separate, existing ad-hoc meetings are pooling skills, competencies and resources to better respond to business opportunities and whose cooperation is based on use computer networks. A virtual enterprise is intended to be an organizational form that gives the best by a combination of synergistic core competencies of individual partners to create a maximum degree of customer satisfaction for a specific project. Several manufacturing companies in the network appear to

customers as a single entity.

Energetic SMEs will have to find ways to meet organizational global opportunities without suffering the effects due to limited resources available. Virtual enterprise is a form of cooperation in the network can be seen as a suitable alternative to overcome these deficiencies. If energetic SMEs want to be more than marginal players in the economy of the future would have to cooperate in specific forms of production networks. Major strategic benefits leading energetic SMEs to cooperate are sharing the costs, infrastructure, and research responsibilities. Along with the aggregation of complementary skills and greater flexibility during the design grow [3].

Virtual enterprise efficiency depends not only on coordination and control. Confidence has increased significance because they act as a substitute for two critical factors often absent in virtual enterprise, which are traditional hierarchical control associated organizations, rarely found in networks of independent companies and necessary legal framework for regulating the formation, operation and dissolution of the organization, which is much less developed for virtual enterprise as long contractual negotiations would reduce or cancel the positive effect of virtual enterprise with rapid response [4].

The most important features of virtual enterprises are the virtual enterprise value is created. The purpose of virtual enterprise is to create value by changing opportunities in its environment, the virtual enterprise is a temporary cooperation objectives. To capture a new opportunity quickly, cooperation between distributed sites is required. This cooperation is structured for a limited period of time, with a limited purpose, and with a minimum coordination, virtual enterprise restructuring facilitates learning. Virtual organization is restructured from within, in order to capture the value of short-term opportunity.

For some specialists [2], virtual enterprise is an approach for achieving high efficiency in inter-organizational supply chains. Supply Chain Management (SCM) and Efficient Consumer Response (ECR) are seen as early examples of virtual methodologies and toolkits. From this perspective, the focus for development of energetic SMEs is to improve the virtual inter-organizational

cooperation, coordination and control. Integration of information flow (e.g., Electronic Data Interchange) and material flow creates transparency in the value chain and virtual doubling in the company's efforts. However, for others, virtual enterprises are possible means of self-organization. It is the objective of virtual energetic SMEs to improve the overall efficiency of inter-company processes for a particular purpose and sharing rewards.

Weight application specific instruments virtual organizations is small when we consider all Romanian energetic SMEs (we consider the actual implementation), although it is evident that large software manufacturers (Microsoft, Oracle) tend to offer products that address the main share of energetic SMEs. On the one hand, we see concern "government", who preach support the implementation of national and European programs, on the other hand, we cannot but note that this field cannot oppose the use of new technologies. Risks that the organization is required to take are not neglected: very large initial investment, uncertainties related to software adaptability, increased staff responsibilities and significant hidden costs, especially those related to training employees. At the level of funds between 2007 and 2013, Romanian energetic SMEs can access structural funds to support projects in ICT. According to the bulletin of European integration, EU-RO Newsletter, the value of these funds amounted to 336 million Euros. Strategy to use these funds would be beneficial to include, "inter alia", operations such as connecting to the Internet SMEs, building "telecenters" in deprived areas, support electronic business applications, the introduction of electronic bidding and increasing security of electronic transactions. If applications are a key to access integrated inter-organizational networks, European funds are the answer to financial problems. Thus, the offer may be covered by the application. On the supply side, the software market Romanian energetic SMEs is covered so well-known companies (Microsoft, SAP, Oracle, Scala), and offers 100% Romanian (CRIsoft, TRANSART, Bit Software, Total Soft Wizrom, ASIS, EXMAN etc.). Analysts believe [2] that this market is still developing, because our country is in the stage it is only the beginning - resource

planning software SMEs.

Given the intended use of the Internet / Intranet in Romanian energetic SMEs, statistical data [11] reveal that in 75,43% of companies' aims to communicate with suppliers or customers, in 62,88% of companies aimed at obtaining information about business, in 44,04% of the organizations aims to facilitate communication within them, and in 38,49% of business units or electronic payment transactions are carried out. If we consider the newly created virtual companies, this rate of 39,64% is SMEs.

Conclusions

Grouping firms by region, energetic SMEs in the Central region has the highest share of services in virtual enterprises and energetic SMEs in the West have the rule of virtual economic unit in which the activity is electronic commerce.

For some energetic small and medium enterprises, electronic commerce means any financial transaction using computer technology. Due to this diversity of market conditions that include a large number of service providers and is in constant change, it is a necessity to make available to small and medium enterprises, a "source" where to find adequate support for the application e-commerce solutions in their own activity.

There is the conclusion that, although support policies are particularly important in the evolution of clusters, the establishment of successful all over the world, took place following the initiative of companies, not governments. The imposition by a government program of construction of a cluster is counterproductive and proved to be so in most cases. Instead, support the development of a cluster initiated by private actors, through legislative and administrative framework enabling or contributing to the improvement of physical infrastructure such location is a welcome action by governments. Policies and institutional infrastructure to support cluster development are important, but fundamental role in creating clusters of entrepreneurial firms it has to manage to see the benefits of cooperation and exploit them properly. Identify opportunities can then be followed by a sustained process of adaptation of management, organizational structure and

relationship with customers and partners.

In conclusion, Romanian energetic SMEs will result in obtaining performance virtual competitive domestic and international markets, as the nature and foundations of their manufactured products, knowledge, information and communication means used meet the fast development.

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Perception Of E-learning Among University Students

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Abstract

This paper is the result of a survey concerning the perception of the Romanian students about the educational alternatives offered by the dynamics of the electronics media. Using the qualitative research methods, the author investigates the impact of the new technologies already being in service inside the Romanian universities. The research is part of a series of studies about the e-learning in the university education in Romania. The development of the discussion tool and the interview guide in this case is the result of a systemic approach, which allows obtaining of coherent results at educational system level by corroborating of the two component units. The obtained results have the same parameters as the similar researches made at European level: an educational system systemically underdeveloped, of which access to the existent technology is hampered by the lack of funds and undeveloped infrastructure and lack of vision.

Keywords: *e-learning, educational marketing, qualitative research, Romanian education, consumer behaviour*

J.E.L. classification: M31

Introduction

For a long time is not a novelty that our students and even our children are multitasking and multimedia connected. This is not new that our brain can do simultaneously many things (e.g. driving and listening radio, eating and talking or watching TV). Several symposia, conferences and public debates are organized on this subject, trying to identify negative influences of such human brain

overload. As a result, debates are open yet and the conclusions are far away.

Unlike most adults who are more recently exposed to current technologies, like Facebook, text and digital gaming, young people have been raised in an age of media saturation and convenient access to digital technologies. Net Generations have distinctive ways of thinking, communicating, and learning [10]. According to an North American study, "80 percent of teens (...) log on to their online networking pages to virtually hang out in the same way that previous generations would congregate with friends at a coffee shop or burger joint" [11].

The psychiatrists (e.g. Hallowell) call multitasking a "mythical activity in which people believe they can perform two or more tasks simultaneously." [9] and the psychologists (e.g. prof. Poldrack) "We have to be aware that there is a cost to the way that our society is changing, that humans are not built to work this way. We're really built to focus. And when we sort of force ourselves to multitask, we're driving ourselves to perhaps be less efficient in the long run even though it sometimes feels like we're being more efficient." [12]

Despite specialists opinions, educators from everywhere and at any level must contend with the fact that multitasking is a way of life for many of today's students. [9].

1.1 Romanian e-learning environment

Due to the economic and political conditions, the Romanian e-learning environment hasn't changed in a significant way since last year (2011) when could be so described as: lack on personal contact between teacher and students, poor e-content capacity when teacher works alone, lack of technical support, lack of confidence in the outcome of e-educational process, need for change

in students' and teacher's minds, long duration and hard process of building e-content, lack of experience in e-education, modest offer of e-contents and relatively small market for e-educational content due to Romanian language. [3]

1.2 Subject review

The subject "Perception of e-learning among university students isn't new for the educational market in Romania. Several quantitative studies [2,4,5,7] were conducted among various sample, the single domain of study addressed, local area and without qualitative research performed. The results have been various too, as follow:

- according Indreica and Cazan the preference for distance learning is largely because of the flexibility of use for time and location and work commitment and most students are not satisfied with teaching and learning by distance offered by the university, their reason being diverse, such as the individual competence to use computer, and the technical support for students [4];

- according Cocorada, Pavalache and Scutaru the results of their study cannot be generalized because of the reduced and conventional sample, but for sure the successful use of online learning requires teachers to be sensitive to the various impacts on the students and their learning[7];

- according Berteau, the results revealed that there is a connection between technical abilities and students' attitude towards e-learning. Attitude is also influenced by the time dedicated to computer use, indicator of PC experience. There were found differences of attitude in the case of hired students compared with the unemployed ones. [2]. The main limit of this study is theoretical approach, students haven't use e-learning;

- according Cirnu and Nedelko the Social Network in general, and Networked learning systems in particular hold great potential for school improvement and for turning them into learning organizations [5].

Our present work addresses the gaps of this research and presents an effective investigation about the Romanian electronic learning environment.

2. Qualitative study – perception of e-learning of among university students

The e-learning world is all about connecting people with one another, around subjects of mutual interest, about transferring information and about

creating a future personal and professional network. Media technological tools, if used appropriately, are powerful devices that can enhance learning. Relationships between faculty and students are more personal and they jointly construct knowledge through cooperative learning activities.[8]

2.1 Methodology of the study

We used the qualitative research tools. The study consist in 12 focus-group interviews with university students half groups from the 1st cycle, half from the 2nd cycle; mixed gender proportion 50%-50%; each group consisting of 8-12 persons, aged 20-30 years. Location Bucharest (3) - 1 for 1st cycle and 2 for 2nd cycle and 6 main university towns: Constanta (1) – 2nd cycle; Iasi (2) – 1st cycle and 2nd cycle; Cluj (2) - 1st cycle and 2nd cycle, Timisoara (2) -1st cycle and 2nd cycle, Craiova (1) - 1st cycle, Brasov (1) -1st cycle. The students have various specializations like: medicine, mathematics, physics, history, economics, biology, chemistry, law, constructions, telecommunications, communications, foreign languages, geography, computer science, sports, various engineering departments.

The interviews were conducted in their university locations during academic visits or in our marketing labs, face to face or on-line, at various hours, depending of their programs, in April-May-June 2011. Each group interview has lasted between 60- 90 minutes.

2.2 Background and marketing objectives

The research is part of a series of studies about the e-learning in the university education in Romania and is, in this sense, an addition to the qualitative research about the perception of the teachers regarding the e-learning methodologies, published in 2011 [3].

The pressure exerted by the European Union, European educational market and Romanian educational market over the academic institutions increases their interest and action in order to organize, develop and improve e-learning.

The development of the discussion tool and the interview guide in this case is the result of a systemic approach, which allows obtaining of coherent results at educational system level by corroborating of the two component units.

Student perceptions of e-learning can be studied across a wide variety of domain thereby making more general results. Perception of e-learning

results from occupational satisfaction, affective reactions, useful reactions and perceived training transfer.

As e-learning tools we set our discussions on this table (table 1):

EDUCATIONAL TECHNOLOGY USED IN THE MARKETING ON THE INTERNET COURSE	
Chat room	An Internet Relay Chat (IRC) system for weekly real-time chat sessions with the instructor and students
Electronic discussion group	Using Majordomo's listserv, this was a closed, unmoderated online forum for instructor-to-class and class-to-class email communication
FAQ page	The "frequently asked questions" page that contained a wide variety of questions (and answers) about all course elements
Instructor home page	The page containing links to all course syllabi, research interests, professor contact information suggested books and pertinent resource links
Internet project	Students have a choice of one of nine projects that required a written analysis on an Internet marketing topic. This project required students to search the Internet for sources and present their findings online in .html format
Lab-only classes	Class periods when students were taught technological topics in a "hands on" computer lab setting (e.g. browsing, searching, creating, publishing Web pages)
Online homework assignments	Twenty homework problems, about some aspect of marketing on the Internet, were assigned. All assignments required Internet research. A one- to two-pages typed paper was required for each homework assignment.
Online lecture outlines	A Web page with PowerPoint lecture outlines and hypertext links to sites shown during class meetings
Online readings	Hypertext links to readings about each course topics
Online syllabus	This page included the course description, policies, grading scale, course requirements, method of

Online students directory page	evaluation, course schedule and links to other course components. A directory of students name, e-mail addresses and home page addresses for student-created home pages
Online students grade page	Students grades listed by a four-digit code
Technology lectures	Traditional lectures classes that entailed discussion of technology-related topics
Web site project	This project required students to develop several Web pages (e.g. home page, resume page, hotlinks page, etc) and then publish them to their web site.

Table 1, Educational technology used in Internet course [6]

According to this figure, the e-learning tools offer is wide, rich and comprehensive. Unfortunately, Romania has not developed and applied a specific strategy in order to improve or facilitate access to this tools.

2.3 Research objectives

Similar to the teachers study, present study plans to identify:

- forms of e-learning known and used
- perceived place of e-learning in teaching activities
- perceived role of e-learning in Romania
- students' opinions about e-learning
- degree of interest about e-learning
- degree of acceptance of e-learning
- importance of e-learning for university students
- importance of e-learning for students in terms of their interactions with university teachers
- suggestions about e-learning in order to help educational process
- influence of e-learning for educational process over relationship teacher-student

Objectives decide interview topics. They shape the questions to ask and guide final analysis and reports, pointing to the right direction.

2.4 Main findings

The students' opinions about e-learning are almost homogeneous, they are "pro". The e-

education can be altered and even improved by incorporating greater autonomy in learning and e-learning offer very good tools here: "we need a teacher, a good one, we respect a teacher's work, but some activities we can do alone", "is totally stupid to write the course during the classes, we have books, we PC's, laptops, tablets, iPhones and we have (God) Internet". Student asks for a responsibility increasingly greater choice, sorting and evaluating information.

All students feel comfortable with basic computer-based technology activities, such as using email, typing, accessing the Web, sending, receiving, and downloading documents and with more advanced activities, including downloading multimedia materials, listening to audio or viewing video on the computer. "it is something normal (common), we do this since high-school".

And also, all students are well informed about e-learning tools and processes, even they don't know exactly educational process as "e-learning". Unlike their teachers students do not confuse the mere use of technical equipments during classes with e-learning.

What is greatly appreciated at e-learning is the variety of communication: e-mail, forum, news groups, e-agenda, audio and video conferences. The main ideas are teams for solving problems, and underlying collaborative projects is that the joint effort of many actors leads to a better outcome than any actor could achieve individually.

Teachers [3] have claimed the lack of personal contact that demotivate learners and increases the dropout rate. Students from first and second stage have separate opinions.

Students from the 1st stage agree the e-learning process, but most of them (the younger ones, new high-school graduate) need more human attention, in terms of personal contact, in order to: reduce stress of the major change, high-school vs. university; maintain degree of socialization and receive quick and direct feedback from the teachers. "It's ok to have e-courses and e-labs, but we need personal contact with classmates and teachers", "we are humans, first of all".

Students at the 2nd stage (master) consider that they have enough face-to-face contact during the previous educational stages and now the system could be more relaxed. According their opinions, the first educational stages were important because "we have learned to acquire and use information; prepare for work and lifelong learning; solve problems; make informed decisions; develop and test hypotheses; systems thinking; critical, creative, and analytical thinking". According to them,

depending of educational field, master – as 2nd stage is more useful an exclusive e-learning process because different objectives and many positive findings. At this level they need to learn how to: transfer learning to new situations, create quality products and performances; review products and performances; contribute and adapt to the scientific and technological changes and "this does not require permanent personal presence of a teacher"

Other positive aspects identified by this study of e-learning for Romanian students were: reduces commuting time and costs "I don't waste time and money to go to school", allow study at desirable place and time, allow many interest areas in the same time; allow network communication and in this way gives communication a different perspective. E-learning is seen as a source of comfort.

Everybody is aware about complex IT tasks and professional effort for teachers and need for new technology acquisitions for universities. E-learning becomes a means of pressure to reshape higher education. "We need well IT trained teachers and good equipments", "we need free Internet access and each classroom well equipped"

Differences between young and old, as well as between IT or non-IT skilled teachers have been also noticed. Simultaneously they recognize that is no connection between IT skills – tutorial skills and professional skills. "It is almost sure that an older professor prefers older methods, dislikes IT tools and is afraid by the e-world", "younger teacher (I mean here assistants) are high IT-skilled, but have less professional experience/ knowledge".

Technical support was another related subject. Students notified the poor IT infrastructure of the universities and in general the poor high speed Internet connections. "E-learning is a useful and interesting concept, but we can't reach e-materials without having the right technical support", "just imagine a video-tutorial, or a video-conference at 2Mbps or downloading 1G tutorials at this rate..."

The E-learning can provide students major satisfactions due to amount and variety of learning materials. That is no guarantee for the quality of the learning materials, depending on teacher professional knowledge, his experience and IT skills. "Indeed we can have a lot of e-materials, but may be a lot of poor quality if good teachers haven't IT skills or some IT help"

The self motivation is the main trigger in achieving success into e-educational environment. Laziness may appear because of convenience: "when you only stay at home and download

materials, harder part is to open all this materials and do your homework".

The main accusations launched by the Romanian students (also by the Romanian university teachers) related to the e-learning are: it can create an artificial education market (both aiming to obtain profits) and can stimulate false educational needs [3].

3. Conclusions

The Romanian students want to be able to access e-information and will assume the freedom to interpret it from their personal point of view. Some of them are actively engaged in the online communities where educational tools are discussed (Facebook, Twitter, community sites & forums), and are committed to staying up to date with the new technologies and rapidly evolving tools, the rest of them are strongly interested in such possibilities to obtain educational information like the above.

The E-learning tools offer the possibility to use interactive classes and this enables a good transfer of information. The E-tools offer real time scenarios and games which lead to better knowledge acquisitions.

The E-learning can produce in Romania great results by decreasing the costs and improving the performance.

Analyzing both research reports, teacher and students, we reach a single conclusion: the Romanian students are ready, the Romanian teacher aren't ready and also the Romanian social and economic environment isn't yet permissive to "e-learning".

4. Limitations and future research

The main limitations of the study consist in the general limitations of the qualitative studies. The qualitative research is a highly subjective research discipline, designed to look beyond the percentages to gain an understanding of the customer's perceptions, attitudes, feelings, impressions and viewpoints.

The research is part of a series of studies about the e-learning in the university education in Romania and is, in this sense, an addition to the qualitative research about the perception of the

teachers regarding the e-learning methodologies, published in 2011. The results of the future quantitative researches about both collectivities: teachers and students using the e-learning in Romania are to be published in the near future.

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The Concept of Customer Relationship Management A Critical Review of Literature

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Abstract

This article is considered to be a landmark in both academic and business area, regarding the Customer Relationship Management (CRM).

Based on previous research found in the literature, the paper aims to clarify the concept of CRM. Critical research results are reflected in the formulated responses on the following aspects of CRM: CRM context, CRM definition, CRM importance and objectives, CRM failure and CRM research.

Finally, the article presents the main findings and some conclusions related to the current research.

Key words: CRM, CRM Strategy, CRM Processes, CRM Software.

J.E.L. Classification: M15, M31.

1. Introduction

Interests towards the concept of Customer Relationship Management (CRM) has manifested itself since the 1990's - years that marked the transition from transactional marketing to relationship marketing, therefore in 2004 CRM became a top priority for Directors of Information Technology. Therefore, focusing on the creation of a large number of short-term transactions began to be gradually replaced by the philosophy promoting medium and long term relationships with all types of people and organizations who have a direct or indirect interest in the firm's activity.

Customer Relationship Management, a concept enshrined in literature and in business as CRM is based on the creation and development of personalized relationships with customers to increase their profitability. Being in front of a variety of products comparable in quality and price, sometimes

difficult to differentiate, customers tend to appreciate more product related services (both before the act of sale, and later) and quality of the relationship with the manufacturer or seller.

However, managers of firms are considering the following aspects: (1) the costs of bringing up a new customer are five times higher than the costs of preserving a customer; (2) an unhappy customer will tell his negative experience to a number of 7-10 people while a satisfied customer will recommend it to a number of 3-4 business acquaintances. This difference is fundamental. Hence the results of other studies: an increase in customer retention by 5% can make additional profits by up to 125%, depending on firm profile (PIMS study), (3) also found that 1 USD invested in advertising will bring long-term 5 USD, while 1 USD invested in strategies for Customer Relationship Management, particularly in customer loyalty, in the long term will bring 60 USD (CRM CREATIVE GOOD study).

Therefore, personalized relationships with customers are some of the most important assets of firms and creating a system to manage these relationships embodied individual determines competitive advantage in increasing customer loyalty and retention. Adoption strategy of CRM represented the third great revolution in business organization, the invention factory in 1718 and the introduction of assembly lines in factories in production in 1913 [39].

2. CRM definition

Given the scale and importance of Customer Relationship Management, as diverse opinions and often limited, the lack of a clear definition has had a negative impact on the successful implementation of CRM in firms [19], although progress in

research comes just after addressing a phenomenon from multiple perspectives [22]. The large number of definitions of CRM [39], [32], [40], [6], [13], [25], [8] have led Zablah [58] to group the definitions in the literature into five categories according to the elements that prevail in each formulation: process, strategy, philosophy, capability or technological tool. Later, Payne and Frow [29] have reviewed these definitions and have reclassified them in three categories, depending on issues of tactical nature, technological or strategic.

On one hand, the definitions formulated in the literature considering the following coordinates assume major CRM:

- Strategic nature. Relationship Management with Customers represents a business strategy, not limited to only one of the firms, to be precise the area of marketing. Relationship Management with Customers is relevant and profitable for firms that are contributing to their objectives as well as to generate value for the customer and the firm;
- The role of solutions in Information Technology. CRM provides increased opportunities for using data and information to both understand customers and to better implement relationship marketing strategies. This requires an integration of human resources, operations, marketing processes and capabilities / Information Technology, which is enhanced by integration of information, technology and applications [28]. So, Information Technology helps develop and implement strategies capable of meeting the firm's objectives in relations with customers and developing their loyalty. Also, Relationship Management solutions help firms to measure customers performance in the implementation of strategies and programs in the field of Customer Relationship Management;
- The purpose of CRM. CRM and Information Technology unite the potential of Relationship Marketing strategies to create profitable long term relationships. Develop and implement strategies to develop customer loyalty and develop a profile of preferred supplier for applying business strategy

CRM major aim is to create value for both partners in the relationship, supplier and customer. To be recognized and adopted by the customer, the value should be meaningful and relevant perspective.

On the other hand, these definitions can be classified into three different but complementary elements according to their precedence: the philosophy of CRM [39], [32], [40], Information Technology in CRM [6], [13], [8] and CRM strategy [39], [25].

However, holistic approach to CRM as Payne [28] is the recommended one: "CRM is a strategic approach interoperable aimed at creating higher value among shareholders by developing appropriate relationships with customers reference and with other segments of customers. He unites the potential of Information Technology and Relational Marketing strategies to create profitable relationships long term".

Therefore, CRM involves radical change of business and development strategies in relation to traditional firms. If old target marketing concept was selling, new marketing concept has as its objective the development of relationships in which the sale represents just the first step. The stage where customers are considered as number or total value of transactions, firms should focus on establishing and maintaining long-term relationships with each customer relevant, relationships that will ensure business expansion terms based on Information Technology.

3. CRM importance and objectives

CRM has a high importance for firms. Compared to previous decades, today customers are "moving targets". Markets do not have a relatively, stable structure, being extremely dynamic, with segments and niches whose profile evolves. In this context, CRM strategy aimed at attracting and retaining profitable customers through the development of long term relationships and fostering customer loyalty. Advances in Information Technology are the basis of the most appropriate strategies to develop relationships with each customer in the portfolio firms, they can enjoy unique and personalized experience. With solutions, all data are integrated for each customer

between various departments of the firm and have been collected through various channels of communication with the customer during the interaction - the staff "front-office" and Web-based applications [3]. This yields a unique customer view, highly valuable for firm [9].

A key element in any business is to define the objectives. The objective of CRM found in the literature are: (1) increasing the customer retention rate [35], [39], [5]; (2) increasing the customer lifetime value [39], [35], [40]; (3) increasing the share of existing customer base [5]; (4) providing customized products [39], [40], [5]; (5) increasing the value for both business and customers [39], [16]; (6) improving aspects of an operational nature and providing value to the firm [1], [5]; (7) improving and expanding customer relationships as a result of new business opportunities [8]; (8) transforming customer information into knowledge for firm [39]; (9) choosing the most valuable customers [7]; (10) maximizing customer satisfaction by providing higher quality services [39], [8]; (11) developing more profitable relationships with customers [39], [6]; (12) deepening the relationship between products / services and customers [5]; (13) reducing the cost of sales [39].

4. CRM failure

Although between 2000 and 2005 firms have invested around 220 billion dollars in solutions for CRM [28] though most of them have not experienced a significant return on investment [39], [34] implementation failure rate ranging from 60% to 80% [20]. In fact, we may say that is one of the greatest paradoxes at this level of high investment in CRM.

On one side, cases that have limited the success promised by the solutions for CRM were recorded at a customer level [19]. They may react negatively to use a strategy CRM by a firm. For example, Palmatier et al. [26] show that there are some customers who do not require or unwilling to maintain a deep and long-term relationship with a firm relationship to their costs being greater than their perceived benefits. There are authors [14], [10] indicate that different studies can lead CRM and undermine a relationship, not only to strengthen it.

On the other side, there were some causes of failure identified at firm level [19], which are the most: (1) poor project management [2], [20]; (2) technical and organizational barriers [31], [38], [14]; (3) underestimation of the complexity of the CRM [31], [39]; (4) adoption paradigm "focus on the product" rather than "customer focus" [24]; (5) lack of an appropriate organizational culture [4]; (6) focusing on Information Technology instead of firm's strategic objectives - "Software Strategy Before" [18]; (7) lack of support from managers [20]; (8) misunderstanding of the concept of customer lifetime value [20], [37]; (9) lack of employee motivation [39], [5].

So what firms need to understand is that the most important change is by no means the technical one. True change must lie in a change of employee behavior, that ultimately use the technology to meet the strategic objectives of the firm.

5. CRM research

The concept of CRM is the subject of several previous studies. Ngai [25] in the critical review of literature identifies five main streams towards the concept of CRM, namely: (1) CRM (concept and issues this study, management, planning and strategy, performance, personnel); (2) marketing (channel management issues, consumer behavior, customer loyalty, customer retention, customer value, privacy, product, segmentation, targeting and positioning; trust); (3) Sales (accounting issues, cross sales and purchases, sales force, sales management); (4) services and customer support (call center issues, customer satisfaction, the service, quality management, self-service, aspects of social / non-profit); (5) Information Technology (data issues, Information Technology management, data mining, data warehousing, e-commerce, internet, knowledge management, optimization, customization, applications, tools systems).

Therefore, the subcategory of Management, planning and strategy CRM is more important for the number of articles published, followed by subcategory Concept and study of the Concept of CRM. Major contribution of this view is given by clarifying the proximate genus as being the

business strategy. The purpose of CRM is consistent with the philosophy of marketing, is to create value for both the organization (in the form of revenue and profits) and customer, as high degree of satisfaction and fulfillment of his expectations.

In literature, the concept of CRM has been studied both at customer and firm level. At customer level [39], CRM involves a single picture of it, as a result of customer knowledge integration in all contact with him. CRM approach at the firm level [17] involves identifying key processes and their main components. However, a holistic approach to customer relationship management is the most recommended [29].

Zablah et al. [39], in their critical review of the literature identifies five major conceptualizations on CRM: (1) CRM as strategy - one that improves the profitability of the portfolio of firm relationships [1]; (2) CRM as philosophy - the firm's focus on customer targeting; (3) CRM as capability - one that reflects the quality of interaction between firm-customer [11], [32]; (4) CRM as a tool for Information Technology - one that integrates sales and marketing systems in order to cultivate relationships with customers [35]; (5) CRM as a process - which includes the entire firm and focuses on creating and maintaining relationships with customers [32], [29].

Some authors [8], [29], [38] believes that there are three levels of CRM: the strategic one, the operational one and the analytical level. In essence, the strategic level refers to the major objective of CRM and the firm's positioning as a strategy, not only as functional strategy. Operational level automation projects targeting different activities of sales, service and marketing, and communication channels with customers. Analytical level is mainly focus on measuring the firm performance related to the relationships with customers and analyzing customer information. Based on this information the firm should adopt the most appropriate marketing strategies and tactics.

According to Freeland [17], CRM strategy include: Customer strategy (The customer that firm wants to attract?); Channel strategy (Through which sales channels will firm contact those customers?); Brand strategy and image (How the firm

ensure that those customers will bring a capital picture?) and Information Technology strategy (What technology tools and capabilities the firm needs?).

Some researchers [39], [36], [38], [23], [33], [12], [29] have developed over the years various process based frameworks of CRM. Of these, holistic approach to Payne and Frow [29] is the most representative.

The processes related to CRM strategy proposed by Payne and Frow [29] are: (1) the development of strategy at both corporate (business vision, industry characteristics and competition) and customer level (customer characteristics, degree of segmentation), (2) the creation of value, which includes three key elements: the value that the firm can provide for the customers, the value that firm receives from customers and maximizing the lifecycle value of customers that firm wants; (3) the integration of multiple channels, that takes the results of the firm's strategy and value creation process and translate them into value-adding activities; (4) information management process, including data warehouses, systems of Information Technology field, analytical tools and front-office and back-office applications; (5) performance evaluation process, which is composed of shareholders results and continuous performance monitoring activities by appropriate metrics.

CRM strategy is successfully implemented when: (1) the firm can provide the same value to customers as competition does, but at a lower cost; (2) the firm can provide greater value to customers than competition offers at the same cost; (3) The firm can provide to customers a higher value than the competition does at a lower cost.

Implementation of CRM processes affects in different ways the financial performance of the firm, depending on the stage of the relationship between customer and firm: initiation, maintenance and termination [33]. Therefore, implementation of CRM process is associated with higher financial performance in the first two cases. Greatest effect on firm performance is felt during the maintenance of the relationship, followed by the initiation phase. In the final stage of the relationship, the effect is insignificant.

Regular assessment of the results of applying CRM strategy needs to be done to see if its implementation has led to positive

results for the firm or if corrective measures are necessary to be done [27]. For that reason, over time, the researchers have been designed various measuring instruments [21], [39] and different indicators like: number of new customers, customer loyalty, loyalty relationship, customer satisfaction, relationship satisfaction, customer profitability and others.

6. Conclusions

Lately massive investments were mainly in the area of Information Technology, "Software before Strategy" which led to a high failure rate in implementing the solution of CRM, hence a very low performance. According to a study by Meta Group [9] this failure rates between 55% and 75%. Many firms consider CRM simply a software application and its implementation as a task of any IT department. This misunderstanding generates a wrong start, which can result in a failure even if the application is properly installed and implemented. What firms need to understand is that the most important change is by no means the technical one. The true change must lie in a change in employee behavior that ultimately use the technology in terms of perception and ability to accept and adapt to the changes inherent in post-implementation.

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Customer Relationship Management. Conceptual Aspects and Specific Strategies for Action

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Abstract

The existence and functioning of organizations tend to increasingly dependant on their ability to adapt and adjust to change. In front of it, reactivity becomes ineffective, if not useless, to the detriment of proactivitatii and of the level and capacity of anticipation. So, change is the only constant thing in an organization, contrary to common conception, which is defined as the equilibrium stability improvement [5]. Today, mobility, flexibility, the ability to adapt to the requirements and the evolution of the market, the customer's needs and desires are the only weapons that company owns the vigour of change, the only likely to resist, to continue to exist.

Keywords: Adaptability, speed, timeliness, efficiency.

J.E.L. Classification: M30.

1. Introduction

In the present work we started on the premise that the supreme court's assessment, the decision making of the organization they represent resources or, effectively, „the customer”. He is both the most demanding, the most critical quality inspector, most creative copywriter or marketer. He is the symbolic level, give orders and, from the outside. He is an „axis mundi” of the business. Therefore, the new economy requires strong relationships with clients and their management efficiency, customer relationship management and became one of the most interesting and important.

In the context of the unlimited options, always increasing demands, under the hegemony of the fickle customer, we wondered what strategies may fail to attract firms, to meet, to amaze. That's why I

consider customer role arching in the business and I stopped on him. At the same time, in a hyper-tehnizat universe, computerized, standardized and automated up to the brim, the acute need for resimtim communication and for refocusing on the affective dimension, human, I consider that it is not at all to return to the US surpassed the concept of „relationship”.

Objectives as well as folding on the needs and requirements of the client, personalizing each interaction, exceeding expectations and enthusiasm becomes tangible with the adoption of a vision and a strategy. Fundamental to me seemed so, customer relationship management, that a first contact, uninformed, uncritical, unfounded in theory, a asociam with the ways by which companies will lead, he manages relationships with clients and influence buying behavior. Later, I discovered that such a vision is one truncated, incomplete, which vaduveste the concept of complexity and depth, under the reins of power are often diametrically opposed, pole and the communication ceased long ago to be unidirectional, asymmetrical. Therefore, in addressing the theme chosen, I considered relevant, first, to define the correct pluriperspectivista of the concept of customer relationship management and its related notions delimitation reductionist.

2. Conceptual issues relating to customer relationship management

Customer relationship management, a concept enshrined in the literature under the acronym CRM, according to the English translator to „Customer Relationship Management”, has gained momentum in the early '90, thanks to the growing popularity that a win, at that time, the strategy orientation towards the client.

In terms of the socio-human, customer relationship management is based on the creation and development of personalized relationships with clients, in order to increase their profitability.

At the same time, customer relationship management can be defined as a leap from the orientation on results in the short term to medium term orientation and long, or as a result of the transition from the traditional marketing paradigm to that of relational marketing [1]. Customer relationship management has developed as a distinct area of relational marketing, keeping the same fundamental principles. Gordon called them the dimensions of relational marketing, these being, in essence: creating and providing value for clients, the key role of the customer, the alignment of processes, communication, technology, human resources, in order to get value for the customer, cooperation between sellers and buyers, creating the bond with the so call them stakeholders both inside and outside the organization. In these conditions, the professional training of human resources becomes a stake and a factor of change and continuous training is a requirement that maximizes the value of an organisation [3]. The difference between CRM and relational marketing it is centering on one important category of stakeholders-clients, and of course, the most profitable for the organization.

A second approach to the management of relationships with clients is the sphere of technology relating to the computer assisted management of relationships with clients. Kotler defined the process by „purchasing a computer system (computers and software) to enable the company to capture detailed information about individual clients, the idea of using them for better marketing directed” [5]. By „examining past purchases, and demographic characteristics psychographic profile”, get relevant information about the behavior of consumers, with a view to the needs of their folding. At the same time, informatizata management help company to determine which are the least clients

increased profitability and focus on them, eliminating the cost that you would assume the correspondence or contact. At the same time, computer assisted management help company to determine which are the least clients increased profitability and focus on them, eliminating the cost that you would assume the correspondence or contact.

Kotler [5] suggests even a reversal of the magnetic poles guidelines seller-buyer. In concept, the customer should not be bombarded with offers, such as game, practice what wastes both time and material resources of the company.

It is necessary for the Organization to identify the need for the client to know information about the availability and responsiveness of the customer towards the respective bids, to offer advice, but total freedom in choice. Relevant information received to become the client directly, and not those relating to customer, obtained by buying behavior analysis based on the use of information technology.

Viewed through the prism of this aspect, the management of relationships with clients is „to humanize” relations between the client organization, no way to standardize and automate. Limiting the information solutions lead to the neglect of the actual objectives, major, omitting the customer as complex and unique individuality. Customer relationship management must be supported, indeed, information technology, but without having to deviate from the initial purpose: getting the value both for the organization and for the customer-first of the actors in the form of profit, revenue, for the second form of satisfaction and performance expectations.

3. Specific action strategies in customer relationship management

The concept of customer relationship management is regarded in the literature as tridimensional [1]. There is thus a strategic level, the operational CRM and analytical dimension. Strategic CRM level refers to the orientation towards client prosperity and advancement throughout the Organization, not just in the Department of marketing. Moreover, the proximity to the customer and getting satisfaction and enthusiasm it must become part of the organizational culture. Such a vision, strategies and techniques the

carrier, leads not only to retention of clients, but also to a more efficient internal communication, both horizontal and vertical.

3.1 Strategic level of CRM

The implementation of a strategy of customer relationship management aims to identify potential customers, attracting them through personalized offers, and their retention retaining and increasing their profitability by extending their life cycle. CRM strategies involve monitoring, assistance, advising the client on the entire duration of the life cycle. CRM strategies involve monitoring, assistance, advising the client on the entire duration of the life cycle. Major construction and development, not just their creation. A successful CRM strategy require gathering data storage volume as high as information obtained during each contact with clients, as well as proactive communication, as many horses as possible, with both current ones and those with potential. Without understanding that it is much more difficult and less lucrative to attract new customers than it fidelizezi existing ones, many organizations are focused on quick profit, having only a short and medium term and does not take account of the fact that business expansion occurs only by creating and developing relationships with long-term clients. The current context seems to impose such new requirements and trends: „currently, companies pay more attention to the art of retaining customers because they found out that it can cost them five times more to attract a new customer than to keep an old one” [6].

Customer relationship management enables knowledge of customer behavior, rapid adaptation to the needs and changes and, in the most fortunate case, even anticipating them. CRM strategies is based on „establishing, maintaining, developing and optimizing the relationships between an organization and its customers and focus on understanding and satisfying the wishes and needs of customers, items are placed in the center of the business strategy of any firms performing” [2].

A CRM strategy will effect the three major steps and, ideally, clients ' satisfaction consecutive, their fidelity and, finally, getting their enthusiasm. Starting from the idea that

„satisfied” is not a stage or „satisfied enough is not satisfied enough”, companies should have active clients satisfied, to find clear and strong reasons for having chosen the product or package their services and not a competitors. Passive clients satisfied choosing product accidental due to lack of time, interest, or options, typical reasons or ambiguous and, in consequence, are infidels: at the time of an offer of the best change supplier without hesitate. Therefore, the Organization must provide more than just expect the client to focus on emotions, feelings, to offer its constant reasons to remain faithful to the brand or product. The strategy is not complicated if you follow a few tips companies important and if you would be willing to make the effort and give them to customers. It is summed up in a few words: „Amaze your client!” or „Get the enthusiasm!”

Of course, the most profitable segment for application management strategies of customer relationship we are loyal customers. They constitute the most powerful competitive advantage of a company, as a part of the market is inaccessible, if drivers manage efficiently.

3.1.1 „The scale of relationships”

One of the types worthy of consideration is the proposed by Payne, Christopher, Clark and Peck [2]. The authors set up a „scale of relationships”, from potential clients, defined as the „target market”, the segment on which the organization strives to gain it, and ending with the latest gear, an ideal, in which relationships are based on mutual benefit and defined the concept of *win-win situation*. Thus, the scale relationships include the following stages or steps: potential client client constantly supporter partner occasionally, depending on the degree of interest and loyalty they have for it products or services and company values promoted by it. Indicated would be to adjust its strategies organizations CRM Customer typology they hold in portfolio and streamline its efforts, time, and costs involved in the creation, maintenance and development, in order to obtain maximum profitability.

3.1.2 The typology matrix of relationships between organizations and clients

Another way to define the type of relationship that clients wish to maintain with the organizations it's „The typology matrix of relationships”[2]. According to Piercy, there are four major types of clients:

1. Job seekers, relations defined as those buyers interested in a close relationship with the supplier, but in the short term. The relationship between the two actors can be defined as a partnership, which can continue to evolve, or can be done, depending on the result of the first collaborations and the degree of satisfaction of the two parties involved.
2. The blockade of relationships, those buyers who develop a long term relationship with the organization, but also a low interest. The relationship is distance, whereas these clients take advantage of all the benefits, but change the provider without hesitate at the time of an offer more attractive, in spite of the repeated attempts of the organization to retain them.
3. Casual customers, sensitive to prices and discounts are likely to migrate from one vendor to another. Their relations with the company is short and distant, based on specific transactions.
4. Loyal clients, the nearest of the relational point of view towards the organization. They distinguish by very low vulnerability to competition, bids will assume the values and culture of the organization, identifying themselves with its goals and have a lasting relationship, based on, with the company whose products and/or services are chosen.

Piercy's classification highlights the fact that between the clients and the organization there are different kinds of relationships, according to the desire of the actor and, of course, the efforts of the second. Therefore, efforts must be dosed, folded on the type of relationship that clients and want the company to make the CRM strategies. Obviously the loyal customers are the most profitable category, natural consequence being that they should be given more attention and more interest.

3.2 Operational level of CRM

From the operational point of view, CRM is the automation of the contact with the clients, in terms of the functions of marketing, sales and services [1], through specific software solutions. In other words, the operational customer relationship management refers to focusing on information technology and communications. According to this vision, internal and external information flow, obtained at each contact with the clients, determine the most effective methods of service, satisfaction of their needs. More and more the importance accorded to the *e-business* environment, because through his companies is just a „click” away from their clients. Basically, the virtual environment of the business relationship, the relationship turned classics of organization and the customer. As you point out and Philip Kotler in „Marketing in the digital age: a new vision about profit, growth and renewal”, organizations must adapt to the evolution of information technology: changing markets faster than our marketing activity.

3.2.1 Marketing Automation

Thus, the function of marketing automation includes activities such as customer segmentation, campaign management, communication or answers to clients ' requests. CRM solutions allows the storage of customer information in databases, real „gold mines for the organisation” [2], since they allow the creation of client-related strategies. It is so-called „data-mining” technique, which involves a careful and thorough analysis of customer data in order to identify the profiles of clients and split the portfolio.

3.2.2 Sales automation

CRM software applications also allow automating the sales process, helping to issue forecasts on the basis of information about the behavior of the purchase. At the same time, they contribute to automate management of your contacts (formation of automatic, automatic writing e-mails) and can even generate quotes or optimal customer

solutions, based on previous interactions, consumption registered or based on purchase behavior.

3.2.3 Automation services

Automation services represent the most important dimension of operational level, enhancing the effectiveness of CRM enormous and efficient organizations. A major investment in this respect is the telemarketing centers and contact centers. Interactive voice response (IVR) is just one of the examples which emphasizes the efficiency of automation services. By intermedial, clients can listen to General or commercial information, can find out the current offerings can even make changes to the products or services owned, no longer need to travel to one of the premises of the supplier and nemaidepinzând of working time.

3.3 Analytical level of CRM

At the analytic level customer relationship management deals with the evaluation of the performance of the organization in relation to its customers and to establish appropriate strategies and techniques. In principle, the analytic CRM includes activities such as the collection and storage of data, analysis and interpretation and subsequently use the information about the customer.

3.3.1 Identification of clients

Customer relationship management, looked at both from the technical point of view, as well as information from the human point of view, that strategy, client orientation, in a first phase, the collection and storage of customer identification data. All these information are centralized in a database we do not level the disparate departments and must be continuously updated, on the occasion of any interactions with the client, either at the initiative or on the initiative of the organization. The collection, storage and updating of the data are fundamental for the further establishment of customer profiles, segmentation and to establish appropriate strategies and approach.

3.3.2 Establish customer profiles

On the basis of the data collected and stored in the identification, the organization can develop customer profiles, their segmentation can be achieved and can build specific marketing strategies and sales. In establishing these intervening variables such as profiles, customer value for organization, purchase behavior, communication between the supplier and the customer satisfaction and the lifestyle of the customer [1]. In this sense, are considered the annual shopping performed by the client, all value during its lifecycle, favorite products typology and purchased mainly payment capacity of the client. Relevant in establishing profiles and favorite channels of communication, Internet, face-to-face and analysis of the types of posts that are positive by the client and which bring satisfaction and those who irritate you displease.

3.3.3 Data analysis

In order to develop programs and actions of viable, effective marketing, it is necessary for organizations to identify potential clients, grouped its clients in portfolio in homogenous segments (based on profiles that have been previously implicated and *feedback* provided by them in connection with products, services and business strategies), and later, to identify those groups of clients that could become the target of marketing campaigns. At the same time, the data analysis stage, the organization is required to take into account the probability of the relationship with each of its clients, to quantify the degree of retention and to establish groups of products or services that may be offered for sale or *încrucisate* or *cross-selling*: „The seller add other provider offers its line of products, that might get the same buyers and bring them in their attention” and additional or *up-selling*, as defined „by the vendor to the buyer to see the advantages of replacements or modernizations, in terms of the existence of obsolete equipment or if you need other products” [4].

3.3.4 Assessment of the effects of marketing

A last round of analytical customer relationship management involves assessing the effects of marketing, measurement of results of actions directed by the Organization to its target leader.

It will assess the „effectiveness of the sales process”, from identification of potential clients and their transformation into actual clients before the development stage (virtually throughout the life cycle), analyzing how effective was the selection of clients for marketing campaigns conducted and the neta, aportata by clients from the marketing activities whose targets were.

Conclusions

The customer is considered to be the central part of the business. Supreme in the context of customer relationship management would be targeting all organizational processes and of all financial resources, materials and human resources to it. Unfortunately, customer orientation is done in most cases only the formal level, and its satisfaction is perceived not as the end but as a means of obtaining profit. The attention given to the customer must be implemented, not just discussed. A company that really wants to make the client a priority need to follow a few steps. You must compare the level of satisfaction of our buyers the satisfaction of customers ' competition. You have to draft maps that show the interaction between staff and clients, to jot down in particular points that indicate outbursts and disappointments.

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Challenges for Light Industry During the Economic Crisis

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Abstract

Light industry has felt the full effects of the financial crisis. So far only companies that have a good strategy managed to overcome this period, whether they made goods under their own brands or manufacturing production for other brands. Local producers waging a constant struggle to exceed this difficult period. They must overcome a number of obstacles, including difficulties caused by migration of cheap labor force in European countries where earnings per month outweigh revenues per month in Romanian light industry. Another obstacle are: the poor design and implementation of marketing strategies that fail to impose brands created by domestic producers on the European markets, demanding customers or outdated technologies.

Keywords: customers, light industry, students, brand.

J.E.L.Classification: L67, M11

1. Introduction

In the 2000 Romanian light industry experienced a flourishing period followed by decline since 2006. The decline was predicted by specialists in this field. In industries where cheap labor is the main attraction lose market share when the country enters the European Union. The same slope downward had industries in countries where outward processing trade was practice (Hungary, Poland) when countries entered the European Union. Increased utility costs, labor migration, loss of strength of the national currency on the currency market contributed to lower of competitiveness industry.

The decline was accentuated when in the global market penetrated huge amounts of

cheap garments and textile products from China due to the elimination of quotas on exports from this country. Economic crisis has emphasized all these factors and consequences on light industry were multiple:

- diminishing number of producers of garments;
- reducing the number of manufacturers in outward processing system;
- increased production costs;
- reducing the number of employees;
- decrease of earnings for employees in light industry;
- decrease in purchasing power of customers;
- clothing and shoes acquisitions budget reduction;
- market penetration of low quality products;
- market penetration of cheap products.

2. Challenges for Clothing Industry

China's economic prosperity has helped increase wages of garment and thus low the attractiveness of the country for some producers. Institute Francais de la Mode estimated that the average salary in China's coastal areas increased from 240 euro in 2005 to 400 euro in 2011. [1] The consequence of this is the return in Eastern European countries, in Romania also, of outward processing. Apparel market was strongly shaken, many companies went bankrupt. From the market disappeared, companies, especially small and medium enterprises, who did not have the strength to face the very tough competition exacerbated by the crisis. On the market managed to stay firms who were able to adapt to the recession. Survival strategies differentiated from one company to another: reduction of costs, developing new products, finding new clients, dismissing a number of employees etc. Manufacturing companies who remained

had to face many challenges. Among challenges are: lack of qualified staff, low wages in industry or renewal of equipments.

Deprofessionalization of industry

A problem that must be exceeded by manufacturers in this area is the lack of trained personnel. They need to find people who are trained to do all operations of manufacturing a product. Over time one of the strengths of Romanian light industry was the well prepared and highly qualified workforce. Light industry is a traditional industry in the Romanian economy and Romanian workers were able to perform the quality products requested by partners. Economic crisis, low wages and difficulty of the activities have a strong contribution, to diminish the number of young people who want to work in this field.

Table no. 1 Vocational, post high school and foremen education in light industry Pupils enrolled

Type of schools	2005 - 2006	2006 - 2007	2007-2008	2008 - 2009	2009 - 2010	2010 - 2011
Vocational schools	34738	26768	21087	15751	8938	3357
Post high schools	227	118	164	239	242	245
Foremen schools	29	29	54	136	131	120

Source: Romanian Statistical Yearbook, 2011

We notice a dramatic decrease in the number of students enrolled in vocational schools in light industry, from 34738 enrolled in 2005 to 3357 in 2010. In foreman schools the number of students enrolled increase.

Table no. 2 Vocational, post high school and foremen education in light industry Graduates

Type of schools	2005 - 2006	2006 - 2007	2007 - 2008	2008 - 2009	2009 - 2010
Vocational schools	34738	26768	21087	15751	8938
Post high schools	227	118	164	239	242
Foremen schools	29	29	54	136	131

Vocational schools	18212	14421	10892	8187	6708
Post high schools	105	77	10	97	77
Foremen schools	-	29	-	47	70

Source: Romanian Statistical Yearbook, 2011

In 2010 only 6708 students 2.7 times less than in 2006, graduated from a vocational school that offered a qualification in light industrial activities. Many of students enrolled drop out. One reason is the lack of perspectives of the field.

To manage the problem of human resources, lack of qualified personnel companies hire unqualified persons and train them on the job.

Low wages

One of the factors that contributed to business development of outward processing in our country was represented by cheap labor. Employees who worked in this area were among the lowest wages in industry. Lack of jobs in other areas, rising unemployment made the job supply to exceed. The existence of excess labor force generated the possibility for employers to tough negotiate wages offered. Entry into the European Union provided an opportunity for more staff to go to work (legal or illegal) in European Union countries for amounts higher than those earned in garment enterprises in Romania. The consequence of all these actions was a dramatic decrease in the number of those willing to work in this field.

In last years the average nominal earnings earned by those working in textiles is among the lowest in manufacturing.

Tabel no. 3 Average net nominal monthly earnings

Industry	2009	2010
Manufacturing	1146	1237
Manufacture of wearing apparel	773	858

Source: Romanian Statistical Yearbook, 2011

Hard work and low earnings made this area to continue to be unattractive to work force. Manufacturers to meet orders must use different solutions: appealing to workers

outside the cities, hiring workers from other countries, relocation of plant in rural areas.

Necessity for investment in industrial machines

Pre 2007 light industry investors have made numerous investments in equipment to ensure its competitiveness. Joining the European Union in 2007, the end of Multi Fiber Arrangement (MFA) in 2005 which open the markets to textiles and garments from China, and the financial crisis that started in 2008 have contributed to the adoption and implementation of strategies of tightening. Reducing costs and expenses affect technology. The demand for new equipment in light industry decreased. Manufacturers just bought equipment that they considered absolutely essential in attracting and retaining customers. Because many producers purchased second-hand equipments the second hand equipment market increased during this period. [2] Returning off partners is forcing executives to invest in new production capacity in order to be able to meet the quality requirements.

Dealing with customers in time of crisis

Although they do not have a high share in light industry, there are companies that produce products under their own brand. For this firms even more challenges, not just lack of trained personal. Because they create and distribute their own products, managers need to be in constant contact with clients' needs. The crisis has influenced the way people spend their money on clothes. Companies have to deal with two main types of light industry products customers:

- "Choose carefully" customer - this is a demanding customer, buying less but in better quality. A solution to gaining and retaining this customers is making very small series or small series with many models or making unique pieces or small series of very high quality. Prices may be lower, but for this educated customer, responsive to new things, low price is not the main point of interest when a garment is purchase.

- "First price" customer - for this customer price remains the main criteria for purchase. In recent years consumption has decreased due to the lower of purchasing

power. To attract this type of customer the solution is the low price. In the battle for lower prices local manufacturers are struggling with major famous brands that made large series, and have lower production costs and can afford to decrease the price because they obtain profit even when prices are low.

Adapting products to these two main categories of customers is a challenge for many companies.

Brand promotion

In order that Romanian producers to achieve competitive products is required to achieve performance in three main areas: design, production and marketing. Creativity is one of the defining features of the Romanian nation. Talent is not lacking to those who want to be involved in clothing. There are faculties that prepare young talents in fashion design. But creativity can manifest and technologies. Nationwide in 2010 increased the number of employees in research and development in textiles at 36 compared to 28 in 2009, but decreased the number of people working in research development in the manufacture of clothing by 50%, from 12 in 2009 to 6 in 2010. [3] Textiles and clothing industry in Romania is a traditional, well known throughout Europe and worldwide. Numerous partners who have made garments with Romanian employees represent the proof of Romanian producers ability to conduct a competitive manufacturing activity. Know-how gained through the development of outward processing and the return of brands show that in terms of getting production performance is not a challenge for Romanian companies. The weak point of Romanian light industry is the marketing activity. The companies in Romania have experience in manufacturing garments but not in brand development. Establishing a brand on the market requires both financial and time investments. On the market there are companies who have created real brands and distribution networks nationally and who compete with strong brands and international markets. Their success is the proof that the world market is not impervious to brands created in Romania. One way is to increase brand visibility, made it closer to consumers is the involvement in

social media, professionally. A study by Ernst & Young found that consumer confidence migrate far from traditional channels of mass communication channels towards that involves "community".[4] New trend offers tremendous opportunities and advantages to organizations who know can gain the digital consumers. Of this trend Romanian companies could take advantage when they create brands. Virtual promoting allows to the new brands to be known to more potential costumers and much more quickly compared to the period prior to the emergence of social media. Social media can be a very powerful tool for companies who aim contemporary consumers.

3. Conclusions

In the short term textile and garments industry will record growth: production, number of employees, etc. The return of top international brands on the Romanian market will contribute to the advancement of light industry. Although many major brand manufacturers are returning to Romanian we believe that Romanian light industry will not achieve the level registered before the entry into the European Union and the onset of the economic crisis in 2008. Textiles and the garment industry are constantly evolving. To have an important place on the map of garments and textiles production manufacturers need to create products that follow international trends, to create diversified products, to invest in machinery and equipment to carry out high quality products, also to invest in human resources. We believe that, first, the producers should give due importance to marketing activities. Product distribution and promotion of brand image using social media will allow to Romanian brands to be placed as famous brands and consumers need to have it. Neglecting promotion activity will make the Romanian producers to be known only as mere tailors. In the long term the market will remain only the best, those who add value to products or services.

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Control-evaluation in NGOs

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Abstract

In the frame of the organizations belonging to the public sector, as well in the ONGs are used self-monitoring being in early stage of development, in comparison with organizations working in private sector, which use strictly systems by which these organizations measures performance and effectiveness of the carried out activities. This paper aims to analyze a number of aspects concerning evaluation-monitoring. Methodological approach was based on using direct sociological investigation by mean of questionnaire.

Key words: management, objectives, results, self-evaluation

Clasificare J.E.L.: L31

1. Introduction

In an environment in which the establishment of ONGs has an extremely dynamic character, watching closely the trends of characteristic social needs of a community in evolution, the competition for resources is becoming more and more fierce.

Performance measurement is necessary because through this, ONGs have capacity to determine the measure in which the objectives were met, to evaluate their performance and to elaborate future initiatives to improve their performance.

2. Control-evaluation: definition, stages, typology, functions and characteristics

The control as a function of management is a set of activities designed to verify the performances realized by the organization, or by different compartments of it, at a given moment, compared to the set objectives, in the goal of a prompt intervention in the case of appearing of any abnormalities or

deficiencies in achieving those objectives. In other words, the control actively contributes to the achievement of the objectives of the organization, to the elaboration of the lines of action. The control is designed and developed as a process through which are realized the measurement of the current performances of a productive system or of another nature. [6]

As a function of management, control consists in all activities which compares the performances of an organization or of its various components with its projected goals and then the results are correlated with the pursued aims.

A control is effective when:

- is based on a flow of accurate, precise and clear information;
- uses simple methods of investigation;
- is appropriate and has low costs.

In case the verification of results confirms the goals achievement, then the management process is restarted and if there is a conflict between them, then we need to act in one of the following cases:

- if the results exceed the established goals, the objectives are reassessed;
- if the results are inferior to the goals, the performances are improved.

Expressed synthetically, the exercise of control – evaluation function involves the following steps:

- measuring the outputs;
- comparing achievements with predetermined objectives and highlighting the deviations;
- determining the causes of the constant violations;
- doing necessary corrections.

The control can be classified according to several criteria, such as:

- a) depending on the moment of the realization:
 - preventive (trying to avoid disturbances of the systems of the organization);

- feedback (focusing on correcting economic systems);
 - self-correcting (correcting automatically the appeared problems);
 - non-self-corrective (correcting the appeared problems only by the intervention of the manager);

b) depending on its nature:

- hierarchical (is done from the bottom to the top);
- financial (checks the use of available money funds);
- budget (uses statements of expected results);
- technical (checks the quality of products and services).

c) depending on the subject who launch the control:

- direct (initiated by the manager);
- indirect (realized by the manager on the basis of obtained results);
- self (realized by the executant himself);

Control fulfills five basic functions:

- function of results evaluation- the control activity has the starting point the examination of the organization's concrete situation and performances (quantitative and qualitative);
- recovering function – it provides the opportunity to eliminate the disturbances from the activities of the organization once the flaws were discovered;
- preventive function – it helps to prevent imbalances if it occurs before the occurrence of events;
- informative function emphasizes the role of control in subsequent decisions;
- stimulating function of the human factor – strives to improve the employees' activity and results in order to obtain favorable conclusions after the control.

The managerial control function includes the following requirements:

- existence of an information system to allow rapid circulation of information related to performance standards;
- opportunity to be done directly to the scene inspection;
- analysis of the causes of deviations and their differential treatment according to their importance;

- avoid duplication of control activities and record activities. [10]

Professor Mihaela Vlasceanu that the first major problem faced by a non-profit refers to identifying and defining a clear and precise mission and it involves not only the statement of the purposes for which the organization was created, but also their expression in such a way as to make possible a permanent evaluation of performance.

The high standards and ambitious goals must be achieved at least by at least the best people from an NGO, and the assessment should always begin with positive comments. An evaluation should always begin with what the person did well. You can not build performance with what people do not have. And it is up to each organization to turn the strong parts of its members in actual performance and neutralize human weaknesses. This is the final test. [16]

There are several typologies destined to the evaluators, depending on several applied criteria and the nature of the organizations. Recently, Zeljko Sevic [14] considers that the evaluation can be divided into the following categories and phases:

1. Formal evaluation:
 - a. in the development phase;
 - b. in the retrospect process phase;
 - c. in the experimental phase;
 - d. in the retrospect phase of results;
2. The theoretical approach of decision
 - a. The phase of evaluable feedback (stages:
 - a.1. the specification of the program policy;
 - a.2. the collecting of informations about program policy;
 - a.3. the modelling of the program policy;
 - a.4. the analyse of the evaluability of the program policy;
 - a.5. the feedback for the users of the program);
 - b. The phase of analyse of multiattributive utility (stages:
 - b.1. the identification of the users;
 - b.2. the specification of the problems linked on the decision taking;
 - b.3. the identification of the results;
 - b.4. the identification of of the atributes conferred by the results;
 - b.5. the assigning of the ranks;

b.6. the standardization of of the scale (scales);

b.7. the measurement of the results obtained by the actors;

b.8. the utility calculation;

b.9. the proper evaluation;

b.10. the final data presentation);

Concerning the methodology, Zeljko Sevic examines five indicators of monitoring performance of an organization or of a program of social service delivery or policy: effectiveness (response to needs) and efficiency - the degree to which a process produces an effect with the lowest cost, quality - a producer's best response at customer service expectations, opportunity - delivering/fabricating a product or a service in accordance with standard procedures and exactly when it is needed; productivity - value added by the process divided by the value of labor and capital consumption, and protection - health care for those who produce and consume a good or service being delivered or delivery.

The monitoring-evaluation function is effective only if it has the following characteristics:

- it takes place continuously throughout the course of activities that are conducted, ie it is not carried out from time to time;
- it is preventative, it aims to prevent the occurrence of negative deviations;
- it is fair, it aims the decisions taken that lead to eliminating the causes triggering negative deviations.

3. The case study

The case study had in view the approach of the control-evaluation function in the aim to highlight the degree in which ONGs realize this managerial function and in the aim to identify causes that contribute to a non-preoccupation to the achievement of of self-evaluation of their actions. In this sense was elaborated a semi-structured questionnaire with 20 items that was focused on different aspects of the control-evaluation function, each of them having a scale with seven levels of response.

The case study realized in this paper focused on 14 associations and foundations in Bacau operating in various fields.

The essential pursued aspects made reference to:

- the examination of the particular situation of the ONG;
- the importance of the control in adopting of future decisions;
- the comparing the results with expected objectives;
- the use of a correct, precise and clear flux of information;
- the oportunity of realizing the control;
- the continuity of realizing the control;
- the realizing of the control straight at the place of running the actions;
- the realizing of a differentiated analyse of the deviations according to their importance;
- the realizing of the control by using indicators of efficiency;
- the realizing of the self-evaluation of their actions.

4. Conclusions

Following the centralization of the questionnaires, it was found that in ONGs, undergone to this research, the function control-evaluation is excersed in a measure corresponding to a mean score of 3,25. In terms of achieving self-evaluation of the actions, through open response items from the questionnaires, were identified the following arguments, which lead ONGs to not take actions of self-evaluation, as:

- *The actions for community support are good, because represent more than nothing*

Many NGOs are convinced that contribute to the benefit of the community, even if they sometimes offer services of dubious quality and believe that is not necessary to self- assesment to ascertain it, because they start from the premises that they want to make good. Consequently, these NGOs show a non-preoccupation and disinterest in thr goal to evaluate the infuence they have on the upon the community.

- *The existence of the difference between financiers and beneficiaries*

The evaluations made from the two perspectives, that of the financier and that of the beneficiary, are fundamentally different.

If in the private sector the dependence on beneficiary is maximal, in the public sector and that of NGOs this dependence is minimal, fact which leads to a diminished concern to evaluate the measure in which the beneficiary's needs were satisfied.

Having in view that the beneficiaries of an ONG and of a public organization are different from financiers, it results a differentiation of how are carried out the evaluations. In most cases, NGOs are more interested in the performance obtained through the prism of the financiers about at done actions than of served beneficiaries. So, when NGOs prepare evaluation reports for financiers, it is the trend to put in evidence the success of the actions, it not being the result of a self-evaluation process.

- *The non-existence of some systems which penalize poorly performing NGOs*

The evaluation of the performance at the level of NGOs as well of public organizations is significantly reduced compared with the performance at the level of the organizations practising in the private sector. The record loss of the organizations belonging to the private sector may lead to their bankruptcy, situation which does not occur in the case of NGOs or of public sector because we can not talk about bankruptcy.

- *The necessity of material resources*

Starting from the idea that the evaluation involves unproductive costs, these costs are much lower at ONGs precisely because these organizations are animated to the desire to make as many good things for their clients, and as a result, minimum investment, reduced appraisal and budgeting of all activities involving self-diagnosis and self-knowledge.

- *The lack of time*

When evaluating organizations, a barrier is the lack of time, in the sense that the members of a NGO does not rigourously evaluate their actions because they are too preoccupied to the needs of beneficiaries.

- *The lack of knowledges on how to carry aut an evaluation process*

The evaluation process of NGOs involves to put into application of some specific knowledges about this process that should firstly have the board of directors and not at least all members of the organization.

- *The failure to use appropriately the results of the evaluation process*

When modifying or adjusting programs, many NGOs are not able to use their own strategies.

- *The inactivity of the Board of directors*

In a NGO, the Board of directors is the body that should work on watching the performances obtained at the level of the organization, the body which proves that in most cases is inactive or subordinate to the executive.

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The Entrepreneurship- an Important Determinant for the Economic Development and Progress

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Abstract

The main objectives of this paper are: to highlight the important role of the entrepreneurship and of the entrepreneurs and also to identify the main characteristics of this field of study.

The base of this research was the management literature that presents a variety of definitions, characteristics, risks, challenges and benefits of the entrepreneurship.

The entrepreneurship is a science and an activity whose main character is the entrepreneur- a person often associated with the success, the professional fulfillment and also with the fortune.

Considering the result of this research, there was concluded that although this field presents some disadvantages and risks for the main actors involved, its benefits are not insignificant and it has an important contribution to progress, and also were identified the main aspects regarding the entrepreneurship and the entrepreneurs.

Key words: entrepreneurship, entrepreneur, business, economy, progress.

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

Introduction

The study of entrepreneurship is one of the reasons that led a number of scientists to devote their time and energy in order to deepen this field, to discover new information and to deepen the old knowledge.

Over the time, the entrepreneurship has been defined in various ways, each researcher trying in his study to capture as accurately as possible the essence of this science and to emphasize its importance not

only for the moral and material benefits that it offers to the entrepreneurs or for the economic development of a country, but also for the general development of society, for the progress of humanity.

The identification of the key aspects regarding the entrepreneurship and of the features of the entrepreneurs contributes to a better understanding of a field that is at the same time science, art and practical activity- the entrepreneurship.

The Entrepreneurship- an Important Determinant for the Economic Development and Progress

1.1. The entrepreneurship- basis of modern economies

The entrepreneurship is a science whose main character is the entrepreneur, an activity that involves the creation, the management and the development of a business, and at the basis of this field is the dream and the idea to start an own business, to see how it grows and to lead it to success. Also, the entrepreneurship is the ability to observe, to use and to take advantage of a number of favorable situations, occasions or events.

The definition of entrepreneurship and the identification of its essential characteristics represented and continues to represent point of maximum interest for the specialists who have noticed in their works that it is "the process of identifying of some opportunities and of transforming them into innovations" [1], but at the same time, the entrepreneurship is "a lifestyle for many people who want to promote their own ideas" [2]. Also, about the subject, authors as Sebastian Văduva [3] mentions that "the entrepreneurship, seen as activity in the service of business goals and subsumed of its purposes- the profit maximization-, it is the subject of the

concerns more and more assiduous of the specialized literature. It is related to a particular type of organization- the small and medium enterprise- causing significant particularities in the process of resources management in relation to the approach taken in the multi- and transnational companies.”

The importance of the entrepreneurship and implicitly of the SMEs, as well as the results of the entrepreneurial activity are materialized in: economic development, creation of jobs, increase of competitiveness, stimulation of the innovation etc are issues that have also been observed by authors such as Delia Popescu [4] who claims that ”the small and medium businesses are the backbone of the European economy. They provide an important part of total employment as the engine of the economic growth and of the competitiveness. In addition, the entrepreneurship can contribute both to the personal development of entrepreneurs and to solve some social problems.”

Although the results of the entrepreneurial activity are not insignificant, it can be said that they depend not only of the degree of intelligence, of the innate or acquired qualities and skills that the entrepreneur possesses and exercises in order to develop its business, but also of certain factors such as: the market where the business is positioned and acts, the state of the national economic situation and therefore ”The small and medium enterprises don’t represent a constant ensemble, but, on the contrary, they are in a permanent renewal. Daily, small businesses disappear, while others are created.”[5]

1.2. The entrepreneur- the main actor of the entrepreneurship

The entrepreneurs are people intelligent, ambitious, creative, optimistic, motivated by the desire to fulfill their professional dreams, to run a business and to be their own boss. They have always existed and will always continue to appear new ones until the disappearance of the human species.

Most of the researchers define the entrepreneurs as one of the major actors for the economy of a country, people that create jobs, contribute to the economic growth, stimulate the innovation and last but not

least, they contribute to the overall progress of society. For example, authors as Tanțău [6] claim that an entrepreneur is „that person who using intuition and creativity sees opportunities where others don’t see them, he turn them into innovative ideas that successfully apply in practice in order to create new jobs and to assume a calculated risk”, and other specialists [7] mention that ”an entrepreneur is primarily a producer of new things, a creator of activities in opposition to classic manager that is in charge of managing and running of existing enterprises. More concretely, the entrepreneur is gifted with the ability to perceive new economic and social prospects and to achieve new things on this basis or to perform previous activities in a different way, thus innovating.”

Also, about the entrepreneurs, certain authors [8] says that ”by its dynamic and concrete characteristics, roles and sizes, the entrepreneurs generates a timely turbulence in society, in every country, especially, in economic and social plan. In the economic plan, the entrepreneurs, through the businesses that they founded and developed, they causes significant movements of capital, simultaneous with their multiplication and of the capitalist and wage income. The economic changes are reflected in considerable changes in social plan, contributing decisively to the change of the social structure configuration and of its individual components. The synergistic effect is represented by the impress of a more consistent ”freshness” and dynamism of society and economy, in their overall. In conclusion, the entrepreneur is a main actor and a symbol of the market economy.

Irrespective of the field of activity in which the entrepreneurs decide to activate (industry, trade or services) and no matter how great is the desire that leads them to choose the entrepreneurial career, they see not infrequently in family, friends and specialists true groups of support that are meant to listen, consult and advise them from time to time.

It can be said that although a general valid profile of an entrepreneur doesn’t exist and to be a successful entrepreneur it has nothing to do with issues such as: gender, physical characteristics, geographical location, but only with moral traits among which there are

a number of inherent and acquired qualities such as: optimism, intelligence, ambition, self-confidence, sociability, ability to learn constantly new things, adaptability and others.

The identification of the reasons that lead some people to choose the entrepreneurial career represented and continues to represent an objective for the specialists in the field. For example, A.D. Tanțău [9] believes that "the reasons that determine a person to become an entrepreneur are endless. The main reason is the desire of many people to get rich quickly, and D. Popescu [10] mentions that the main reasons for a man to have his own business are represented by: the desire for independence, the spirit of revenge, the desire to succeed. So, this author [11] claims that "the most important mobile is the desire of being independent, that it can develop throughout life, but it can also be instilled in the family. This entrepreneurial learning in the family since childhood or adolescence, concerns, beyond technical skills to a range of basic skills such as: the desire of being its own master, of not depend of anyone. Another reason is the spirit of revenge. Starting from sociological trauma or emotional wounds, some entrepreneurs want to prove themselves that they are able to achieve something else that their destiny has reserved. Some family drama or existential crisis can also represent the basis of an entrepreneurial vocation. There are entrepreneurs for which the success in businesses represent their "revenge" for a destiny less favorable. For others, the creation of a successful business is the only way to permanently get rid of a modest social status. The living conditions since childhood may represent the main reason of an entrepreneurial process, primarily seen as a process of enrichment."

It can be said that like any job, also the profession of entrepreneur involves a series of advantages and disadvantages. So, in the category of the advantages can be included: the independence, the professional fulfillment, the possibility to be his own boss, the possibility to choose the team (the employees) that you will work with, the possibility to establish his own work program, financial satisfaction and others, and in the category of the disadvantages can be mentioned: high degree of risk, high

degree of responsibility, risk of losing everything that it was invested (resources, hopes), less time spent with family, friends and own person.

About the positive and the negative aspects of the entrepreneurial activity, authors such as D. Popescu [12] mentions in the category of the advantages the following benefits: independence of action, financial opportunities, job security, creation of jobs for family and in the category of the disadvantages: the sales fluctuation, the competition, high responsibilities, the financial losses, the labor relations and the risk of failure.

Conclusions

As a conclusion it can be said that despite the fact that a considerable number of specialists have conducted various studies and analysis on entrepreneurship (a field that is at the same time a science, an art and a practical activity) and on its importance, it can be said that until now they couldn't develop a general valid definition of this science because every researcher has his own vision of its.

Although there isn't a general valid profile of an entrepreneur- the main actor of the entrepreneurship, he/ she is characterized mostly as an intelligent and ambitious person motivated by the desire to have an own business and to be his/her own boss. Also, about the entrepreneur it can be said that this individual assumes a number of risks and responsibilities and all these in order to achieve some moral and material benefits, in order to achieve their own fulfillment.

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Destination Branding and Rural Tourism: How to Generate Tourist Flows in Mountain Area - the Case of Arieșeni, Alba County

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Abstract

The present article was written in order to provide a framework that can boost the sustainable development of rural tourism in mountain area. It is already known that –in terms of natural heritage- Romania has the necessary resources that can meet the demands of mountain tourism development, both for winter sports and for summer. Because of this, the present article addresses the issue of generating tourist flows in Arieșeni, taking into account issues related to destination branding process.

Key words: rural tourism, destination branding

J.E.L. classification: L83, M31, M39

1. Introduction

Tourism has always been an important component of civilization, which has led to the permanent evolution of culture and humanity. Mountain area, one of the three defining components of landscape structure in our country, contributes heavily to the diversity of the tourist potential of Romania, offering a wide variety of touristic original attractions which are highly valuable, while anthropogenic tourism potential complete harmoniously the beauty of the nature.

Considering the rural tourism, it has a particular valence that is translated into a specific appreciation and increasing demand, since it is based on the attributes of the rural areas. Also, because rural tourism „represents a convergence of social and economic interests at local level” [3] and, at the same time, because the simple lifestyle and the opportunity of the temporarily return to nature represents a motivation for all socio-professional categories (because is the result of the tendency of conservation, health,

physical comfort, and not only), is detected - in Romania- the enhance of this type of tourism. In the context of destination branding, perceived as the process of identification of those competitive advantages of a particular area in order to differentiate itself from other similar regions that provide relative similar services and use their own strategies in order to attract tourists, Arieseni compete intensively with other mountain area from Transylvania and needs to enhance its attractiveness in order to attract tourists and to increase its position on the touristic market.

2. Issues related to rural tourism

Rural tourism niche focuses on life in rural communities, affecting those tourists who seek to benefit from the specific intrinsic qualities offered by the closeness to nature, by the sense of continuity and stability, by the living of a vivid and enduring history, by the close familiarization of the local community members - together with the concerns and specific activities (as opposed to irrationalism and anonymity of the human).

The specialists in the field of rural tourism classify it into numerous categories, depending on the specific of the area in which the tourist activity takes place. This is the explanation why there are several different terms, like ecological, thematic tourism or like agro-tourism [8].

The sustainable development of rural tourism plays a significant role and importance in the revival and the economic recovery of a region-especially because it is not characterized by seasonality-, the context in which the sustainable tourism involves the development of all forms of tourism so that the management and tourism marketing respect the natural, social and economic integrity of the environment, ensuring the

exploitation natural and cultural resources for future generations.

Rural tourism appears as a form of tourism focused on destinations from rural areas where activities are based on a close connection with the natural environment and are organized and led by local people - so that the local tourism resources, accommodation facilities, functional structure and other heterogeneous services are valued.

It is clear that the EU member countries have tourism potential, showing a significant degree of tourist attraction - fact that is appropriate to rural tourism development.

The continuous increase of the competitiveness, the desire to resist on the market and to achieve a higher profit leads administrators of the rural tourist pensions to become more and more interested in a continuous monitoring of tourists' needs in order to fully, fast and effective satisfy them.

3. Arieseni and its characteristics

Sourced in the western limit of Apuseni Mountains, Aries stream crosses one of the most spectacular valleys of the Carpathians. The middle and upper sectors of the watercourse form one of the most populated mountain valleys in Romania. Arieşeni is located in the foothills of Bihor, in Alba County (Figure 1)

Figure 1 – Arieseni' location



Located in the picturesque scenery of Bihorului Mts, Arieseni shows the specific features of the mountainous landscape, with altitudes ranging from 850 to 1848 m, and covers the entire water source basin of Ariesul Mare. The karst phenomena bring a large variety of forms to the landscape: rocky abrupts, deep valleys and gorges, ridges as well as “negative” (underground) karst phenomena: caves, shafts, sinkholes, karst depressions, underground watercourses.

Arieşeni has a remarkable potential for tourism development, the area having multiple valences to practice a varied and complex tourism. The main attraction is the slope Vartop, located on the northern side of Biharia Mt. The northern sides of the mountain allow for the development of the skiing area while the southern sides permit the development of the tourist facilities for accommodation, food etc.

Within some of the caves there still exist large ice deposits, of which the best known is the Glacier in Scarisoara. Also, the natural resources existent in this include nature reserves (*Cheile Gardisoarei*, *Avenul din Hoanca Urzicarului*, etc.), waterfalls (*Varciorog*), caves (*Scarisoara Glacier*, *"Poarta lui Ionele"*) and gorges (*Galbenei and Ordancusei Gorges*).

Even if tourism has suffered because of the transition to market economy and the development of mountain area was not a priority for the recovery progress of natural resources for tourism -fact attested in our country by the relatively modest equipment, both qualitatively and quantitatively, both in infrastructure and other areas like accommodation, leisure etc., current trends show the sensitivity of tourism to economic and social stimuli. Considering these, some of the strengths of Arieseni are summarized below:

- it is one of the most developed areas in Alba County, in terms of tourism;
- its surroundings represent ethno-folk and agro dedicated areas;
- it is positioned in the proximity of Ponor - Padis area, place of several famous tourist attractions;
- it benefits from the support of tourism development by local authorities (development of promotional materials, strong local initiative in promoting tourism, promotion of new routes, developing the network of tourist information centers);
- tourism activity is conducted both in summer and winter;
- camp students of Arieseni register a constant activity and is appreciated at local level;
- there is a rich tourist offer in relation to other areas of Romania;
- it benefit from a recognized gastronomy;

- many natural areas have remained in good preservation;
- the International Congress of Rural Tourism held at Alba Iulia promoted Apuseni mountains and Arieșeni area, so future investments are expected;

4. Aspects regarding destination branding: Arieseni – rural tourism in mountain area

The process of branding helps a region to define its identity, to promote itself, to draw attention and to differentiate from others.

Branding process, which consists of identifying that specific characteristic of the product, service or geographical area is a difficult one, due both to fierce competition and to variable customer expectations.

In order to talk about tourist destination branding, it is necessary to mention what a tourist destination involves. As defined by the International Agency for Tourism, it represents a locality consisting of a set of touristic attraction elements which is equipped with accommodation, food and entertainment facilities for tourists- for a certain period of time. Therefore, mountain tourist resort can be defined as a place that has picturesque mountain surroundings and unpolluted environment that includes specific tourism structures and equipment (ski slopes etc.).

Considering this, it can be said that “[...] destination branding represents the process of developing and utilizing a unique identity and personality that distinguishes from competitors through a positive image, whose aim is to capture the essence of the destination in order to promote its core values” [10].

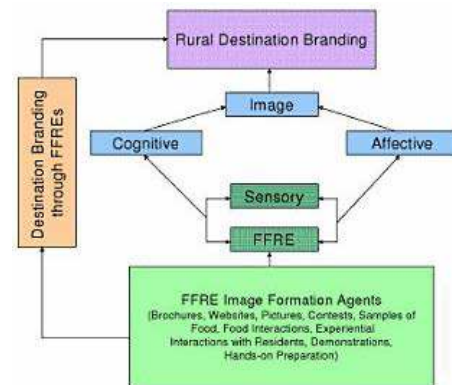
All these have been said, is necessary to mention the fact that “[...] rural tourism services have the specific attributes and can be identified as idea, entertainment, information, knowledge, change of consumer health and expectations, social innovation, convenience, food, security, deed, social event, output for consumption in production place, and etc.” [1].

The local brand of a community is represented by its distinctive features, shared by the main majority of the community. The development of rural tourism in Arieseni villages is supported by the existence of several particularly attractive places in which

customs and traditions preserved for many generations, ancestor festivals and crafts became art and are still alive in the consciousness of local people. Considering this, Arieseni tourism destination brand can be naturally promoted and developed, having as main advantages the undeniable authenticity and originality that contribute to the existence of a powerful symbol that “penetrates” the potential customers’ minds and impel them to buy the touristic product.

Also, the gastronomy specific to the area (FFRE – food and food related elements) represents one of the elements that can significantly contribute to destination branding through sensory identification (Figure 2).

Figure 2 – The role of FFRE in rural destination branding



Source: Kalkstein-Silkes C.A., *Food and food related festivals in rural destination branding*, 2007

Related to the rural character of the area should be noted that -although services or destinations that the tourists opt for are chosen according to the predominant motivational factors, such as: adventure, nature, religion, education and so on-, rural tourism requires a different kind of behavior, an alternative mentality to the prevailing one in classic tourism.

Among the distinctive features of Arieseni local brand, there can be mentioned the surroundings of the area, which offers to those who are interested several unprecedented beauties, activities that bring them back to the tradition specific to this area for centuries and natural phenomenon due to which nature lovers will feel comfortable (since Arieseni is the perfect place for hiking,

climbing, hunting, fishing, outdoor picnic, kayaking, walking and trekking).

Also, another element that definitely contribute to the process of destination branding are the festivals that are organized here year by year, like „Snow festival”, for example.

To the local brand building contributes, on a large extent, the locals, who are known for their patience in manufacturing household objects, craft inherited from their ancestors – “moți”. Therefore, Arieseni completely soaks of traditions and culture and spreads everywhere its magic, in order to maintain the legend of the place alive. It is thus a sure fact that “the local communities play a pivotal role in rural tourism development as their participation and involvement are critical” [6] to the process of rural destination branding.

Rural tourism –in the context of rural destination branding process- has to essentially contribute to the conservation of natural and cultural heritage, representing a specific kind of responsible tourism, dominated by integrity, cooperation and commitment of all those involved.

It is directly related to its unique specificity based on territoriality - fact that highlights the history of the place, the daily life of local people, the specific customs and traditions; it also contribute to the national pride feelings’ development and rise our attention to the capitalization of local, natural and cultural assets. All these encourage a better understanding for the restoration and protection of the areas where it is mainly practiced.

Since the main function of the destination branding is to arise interest and curiosity in possible tourist’ minds in order to determine them to visit that particular place, it should be mentioned that Arieseni has several extraordinary resources and picturesque places, hospitable locals, tasty food, dreamy landscapes and fresh air, and the smiles of nature and sport lovers make this region a perfect oases of calm and peace that can be perceived as a perfect destination both during summer and winter.

5. How to generate tourist flows in Arieseni, Alba County

Marked by its unique specificity based on

the territoriality (community, district, region, micro-region or basin belonging to the rural environment) that highlights the history of the place, the daily life of local people and the specific customs and traditions, the rural tourism wants to contribute to directing some important tourist flows to areas where it is practiced.

Considering the current trend, the future tourist demand can know an ascendant trend because of the tourist facilities of which the tourist can benefit during his/her stay in Arieseni. Focusing on foreign visitors, we would like to mention that the existence of accommodation facilities with high classification and the diversified offer of services in a preserved natural environment, unpolluted, will help to attract tourists from UK or Germany – tourists who are perceived as being more demanding, but also as being able to spend more than tourists from other countries.

Existing of transport services (that would work regularly and which have an increased frequency at least on the main routes) intra- and inter- regions would facilitate tourist traffic and would lead to increased tourist expenditure, to increased benefits felt by consumers, as well as to a better popularization (promotion) of tourist attractions.

On one hand, additional services needed to be developed in order to attract tourists refer to leisure activities, organized trips and specific events that promote local culture and customs.

On the other hand, uniqueness of Apuseni mountains attractions can lead to the visit of any tourists, not only of those who are passionate by nature. Considering this, it can be taken into account the probability that the visits will be shorter and rather occasioned by some other events. If the mountain tourism or recreational one (winter sports, hiking off-road etc.) addresses to a broad age category, the adventure one is mostly practiced by people under 35 years old, especially with a better and stable financial situation (at least above-average income). Housing conditions should reflect this, so accommodation structures with higher classification is required (3 F/S and 4-5 F/S).

Furthermore, it is necessary to provide additional services (besides the core activities) that aim at diversifying and

improving the range of activities performed. The attraction of a segment of consumers elder than 60 years old in active tourism – considering the actual conditions of Romanian economy- could be achieved by balancing the level of price with the quality of offered services.

Tourism demand in Alba County is particularly high for pensions with superior classification (3-5 daisies). It has also been noticed the necessity of arranging camping zones in Arieșeni. Foreign tourists mentioned on different forums and websites that accommodation services in Arieșeni are, usually, inferior to accommodation services they are used to. Some tourists also mentioned the necessity of more shops (food/non-), as well as better supply of local handicraft shops.

In the case of those tourist who are attracted mostly of cultural sights is also recommended accommodation services with higher classification; touristic products of the area focus a certain type of tourist attractions (fortified citadels, wooden churches, vineyards), fact that implies the existence of specialized guides and other high quality auxiliary services. All of these are valid as far as cultural tourism in Alba County (and in Romania, in general) is practiced mainly by foreign tourists. In addition, many of the historical monuments or archaeological sites need to be renovated or to be equipped with special visitor facilities.

For a higher tourist traffic in the Arieșeni area, we suggest the following: promoting the area and tourist objectives with the help of a tourist guide, specialization of accommodation and food service staff, improving quality/price ratio; developing road infrastructure (the means of transport that reach the area are very few), implementing household utilities, information and support regarding the access to structural funds.

Considering the fact that the World Tourism Organization experts say that almost no activity in the world *“needs a more active, ingenious or aggressive promotion as tourism does”*, we strongly recommend the implementing of a promotional strategy in Arieșeni touristic area, because the zone is well known to the people leaving in the nearby towns, but not discovered by the rest of the country, neither by the foreigners. The

promotional strategy should assert an attractive tourist image of the services that Arieșeni offers, highlighting its natural, cultural and historic attractions.

In order for the rural tourism in the Arieșeni area to grow –and thus this region to become a tourist resort that meets current requirements- we strongly believe that a strategy for tourism development should be implemented [2]; this should include superior enhancing of the tourism potential; the increase of economic and social efficiency of tourism activity; the development of all potential forms of tourism that can be developed in the village and in its surroundings; preservation and conservation of the environment and sightseeing.

In order for Arieșeni to become an equipped mountainous area, is needed to combine good accessibility for tourists with a strong attractiveness of natural surroundings and accommodation, food and entertainment elements [2]. Issues raised by equipping a tourist area, however, are much more complex and the approach should be done in a scientific vision, of marketing, allowing a fair correlation of the tourism product and promotion decisions on both domestic and international tourism market.

In order to reduce the negative impact of the phenomena perceived as nature hazards and to ensure a proper tourism development in accordance with the principles of sustainable development, the creation of a forest belt on the mountain sides close to the slopes is proposed, aiming at soil consolidation against slides.

The natural factors of the area, namely the relief, the climate, the nature monuments, represent an outstanding potential for touristic development. Even if the national road DN75 crossing the village from east to west, along Arieș river, separates the Biharia Mts. from Batrana Mts., in order to allow access from DN75 to Arieseni resort and Arieseni skiing area, crossroads shall be developed in compliance with regulations in force to ensure the optimal comfort and safety of the traffic. Roads (streets) to be developed will be of 3rd category, with asphalt cover, equipped with ditches, gutters and bridges, according to the condition of the soil. The roads should be 6.00 m broad.

Measures to increase the safety mountain tourism product need to be much more

developed - between the directions where improvements would be needed, we mention the arranging of mountain refuges, increasing efficiency of Rescue services, training a larger number of mountain guides, appropriate signing and marking of all mountain routes.

There were also identified several investment opportunities, like: hostels, motels and holiday inns; catering units; shopping centers; animal husbandry; slaughterhouses, sausage factories and canneries; woodworking; shooting box.

6. Conclusions

Considering the fierce competition existing between destinations both nationally as well as internationally, is a sure fact that each destination have to try to readjust on the fly, to change its image depending on the global trends. As in political, social and economic environment, is essential to eliminate the practice of "forms without substance".

As rural tourism is a motivation for all socio-professional categories- because of the simple lifestyle and the possibility of temporary return to nature (the result of the trend of preservation)-, mountain and rural tourism activities in Romania intensifies day by day.

It is a sure fact that in order to expand the area of provenience of both foreign and Romanian tourists in Arieseni area is needed to invest in infrastructure and in accommodation facilities, to develop the existent services and to improve them, to provide a better quality with an adequate price, to consider appropriate measures in order to facilitate and stimulate the activity of tourist services providers (fees, taxes), to support their promotional efforts, to promote and assure both environment and consumer protection and to provide training for personnel that develops its activity in tourist domain.

In this respect, public authorities can contribute decisively to the growth of tourism demand, both for national and foreign tourists.

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Competition Analysis and its Role in the Adoption of Marketing Strategies

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Abstract

Markets have become far too competitive for organizations to focus efforts only on consumers, so in addition to market and customer analysis, an equally important step in terms of marketing audit, the pre-development phase strategy marketing and its implementation in the future is to analyze competition. This article aims to present the main steps to be used for a comprehensive and efficient analysis competition.

Key words: competition, competitive environment, competitive analysis, marketing strategies

J.E.L. classification: M31

Introduction

Competition in the European market is a challenge for any company. This implies a favorable response from competitors, in other words, speed of adaptation to existing business, ability in capitalizing on existing opportunities in the competitive environment and responsibility for consumer issues and society in general. In other words, the definition and implementation of strategies to meet the overall objectives of the company are not sufficient. It is necessary to assume corporate responsibilities vis-à-vis consumers and society in general.

Competition in the European market requires the development of skills of each competitor, through which the company can prove their uniqueness and thereby significantly differentiate from other competitors. Specifically, the company powers refers to skills and technologies that will enable it to provide a real benefit to its target consumers. Managers of these companies will make efforts to understand

customer needs and actions direct competitors.

Studying the competition is an important factor in formulating marketing objectives and strategies of the organization and at the same time, a reference framework for adopting competitive conduct based on ethical and fair play.

This competitive behavior can be supported by a series of actions, able to lead to the knowledge of existing competitive situation at some point in the reference market. Therefore, the company will initiate analysis of existing competition in the market, activities that will have a permanent, comprehensive and systematic character, as this information will be processed, interpreted and used to develop marketing strategies to be implemented by the company.

Competitive environment

To make the best marketing decisions, the company will be aware of the implications of competition on their own work and take care to build a system of competitive information on a variety of factors specific competition. The purpose of this initiative is to develop competitive skills to ensure the company achieve a strong position in the reference market. Competitive intelligence system must provide relevant answers to a series of questions, such as:

- What are the main objectives pursued by market competitors?
- What are the resources and skills available to competitors?
- What is the intensity of competition on the relevant market?
- What are the strengths and weaknesses of competitors?
- What are the marketing skills held by the competitors in the competitive struggle?

- What are the strategies implemented by the competitors?

To know the intensity of competition is necessary to evaluate the competitive environment in which the company operates. Thus, competitive environment analysis can be used five competitive forces identified by Michael Porter:

- *rivalry competitors in the industry.* Number and size of competitors may influence the intensity of competition in the sense that a large number of competitors in a market increases the rivalry between these. The same thing happens, however, where there is a small number of competing forces approximately equal because they will try a series of strategies and tactics to gain a better competitive position. Also, the rivalry between competitors increases when market share is stable (the market is mature) or declining, if the fixed cost or market exit barriers are too high.
- *threat of new entrants.* New entrants are often a serious threat because they have sufficient financial and material resources, but mostly "psychological" manifested by the desire to occupy a large market share. Entry is subject to a number of entry barriers such as the need for capital, access to know-how, economies of scale and product differentiation through brand loyalty to a product, brand access to distribution channels, legislation, authorization rules / patent etc. Also conditional market exit high cost (depreciation of equipment, training of employees), legislation etc.

Kotler and Keller believe that the most attractive market segments are those where market entry barriers are high and output is low. [3]

When both the barriers to entry and exit are low, firms enter and exit the market easily leaving most of them when the situation is stable. When both barriers to entry and the exit are high, industry is characterized by high potential profits, but companies are facing a very high risk because competitors face bad performance but do not want to leave the market.

The most difficult situation is when barriers to entry are low and the output high, as companies enter the market in favorable situations, but it is very difficult to leave the

industry when things get worse.

- *threat of substitute products.* In determining the number and intensity of competition in a branch / organization must also take into account the indirect competition coming from substitute products, in terms of accessibility difficult in certain products / services, due to their price and distribution, product substitutes is a viable alternative for most consumers, so market segments for which there are actual or potential substitute products are characterized by a low potential default rates and profit organization follow a declining path.

- *bargaining power of buyers* also affects the intensity of competition in a particular field of activity, buyers will try to select those organizations providing the best products in terms of quality, the lowest prices and services. On a particular segment, bargaining power of buyers increases when they become more focused and organized, it is a process of vertical integration thereof, the offer is indiscriminate when buyers are price sensitive, etc..

- *bargaining power of suppliers* plays a decisive role in increasing the level of market competition, which is favored by the small number of suppliers, their concentration or organization to obtain favorable terms, the absence or limited number of substitute products, the quality of commodity to the industry, the high pricing etc.

Competitive Analysis

Competitors analysis is a complex and demanding, but can provide valuable information necessary to make management decisions.

Methods of analysis of competitors must respect the principles of ethics and legality, the only way the company will adopt competitive conduct based on fairness and loyalty.

Competitive analysis involves tracking of successive steps for staying answers to questions above. Specific steps in the analysis are the following:

- identify current and potential competitors,
- analyze the strengths and weaknesses

of direct competitors,

- description of the profile competitors and work performed by them,
- knowledge of marketing objectives and strategies and tactics for analysis of main competitors,
- Studying competitors in the market positioning,
- benchmarking application,
- creating a competitive information.

Competitive environment analysis leads to identify the main competitors of the company based on product line and market segment concerned. [5]

Moreover, identifying competitors must be done and depending on that market performance, given the area of business, market share and growth potential.

Also, another tool used in competition analysis is the product map outlining the competitors, for all products in the line and the main market segments in which they operate.

Once you have identified the main competitors, the next step is to analyze their strengths and weaknesses. David Parmerlee considers that the measure strengths and weaknesses of competitors have established five basic elements that provide a clear profile as competitors, namely the ability to meet consumer needs and desires, reputation, financial resources, approach market the product, key attributes. [5]

Kotler, Keller considers that the analysis of competitors must be measured three variables: [3]

- Market share - the share of each firm in the reference market;
- The penetration rate - the percentage of consumers who said a contestant was asked to name the first company that comes to mind in that sector;
- Preference - Percentage of consumers who meet each competitor in terms of preference for it.

Companies that gain significant share in terms of penetration and preference will gain significant share in terms of market share and profitability.

In analyzing competitors can take into account a number of indicators expressing their profitability: gross profit, investment, growth rates, marketing costs and so on, the difficulty consists in obtaining this information.

Profile description of the competitors and work performed by them requires the application of appropriate methods for this purpose. A relatively easy way of understanding of marketing activity undertaken by a competitor is observation.

The observation may know that a competitor actions it has taken in product characteristics, price, distribution and promotion.

Knowledge of the most important objectives competitors should be an important point in the competitive analysis.

If these targets are correctly identified, they can be expected actions by competitors.

For example, they enhance their competitive actions, addressing offensive strategies where say they aim to become the market leaders. To increase market share, actions aimed at achieving this objective aimed at reducing prices, heavy investment in advertising, sales promotion, all these actions can be observed by those who follow the activities of competitors. As a result, market behavior may be known and thus can be taken swift action to counter the actions taken by competitors.

Marketing research aimed at studying the positioning of competitors in the market are recommended because they can lead to competitive analysis objectives [2]:

- Identify the main characteristics of the product or brand positioning researched
- The order of these features by importance attributed by consumers purchasing decision-making,
- Assess characteristics of products or brands using an interval scale (semantic differential, Fishbein model - Rosenberg).

Based on research results is achieved positioning map, which is a practical tool through which he can be better visualized position of each product or participant in the market after a series of attributes (product quality, product availability, additional services, sales force, degree of notoriety).

Interviewees give marks from 1 to 10 for each feature; graph is achieved by representing each features one axis, all axes starting from the same point radial size of the angle between the axes is proportional to the frequency of that feature .[2]

On these axes is the average for each feature separately for each product or competitor. This position must be

communicated to consumers because, differentiated advantages will be charged on the supply company. Because the approach strategic positioning involves implementing strategies that are designed to present the company's offer so that it occupy a distinctive place in the minds of consumers.

As we have seen, identifying the strengths of competitors is a necessary objective in analyzing competition. Then, these strengths identified will be imitated. This assessment is known competitive benchmarking and is a competitive analysis method which compares the activities best carried out by those competitors consider "best-in-class" own activities.

Benchmarking can be seen as an instrument capable of improving a company's performance and competitiveness in business. [1]. Benchmarking can also be defined as the process of continuous improvement by identifying, understanding and adapting the best models from inside or outside the organization. [6]

Because these advantages of competitors change constantly, it is required a systematic assessment of the competitors activities. Competitive performance of competitors will be measured both quantitatively and qualitatively, so that they can be properly evaluated by benchmarkers. Comparison of its activity with that of the best competitor can take place regardless of the field of the latter.

Purpose of benchmarking is to improve organizational performance and increase company competitiveness. By analyzing marketing strategies and tactics used by leaders in a particular area and transpose characteristics identified in their company, this goal can be achieved.

Building a competitive information system is necessary because all information should be collated and analyzed previous steps properly. In addition, they will be stored and updated according to the company's needs in this regard.

Usually, in order to obtain information of how to competitor activity, recourse to secondary sources relatively easily accessible and less expensive. As sources of information can be used:

- local, regional or international
- annual reports in some publications,
- newspapers and magazines,

- administrative and supervisory authorities competition
- market research institutions,
- consultant firms,
- specialized exhibitions and fairs,
- advertising and sales promotion techniques,
- sales force of competition,
- personal contacts,
- electronic data banks,
- other.

Regardless of the competitive analysis method chosen, all information obtained about competitors will be processed and analyzed carefully by competitive analysts of the companies. It recommended the creation of a competitive information system capable of providing essential elements for the activity and situation of competitors, so choosing and implementing competitive marketing strategy can take the most beneficial conditions for success.

Also this competitive information system must find their place within the marketing information system, in order to prove its effectiveness in certain situations and to allow key decisions at the managerial level. The foundation of marketing strategies based on strategic planning requires a market orientation, which shows that both customers and competitors are the two essential components for the company.

Marketing management strategy of the planning process is in essence proactive in the sense that it defines and forms the future of the organization and responds to changes in technology, environmental conditions and meets the needs of customers, and also the stakeholders. [4]

Conclusions

Highly competitive environment of the European space, requires companies to develop a proactive behavior in the sense of knowledge of competition in the industry but existing competitiveness. Involvement with responsibility for studying, analyzing and developing an information system is a competitive activity to adapt to the peculiarities of the competitive environment.

Knowledge of real-time information on competitors and the ability to analyze and structure in accordance with the company's

marketing objectives can be essential skills that contribute to competitive advantage in the reference market. Therefore, companies must invest in this competitive analysis by allocating adequate budgets, but also by training specialists.

All results of the analysis of competition and competitors in the industry will be used for the adoption and implementation of competitive strategies capable to lead towards achieving objectives and achieve market vantage point.

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Organizational Justice – Old and New – a Concept Review

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Abstract

This article aims to be an overview of what Organizational Justice represents and how the concept evolved in the last decades, highlighting older and newer research on the topic, with the final purpose of showing how important organizational justice is for the management of an organization, in a context of hard competition, showing how important every instrument is in the management process, making the difference.

Key words: organizational justice, environment, organizational climate, employee, organization

J.E.L. Classification : J2, J24, M54

Introduction

No later than 1990, Jerald Greenberg (Greenberg, 1990), one of the most consecrated researchers in Organizational Justice was saying that the 1990s promised to be a decade in which the viability of organizational justice as meaningful organizational construct will be fully realized. The definitional work of the 1960s and 1970s, along with the qualifications elaborations offered in the 1980s, have set the stage for what promises to be an era in which issues of justice and fairness – in many diverse forms – will rise to the top of the field of organizational behaviour's collective research agenda. For this to occur, there first must be some serious improvements in the way organizational justice researchers operate.

He couldn't be more right, years to come just confirming his theories, as we will further see.

Researchers today assert that just 20 years ago (and some might say even more recently than this), the study of organizational justice was much more straight forward than it is today. The term "organizational justice" evoked a construct operationalized as employees' perceptions of the fairness of their outcomes (i.e., distributive justice [DJ]), of the processes leading to said outcomes (i.e., procedural justice [PJ]), or IJ, the social accounts given for processes or outcomes (i.e., informational justice), and the manner in which employees are treated interpersonally by those with authority over them (i.e., interactional justice).

Indeed, surveyed employees' perceptions of distributive, procedural, and interactional justice were shown to positively influence constructs such as job satisfaction, organizational citizenship behaviour, job performance, and commitment; and negatively influence constructs such as counterproductive work behaviours turnover intentions, workplace hostility, revenge and retaliation. The effects of justice dimensions measured in this way have been confirmed meta-analytically (Cohen-Charash & Spector 2001; Colquitt, Conlon, Wesson, Porter, & Ng 2001), as have interaction effects between justice dimensions (i.e., fair procedural or interactional treatment can mitigate the effects of unfavorable and unfair outcomes; Brockner 2010).

Then

The importance of the justice research conducted across the decades (of which this article is just a small sample) should not be under-estimated. Few would contest the implications for management practices, the implementation of personnel systems, and the

formation and delivery of human resource practice (Gilliland, 2009; Truxillo, Bauer, & Campion, 2009).

Historically, the mechanism driving justice effects was thought to be self-interest (Cropanzano, Rupp, Mohler, & Schminke, 2001). Coined the instrumental model (Tyler, 1987), this perspective assumes individuals are largely motivated by economic rationality (Barley & Kunda, 1992) and therefore will mostly act in ways that maximize outcomes for the self (Bazerman, 1998; Becker, 1971). Employees were said to desire justice because fair practices were seen as best owing of control, and with control individuals might be able to more directly influence the favorability of their outcomes (Thibaut & Walker, 1978).

Now

Taking a more contemporary view of organizational justice takes us beyond self-interest. Therefore, employees care about justice because it is indicative of the extent to which they are valued by the organization, which impacts their attitudes and behaviours at work.

An even more recent theoretical force within the justice literature is one that argues that justice is more than a means to an instrumental or relational end—that justice is an end to itself—an end that is closely tied to our human need for meaningful existence, and an evolved human tendency to punish those who violate the rights of others (Cropanzano, Goldman, & Folger, 2003; Folger, 1998; Folger & Skarlicki, 2008). Referred to as the *deontic model*, this represents a perspective that, to date, had not been explicitly taken—that employees are averse to injustice for no other reason than the fact that injustice involves a discretionary, unethical act against an undeserving party. This is a unique perspective, in that by arguing for justice motives that lie beyond the self, researchers are able to study how individuals react to observed injustices committed toward others (i.e., third-party justice perceptions; Skarlicki & Kulik, 2005). Indeed, research has shown that third parties can experience strong emotion and seek punishment for transgressors upon witnessing another's unfair treatment, even when they do not

closely identify with the victims or are unharmed by the event themselves (Turillo, Folger, Lavelle, Umphress, & Gee, 2002).

A different view

How can these various theoretical and empirical advances guide our understanding of recent justice research, and with it, set an agenda for future research? It is reasonable to first claim that employees face fairness-related events at work on a daily basis. Experiencing these events launches a number of processes, including (a) the formation of justice judgments, (b) the holding of others accountable for unjust acts, (c) the development of relationships with parties held accountable for justice-related events, and (d) the development of employees' subsequent attitudinal and behavioural responses.

Considering justice in this way allows us to recast the various approaches taken in the justice literature according to differences in perspectives as experienced by the employee. That is, employees may perceive themselves as potential victims of injustice, they may perceive their work unit as a target of collective (mis)treatment by upper management, they may act as third-party observers of the justice-related experiences of other individuals and groups, and in the broadest and most outward-looking case, they may judge the actions of their employing organizations toward external communities and environments.

This paper classifies these perspectives according to whether the employee is looking in (i.e., considering their own treatment), looking around (i.e., considering the climate of justice), or looking out (e.g., as a third-party observer of others' treatment or in judging the corporate social responsibility of the firm).

Looking in

Looking in refers to how fairly employees feel they themselves are treated. At first blush, this may seem to take us back to the historical approach described at the start of this paper—where employees are asked for their judgments of distributive, procedural, and interactional justice. However, a more contemporary

consideration of this issue suggests it is much more.

The employee responds to survey items such as "How fairly am I treated by my supervisor?" and the bulk of past justice research has largely been studied, to use a grammar analogy, in the first-person singular (Kray & Lind, 2002). If justice is to be treated as a broad, cumulative, and dynamic employee experience, these "looking in" perspectives are not enough. Employees also "look around" and "look out" as they form judgments that ultimately influence their attitudes and behaviours.

Looking around refers to how social processes between individuals lead to collective perceptions of justice (i.e., justice climate). Looking out considers third-party observances of justice both internal and external to the organization.

Looking out

The last major component of the employee-centred model of organizational justice proposed in this review involves looking out. This refers to the process by which employees perceive the treatment of others and react accordingly. This perspective is not referring to social comparisons made during the process of determining the fairness of one's outcomes (e.g., as articulated by equity theory; Adams, 1965). Nor is this referring to social information processing within groups, leading to the formation of justice climate.

Third-party justice.

Only recently has justice considered how individuals react to how others are treated (DeCremer & van Hiel, 2006; Skarlicki & Kulik, 2005). We can look to the contemporary theories described earlier to draw support for the idea that it is not self-treatment alone that drives worker phenomena.

A key feature of this theory, that previous models of organizational justice have lacked, is the notion that the observer need not be the victim of the mistreatment, and that the deontic reaction may be just as strong when

the injustice is witnessed by a third-party observer.

These ideas were brought into the organizational justice arena by Turillo et al. (2002), who conducted a series of four studies that replicated and extended Kahneman et al.'s (1986) results.

This article sought to recast contemporary justice theory according to how justice is subjectively experienced by employees. It is posited that employees traverse through their working lives via the experiencing of events.

The content of the events may vary—they may involve the allocation of outcomes, the carrying out of procedures, communications between people that vary in interpersonal treatment and information sharing, and even firm-level behaviours toward external stakeholders. These events are often interpreted by employees through the lens of justice.

Group Level against Individual Approach

From a different point of view, Despite these scholarly and practical achievements, much of the organizational fairness literature tends to share a common constraint. In particular, it has been conducted at the individual level, with only scant attention devoted to group-level investigations.

This is potentially problematic because, as we shall shortly see, there is sufficient evidence that justice operationalized at the level of the work team, what has been termed justice climate, is an important predictor of organizationally relevant criteria (Ambrose & Schminke, 2007;

Distributive justice pertains to the fairness of the outcomes that one receives (Frohlich, 2007; Sabbagh, 2001, Markovsky & Younts, 2001). Probably the best known theory of distributive justice is Adams's (1963, 1965) equity theory, which posits that the fairest allocations are those that reward people in proportion to their contributions. In addition to equity, there are other allocation standards, such as equality and need. People often try to balance these rules by using them in combinations (Frohlich & Oppenheimer, 1992). Generally speaking, there is little research on collective perceptions of distributive justice, which is unfortunate

given some recent promising findings (e.g., Roberson, 2006a; Spell & Arnold, 2007).

Procedural justice involves the perceived fairness of an allocation process. According to Leventhal, Karuza, and Fry (1980; Leventhal, 1976, 1980), the following six attributes make processes fair: consistency, freedom from bias, accuracy, representativeness for all stake-holders, correctability, and consistency with ethical standards. As we shall illustrate later, procedural justice has had by far the most influence on justice climate research (e.g., Mossholder, Bennett, & Martin, 1998; Naumann & Bennett, 2000, 2002).

Interactional justice concerns the fairness of the interpersonal treatment one receives from others (e.g., Bies, 2001, 2005; Bies & Moag, 1986). In their initial work, Bies and Moag (1986) emphasized the dignity and respect with which decision makers treated others. Bies (1987) expanded on these ideas, arguing that it was also important for organizations to share information and provide adequate explanations regarding important decisions (Shaw, Wild, & Colquitt, 2003; Sitkin & Bies, 1993; Sitkin, Sutcliffe, & Reed, 1993). Colquitt (2001) treats these two types of interactional justice separately, referring to the former as "interpersonal justice" and the latter as "informational justice." Notice that Colquitt's framework creates a four-factor model of justice (distributive, procedural, interpersonal, and informational) that has received empirical support (Colquitt et al., 2001; Masterson, Byrne, & Mao, 2005). Within justice climate research, a few scholars have begun to successfully employ Colquitt's four-factor model (e.g., Liao & Rupp, 2005; Mayer, Nishii, Schneider, & Goldstein, 2007), whereas others have continued to employ the original three-factor conceptualization (e.g., Moliner, Martinez-Tur, Peiro, Ramos, & Cropanzano, 2005).

Prior to the construct validation work of Colquitt (2001), informational and interpersonal were known collectively as *interactional justice* (Bies & Moag, 1986).

Although this work has been useful and informative, it has tended to be conducted *at the individual level*. As Mossholder et al. (1998) pointed out, such an individualistic approach fails to take full account of the social context within which justice

perceptions are shaped. Within a unit, members interact with each other, observe each other's behaviour, and engage in *collective sense making*, a tendency that may ultimately lead to the development of shared perceptions on how to evaluate justice-triggering events (Naumann & Bennett, 2000; Roberson, 2006a, 2006b).

Consistent with this argument, recent research has suggested that justice can be viewed as an emergent property formed in the course of interactions among members within the same unit.

The functional approach is different, in that it emphasizes the effects of a unit-level construct within an organizational system. A construct is understood, at least in part, by its consequences; it becomes meaningful when it produces certain effects. When individual-level constructs have similar effects to their group-level counterparts, then this construct is considered to be functionally isomorphic across levels. Although this assumption is not typically stated explicitly, unit-level justice researchers have argued for this sort of cross-level isomorphism.

Conclusions

Team-level justice is a promising area of study, but it is also a young one. In recognition of this, we have here emphasized first principles. Based on the work of Morgeson and Hofmann (1999), we have seen that collective fairness is consistent with both the structural and the functional approaches to group-level constructs. Considerable work suggests that interpersonal interactions of various sorts boost justice climate (e.g., Colquitt et al., 2002; Naumann & Bennett, 2000; Roberson, 2006a, 2006b), whereas other findings suggest that fairness shows functional isomorphism across levels of analysis (e.g., Liao & Rupp, 2005; Yang et al., 2007).

Beyond these important meta-theoretical issues, we then discussed the five compositional models proposed by Chan (1998). Here, we observed a need for greater research.

Scholars now have at least a rudimentary idea of the causes and consequences of justice climate. Finally, and perhaps most

notably, we observed that there were actually two different types of collective justice. Justice climate has amassed a large amount of research (Rupp et al., 2007a). However, intraunit justice climate, the fairness with which teammates treat one another, has also proven to be of value (Cropanzano, Li, & James, 2007). Li et al. (2007) found that intraunit justice climate has incremental validity, and in some cases, stronger effects, than the better known justice climate. Likewise, Li and Cropanzano (2008) found that justice climate exerts its beneficial consequences by prompting higher levels of teamwork quality. This work is still in its infancy, but it is off to a good start.

Theoretical Implications

Given the considerable promise of research on justice climate and intraunit justice climate, scholars have begun to retool their theoretical ideas. In this section, we will briefly review three trends in the literature, suggesting how they may develop in the future.

At the individual level of analysis, organizational justice researchers have long known that procedural fairness has a greater effect when an outcome is unfair or unfavourable. In other words, people care more about the process when the outcome they obtain is not what they would have preferred (for reviews, see Brockner, 2002; Brockner & Wiesenfeld, 1996). Although this finding is well established, unit-level fairness research adds corollary mechanisms that explain how workers might render fairness judgments without personally experiencing a negative event.

- Drawing on SIP, Roberson (2006a, 2006b) found that people discuss events that occur in their workplaces. Over time, these discussions can produce agreement. This process may be further enhanced as emotional information spread through the process of justice contagion outlined by Degoe (2000). Fairness may result from the process of workplace sense making.
- Based on the deontic theory of justice, Folger and Salvador (in press) argue that we care about more than simply how we are treated. We may respond negatively to the treatment of others even when our

own outcomes are not impacted (see Brockner, 1990, for a real-world example).

Consequently, justice may be valued for its own sake, and workers may even punish authority figures that harm their teammates (cf. Lerner, 2003).

For justice research, these are intriguing ideas, as they imply that feelings of unfairness need not be based exclusively on the personal receipt of an unfavourable or unfair outcome. Rather, the sense of injustice could spread through a team, even if the team includes individuals who were not personally harmed. Perceptions of fairness, in other words, can sometimes emerge as a property of a collective. We may simply imitate what others think and feel (Degoe, 2000).

According to Folger and Salvador (in press), we may also be directly affected by the treatment others receive even if we do not directly interact with them (Turillo et al., 2002). Of course, nothing reviewed in this article denies the importance of individual-level justice. However, the work discussed herein challenges researchers to incorporate the collective sense of fairness into their conceptual models. These are exciting possibilities, signalling a fresh look at workplace fairness. Among other things, unit-level justice research links fairness to other important organizational processes. These include such things as work-team effectiveness (Li & Cropanzano, 2008) and the success of business units (Simons & Roberson, 2003).

Counterintuitive reversals

It is interesting that unit-level justice can occasionally turn "good" things into "bad." For example, Naumann and Bennett (2000) found that group cohesion, which most would view as desirable, produces greater agreement as regards justice climate. This suggests that cohesion might promote a more positive response toward an employer that is generally fair but a more negative response toward one that is generally unfair.

A strong climate could be formed when a cohesive workforce unites against unfairness. From society's point of view, this is probably a good thing as it may prompt organizations to improve their management

techniques to the benefit of all. Still, it is interesting that efforts to promote group consensus can backfire on a firm that does not accompany these efforts with fair policies.

In their work on multifoci justice, Bashshur et al. (2008) provide another interesting reversal. These researchers assessed both justice climate that resulted from the action of the organization and justice climate that resulted from the action of the immediate supervisor. Bashshur et al. report some evidence, admittedly limited at this point in time, that employee responses were very negative when they had an unfair supervisor inside a fair organization. If these results are replicated in future studies, it suggests that just organizations could actually be harmed unless they also curtail unfairness from managers.

Leadership

In preparing this article, we were struck by how often leadership, or at least supervision, appeared in the unit-level justice literature. Naumann and Bennett (2000) found that a visible supervisor helped to promote a strong justice climate. Liao and Rupp (2005) and Bashshur et al. (2008) reported that supervisors' efforts on justice climate have an impact beyond that of the organization. The most comprehensive leadership model was Ehrhart's (2004). Ehrhart found that servant leadership was an effective means of building a fair workplace. This collective sense of justice, in turn, increased citizenship behaviour. All of these findings fit together, in that they provide specific "action steps" that managers can take to promote fairness. Such actions, besides being worthwhile in their own right, seem to have a positive effect on the organization. Our hope is that the relationship between leadership and justice climate will be the subject of additional scholarly attention in the future.

Closing Thoughts

A sense of justice can, at least at times, result from the collective perceptions of a work group. As we have discussed, this realization provides considerable challenges to an exclusively individualistic

understanding of fairness. However, it also provides opportunities. Organizations that build a strong sense of community based on just treatment are likely to benefit from more favourable worker attitudes and behaviours. Employees, for their part, are apt to experience less stress and more assistance from their coworkers. Such promises, with the potential to benefit supervisors and subordinates alike, should be a priority for scholarly investigations.

The goal of this paper was to provide a sampling of where we have been historically, as well as some of the current trends in justice research, when considered holistically, and together with for moral motives over self-interest or relational trends within organizational climate at large, point toward justice as a lens, not only used to understand organizational psychology more completely, but also used experientially and phenomenologically by employees to make sense of and navigate themselves in a massively complex social system: work.

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Case Study Regarding Forecast Management of Human Resource Needed in Railway Transport

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Abstract

Correct determination, in line with the requirements of specific activities, of human resource needs - numerical, qualitative and structural - and after that, providing it, is one of the most important tasks of human resource management. It becomes necessary, under these circumstances, the use of forecasting management of personnel needed as an essential tool of human resource management. This work is considered to be a useful tool for railway managers who, in today's restructuring and reorganization conditions of Romania's railway system are forced to cover effective human resource requirements with qualified railway staff.

Keywords: prediction, rail, necessary human resources

J.E.L. Classification: M12, L92.

1. Introduction

In order to improve global performance, every company must respond to the evolution of all aspects connected to human resources and be aware of their importance. This research is part of the logic and contributes to information enrichment regarding human resources management in railway transport. Given that the quality of personnel entries is lower than the human resources exits in the system, companies are forced to undertake a series of activities regarding design, implementation and monitoring of action plans on reducing in an anticipated manner differences between organization human resources needs (in terms of numbers and skills), determined by strategic option formulated and its availabilities at a certain given moment. These activities actually represent management's forecast in human

resource needs required as a condition and guarantee in an efficient use of human capital in an organization.

By achieving the object of activity, the National Company "CFR" SA, which is the subject of this case study, ensures the performance of public railway passenger, baggage, cargo and other goods transport, based on transport contract in order to satisfy public, social and defence interest. Public railway transport is organized and carried on commercial market principles. CN "CFR" SA administrates the infrastructure of Romanian railway system, public property of the state and holds in its property the goods in its equipment and those acquired in its own name with any title. In order to achieve its object of activity, CFR carries some secondary activities, including commercial supply and foreign trade, import-export, exploiting heritage. The activity of railway stations is carried by well-established rules and procedures to ensure optimal use of transit and processing capacity of trains and wagons in terms of regularity and safety.

Starting from a defined strategy in terms of objectives, management's forecast of human resource needs consists in developing action plans designed to annihilate, in a predictive manner, quantitative or qualitative mismatches between future needs (hiring staff) and human resources (available skills). In specific literature it is stated that successful management of employment and skills forecast is determined by using several essential elements, such as: a set of organizational means, technical, budgetary and human resources as well as the effects of certain factors that influence the development of new qualifications with changes in the organizational structure [6].

According to experts, the forecasting activity „involved a number of factors differentiated by the decision maker can

act on internal or external environment of the organization, leading and successful use of a particular method of prediction" [1].

By examining the content of forecasting human resource management presented in various forms in specific literature, we carried out this research, considering that this essential tool of management must address the following three aspects:

- Analysis of the current situation in the organization regarding workstations and personal resources;
- Forecast of needed staff;
- Adapting on a short, medium and long term staff requirements in relation to existing staffing and the strategic objectives of the organization.

2. Analysis of the current situation in the organization regarding workstations and personnel resources

In order to ensure the best structural premises necessary to achieve the objectives set and achieving higher final performances is required that the top management of the railway company to know exactly the content and requirements of all positions through the analysis of the available activities staff and positions, which is some of the most important and complex human resource management activities.

According to experts "analysing and designing positions fits the definition of functions, which represent an important part of the analysis process and design of organizational structure "[7] and consists in specifying the elements that make the execution of these functions, namely the role, position, duties and their connections. In foreign specific literature, the position/ job is defined as "a group of identical positions and situations regarding main tasks and similar enough in general to be included in that group" [4]. This definition is limited because it does not take into account the responsibilities of the post holder. Defining functions and positions is realized in the context of systemic treatment of the organization's management. In the literature of our country, T. Constantine considers that in general, job and function analysis refer to the same reality: the description of a unit in

the organization that is or will be occupied by a single person who has to fulfil certain tasks, has certain responsibilities and from whom a certain level of results is expected, in line with the training, skills and its personality traits [2].

The activity of a railway station is complex and is conducted continuously within certain working departments which, although differentiated by their functions, compete together to achieve passenger and goods transport. These sections are divided into three exploiting activities in movement, cargo and passengers, as well as administrative and personnel activities that are common to the entire station or separate for each type of activity taken separately [3]. The joint or separate compartments containing positions with responsibilities in handling, technical inspection of wagons, staff training, safety.

In order to ensure an adequate scientific support of this work the following methods and research tools were used:

- Direct observation and self-photographing of indirect activities performed by employees of railway stations railway sections of the Constanta-Mangalia traffic, which is a subordinated section to CFR Constanta Branch within the National Company CFR SA;
- Qualitative analysis of comparative type regarding personnel indicators (scripted number, average number, fluctuation, input - output);
- Brainstorming - creative method applied to human resource managers and engineers specialised in railway technology in order to produce variants of solutions;
- Flow - chart to determine routes travelled by information contained in the documentation provided by the company's management in order to be studied.

The circulation section Constanta-Mangalia, for which this study has been conducted is representative for the Constanta railway branch because it has subunits in which are present all types of specific activities to traffic branch - movement and maneuver, traffic management systems, centralized manual - as well as all executive functions of these activities - moving traffic

ZLC number of days in a year that are free according to Collective Labor Agreement (ZLC = 12, for 2012).

According to formula (2) FCOIDM = COIDM + ZLCIDM + FEIDM = 31+104+12 = 147 days.

Under these conditions the number of people needed in a IDM position, calculated using the formula (1) is $NOP = [243 \times 24 \times 122 \times (6.24)] / [(365-147) \times 8] = 4,34$ people.

The formula for calculating personnel needed to a IDM position in a work station with traffic and constant manoeuvring activity is:

$$NOP = (365 \times 24) / [(365-FCO) \times 8] \quad (3)$$

Under these conditions the number of people needed in a IDM position, calculated using the formula (3) is $NOP = (365 \times 24) / [(365-147) \times 8] = 5,02$ people.

It can be noticed the fact that in order to ensure optimal train traffic during the summer period, the company's management must ensure qualified personnel higher in number than in the rest of the year.

This is possible through redeployment of staff specialized in similar stations as degree belonging to other departments and where the completion of circulation is done in the same way. If such an option is not possible, then the same permanent staff of the department is going to be used, but being lower in number than is necessary for a top activity, it will make overtime, which will increase the wage bill (bonuses are paid double the hours of the normal time).

4. Adapting needed personnel in relation to existing staffing and strategic objectives of the organization

Human resources necessary for any organization is decisively determined by the volume of their own activities. Specifically, this amount appears as an expression of the organization's business plan regarding specific human resource needs. An accurate forecast staff requirements must always be correlated with predictable changes in the environment - market conditions, the economy, competition, technology and finances.

Determining future staffing needs is a complex process with two essential

components: personnel demand forecast and forecast regarding future personnel supply.

Future demand for staff on a given planning horizon is estimated based on the company's overall strategic plans. The goal is to specify the workstations that the company needs in the future and how many jobs are needed for each position.

For the railway companies in our country the necessary information is taken from: company's internal information systems (systems of railway transport capacity planning, systems analysis and design of work stations) and external sources - associations of railway operators, governmental statistics, specialized companies which provide access to public databases. Is thus calculated the *gross personnel needed* which represents the number of work stations and estimated on the entire company and staff categories.

The future offer of personnel on the same given planning horizon is estimated starting from current availability of staff - the number of people who have the knowledge and skills necessary to fill a certain position - which is converted to predicted availability of personnel on the planning horizon given by extrapolating tendencies already manifested - retirements, resignations, promotions, transfers.

Net demand in personnel for each position is obtained as a difference between gross demand in staffing and forecasted availability of personnel and may have the following values:

- *positive* - and actions of are required: recruitment, choosing batch of candidates from within or outside the company; *selection* by choosing the right people for each position, *training and professional integration*;
- *negative* - actions of are imposed: restrict staff redundancy, encouraging early retirement or encouragement encouraging voluntary departures.

One of the problems the management of public railway units has to face is the average high age, so many employees which occupy positions with the responsibility of road safety are beyond retirement age. The necessity of maintaining its operation lies in the shortage of suitably qualified personnel in the labour market. This opinion is supported by the recently made employment in the last

period accomplished by private rail operators that employed staff who retired from state railway companies. From this perspective, we point out the need to increase the number of qualified personnel in railway transport.

In the case of the traffic section Constanta-Mangalia of CFR Constanta railway branch, current benefits, which are currently establishing criteria for prioritizing the jobs of motion signalman (both device, outside and localist) have decreased more, following the rehabilitation of Corridor IV pan-European movement in this period being lower than before starting work. This fact is a disadvantage for traffic personnel, meaning that the clerk is requested by other factors that are not currently considered when ranking posts.

5. Conclusions

Following the replacement of existing infrastructure and removal from functioning the traffic safety facilities, a traffic manager must manage circulation considering the large number of line closures (both planned and accidental) and a large number of faults registered at traffic safety facilities. Thus, although the number of circulated trains has dropped significantly, these aspects require greater attention from the railway worker, his work having a much higher degree of difficulty in these situations, which have become almost daily. Also in this case increased - significantly - both the number of circulation orders issued by IDM traffic and the number of checks performed on third parties (by the checking's that are made over the builders working for the rehabilitation of Corridor IV).

Given the presented ones and in order to correct the quantification of benefits underlying the hierarchy of IDM stations, we propose introducing some criteria for prioritizing new and updating existing criteria, namely:

- quantifying the number of circulation orders issued by the traffic manager;
- quantifying the number of closures of lines managed by the traffic manager;
- counting the number of faults recorded in the register of safety circulation, whose remedy must be pursued by IDM device or – with the version of- counting the number of signals, switches, detailers I

handled by IDM, for the quantification of chasing train traffic on IDM desk, and for quantification of faults in equipment and monthly and biannual revision works;

- giving additional scoring for IDM-provision from first degree stations with two IDM provisions, in which the IDM provision fulfils the responsibilities of a localist;
- counting the number of checks made by IDM on private railway operators regarding staff.

Based on research conducted to document this work, we consider as necessary the raise in the number of people participating in training courses in the railway sector. This need becomes urgent to meet future requirements arising from the entry into service of new rolling stock, upgrading various facilities, equipment or elements of railway infrastructure and using a new system of organizing the traffic.

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Comparative Analysis of the Accommodation Capacity Evolution in the Black Sea Countries

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Abstract

In recent years, tourism has become the most dynamic item of Black Sea countries' economy that provides new workplaces as well as constant income.

This paper aims to analyze the dynamics of accommodation units of the six Black Sea countries in recent years, to compare the development of the material base in each country and make some proposals to improve tourism activity on the Romanian coast of the Black Sea.

Keywords: Black Sea Coast tourism, tourist potential, tourist accommodation.

J.E.L. Classification: L83

1. Introduction

Black Sea Coast is a highly dynamic and sensitive area encompassing varied and attractive natural resources, which favors the development of human activities such as tourism, recreation, leisure, etc.

Tourism is considered an important source of income for Black Sea riparian countries: Romania, Bulgaria, Turkey, Georgia, Russia and Ukraine. These countries have rich tourism resources, establishments of tourists' reception with various functions of accommodation, transport, catering or leisure, offering various leisure options for all tourists.

2. Black Sea Coast tourism potential

The Black Sea is the most isolated sea in the World. It is connected to the World Oceans via the Mediterranean Sea through the Bosphorus, Dardanelle and Gibraltar straits and with the Sea of Azov in the northeast through the Kerch Strait. [4]

Due to lack of tides, Black Sea coast

ensures optimal use of beaches and the low salinity of water favors water sports and, especially, those underwater.

The chemical composition of water is particularly favorable to the human body under therapeutic aspect.

Besides the sea water, as the main attraction, the Black Sea provides tourists a wealth of natural resources as reservations, beaches, lakes, fauna, flora, natural cure factors and anthropic resources represented by historical and archaeological sites, museums, historical monuments, religious buildings, economic objectives, festivals, cultural events, etc.

2.1. Romanian Black Sea Coast

As a whole, the Romanian Black Sea coast has a length of 245 km and lies between Chilia branch of the Danube, to the north, and the border with Bulgaria to the south. The Romanian seaside belongs to Constanta County, the Romania's major tourist area due to the beaches, archaeological treasures, novelty landscapes, recreational areas, hunting and fishing.

Tourism potential of Constanta includes both natural tourism resources and tourism anthropic resources. Tourism resources of the county haven't a uniform distribution and they explain tourism development especially on the Black Sea coastal area.

The richness and rarity of elements of flora and fauna and the variety and beauty of the local landscape imposed, for the protection of the natural environment, the creation in Constanța of numerous natural reservations of great scientific and tourist interest. [5]

Romanian seaside is one of the most important tourist areas in Romania as compared to other tourist areas of the country, which is reflected by indicators of tourist flows and accommodation capacity.

Constanta County coastline stretches over a length of over 100 km (from the total of 245 km which is forming the access to the sea of Romania) comprising beaches in resorts: Olimp, Cap Aurora, Costinești, Eforie Nord, Eforie Sud, Jupiter, Mamaia, Mangalia, Năvodari, Neptun, Saturn, Vama Veche / 2 Mai, Venus.

With so much to offer, Constanta County and, mainly, the Black Sea Coast will always be an attraction for both foreign and Romanian tourists.

2.2. Bulgarian Black Sea Coast

The Bulgarian Black Sea coast, situated in the Western part of the Black Sea, has a 378 km long coastal line, 140 km of which occupied by 78 beaches.

The Bulgarian Black Sea coastal zone is 5.21% of the country territory and hosts 8.85% of the national population. [7]

Tourism and, in particular, coastal tourism is one of the fastest developing world industry sectors and Bulgaria follows this tendency. [1] Bulgaria has become one of the leading tourist destinations in Europe over the last couple of years. Bulgaria benefits from the geographical position, which allows the country to offer skiing in winter and sunbathing at the beach and exploring the nature in summer.

The Bulgarian Black Sea coast is picturesque and diverse and is located along the provinces Dobrich, Varna and Burgas.

Here long strips of sand dunes alternate with estuaries, large and small bays and inaccessible high rocky shores. The coast is divided into two sections, north and south of Cape Emine, where the Balkan Mountains reach the sea.

Clean and calm sea with shallow sloping sandy bottom, wide beaches with fine grain golden sands, venerable forest and numerous mineral springs are features that make the Bulgarian Black Sea Coast an attractive place for domestic and foreign tourists.

All along the coast, with several kilometers interval are lying large and small resorts - from large modern complexes to small picturesque villages: Balchik, Kavarna, Varna, Pomorie, Nessebar, Bourgas, Sunny Beach, etc.

Most marine cities and towns were founded millennia ago and they preserve the

rich cultural heritage - remains of the Roman and Byzantine eras, medieval monuments and magnificent architectural examples dating back to the Bulgarian Revival.

2.3. Turkish Black Sea Coast

Stretching 2000 kilometers from the Bulgarian border in the west to Georgia in the east, the Turkish Black Sea coast varies dramatically, from sheltered sandy coves, to soaring green mountains, to dire freeways and industrial ports.

Turkey's Black Sea coast is famous with its humid and green forests, traditional wooden houses, extraordinary plateaus, and also untouched beautiful beaches. The region is very mountainous and is heavily forested, while the highest parts of the mountains are covered with alpine meadows, glacier lakes and glaciers.

The Turkish Black Sea coast is never crowded because cloud is more common than sun, and the seawater is chilly. But that is fine with the adventurous types who come here for a few days to savor its deep history, its dramatic beauty and its special cuisine.

Turkish Black Sea coast is a wild beauty, with many mountainous areas; although it is one of the most verdant regions of Turkey, it is not among favorite destinations of tourists visiting the country. Only a few resorts have sandy beaches: Kilyos, Sile, Sinop, Ordu, Giresun. [8]

2.4. Georgian Black Sea Coast

The Black Sea Coast of Georgia has about 300km of coast stretching from the border with Russia to the border with Turkey. Many of the coastal resorts offer treatments for cardiovascular, central nervous system, functional, joint and gynecological diseases. Some Georgian Resorts on the Black Sea are: Batumi, Kobuleti, Ureki, Grigoleti, Mtsvane Kotskhi, Tsikhis Dziri. [6]

2.5. Russian Black Sea Coast

About 300 kilometers (190 miles) separate the Taman Peninsula steppe in the north and the resort city of Sochi in the south on Russia's Black Sea coast. From May to October, the country's resort life is

concentrated on this relatively short coastline. [14]

Dozens of coastal towns and villages, hundreds of hotels and health resort centers, welcome millions of vacationers from all over Russia, and foreign tourists from different countries to the Black Sea coast.

The cities and towns of Russia's Black Sea coast are famed for their healing spas and rejuvenating waters. The main Russian resort towns on the coast of the Black Sea are Anapa, Novorossiysk, Adler, Tuapse and Sochi. The Russian Black Sea resorts are situated in Krasnodar Territory. [10]

2.6. Ukrainian Black Sea Coast

Ukrainian Black Sea coastline begins at the Danube river delta on the Romanian border and extends along the Crimean Peninsula to the historic city of Odessa.

Many of the Ukraine Black Sea resorts have been attracting guests for decades, or even centuries. [11]

Most of the Ukrainian Black Sea resorts reside on the western shores of the Crimean Peninsula: Yevpatoriya and Saki are well known for their sandy beaches, healing mud baths, and mineral waters. Some of the resort towns in the cape area include Alupta, Simeiz, Yalta, Gurzuf, and Koreiz, with Yalta being the largest and most popular.

3. Analysis of tourist reception structures on the Black Sea Coast

Valorizing tourism patrimony of a country or geographical region involves ensuring minimum conditions for travel, accommodation and spending leisure time enjoyable for tourists. In essence, the combination of these elements offers visitors the most satisfaction in a trip or vacation.

Tourist reception structures are classified as follows:

1. *Tourist reception structures with functions of tourist accommodation:* hotels, apartment-hotels, motels, villas, chalets, bungalows, holiday villages, campsites, rooms for rent in family homes, river and sea vessels, boarding houses and agro tourist pensions, etc.

2. *Tourist reception structures with functions of public alimentation;*

3. *Tourist reception structures with*

functions of Leisure;

4. *Tourist reception structures with functions of transport;*

5. *Tourist reception structures with functions of spa treatment.*

3.1. Tourist reception structures on the Romanian Black Sea Coast

Tourist accommodation equipments in Constanța are many, because many tourists visit coastal area every year. [12]

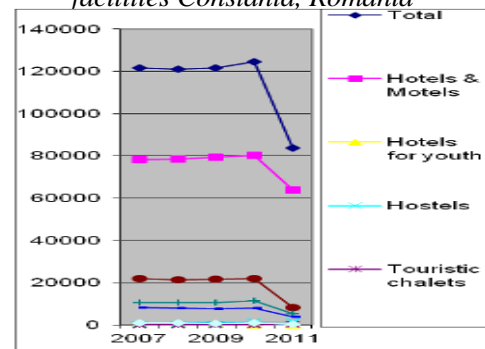
Table 1. Number of seats in reception facilities

Unit	Years				
	2007	2008	2009	2010	2011
Total	121717	120944	121723	124643	83751
Hotels & Motels	78287	78583	79201	80173	63929
Hotels for youth	609	495	624	-	-
Hostels	288	288	381	1383	1590
Tourist chalets	40	40	40	40	301
Camping & Tourist halting places	21962	21230	21738	21794	8138
Tourist villas & bungalows	10495	10588	10534	11500	5267
School & preschool camps	8200	7900	7600	7840	3756
Tourist boarding houses	1055	1045	1081	1030	343
Agrotourist boarding houses	781	1045	524	883	233

Source: <https://statistici.insse.ro/>

The chart based on data from Table 1 is given below:

Figure 1. Number of seats in reception facilities Constanta, Romania



From the previous analysis is observed an oscillating evolution of the number of accommodation during 2007-2011, its biggest decline compared with 2007 registered in 2011.

3.2. Tourist reception structures on the Bulgarian Black Sea Coast

On the Bulgarian Black Sea Coast are functioning many accommodation establishments, as hotels, motels, camping sites, other establishments for short-term accommodation with more than 10 bed places. [13]

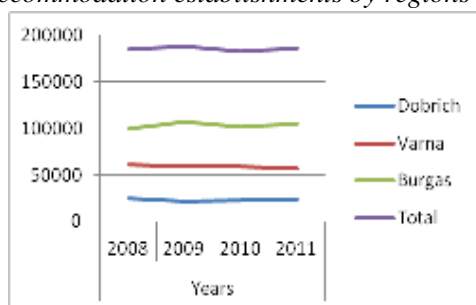
Table 2. Number of seats in accommodation establishments by regions

Statistical regions	Years			
	2008	2009	2010	2011
Dobrich	24433	21990	22217	23691
Varna	61222	59434	58736	56773
Burgas	98933	106683	101627	105300
Total	184588	188107	182580	185764

Source: <http://www.nsi.bg>

Based on data from Table 2 I obtained the following graph on the evolution of the number of beds in Bulgarian coastal region:

Figure 2. Number of seats in accommodation establishments by regions



Analyzing the data obtained, one can observe an oscillating evolution of the number of accommodation during 2008 - 2009 on the Bulgarian seaside. The decrease of the total number of beds between 2009 and 2010 can be attributed to the global economic crisis that affected the Bulgarian economy, too.

3.3. Tourist reception structures on the Turkish Black Sea Coast

The Turkish Black Sea region is easily

accessible to tourists and provides a wide range of hotels and restaurants at a variety of prices. [9]

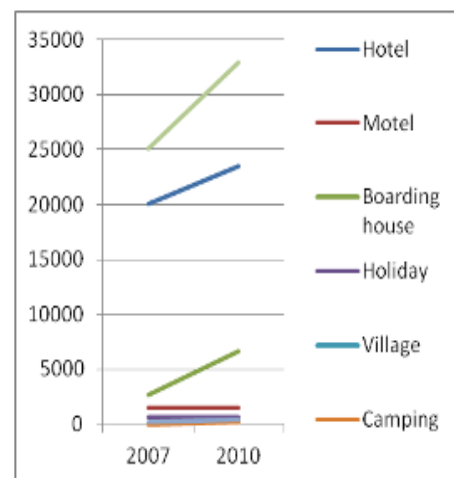
Table 3. Number of seats in accommodation establishments by type

Type of Establishments	Years	
	2007	2010
Hotel	20047	23516
Motel	1529	1534
Boarding house	2701	6674
Holiday Village	616	600
Camping	24	206
Thermal Resort	178	383
Total	25095	32913

Source: <http://www.kultur.gov.tr>

Based on data from Table 2 I obtained the following graph on the evolution of the number of seats in accommodation establishments on Turkish Black Sea Coast:

Figure 3. Number of seats in accommodation establishments on Turkish Black Sea Coast



It can be observed the upward trend of the number of places in accommodation establishments on the Turkish Black Sea Coast between 2007 and 2010.

3.4. Tourist reception structures on the Georgian Black Sea Coast

In the Georgian resort on the Black Sea coast are several accommodation units that provide various services to tourists. During 2007 - 2010 the number of accommodation in this area had the following evolution: [2]

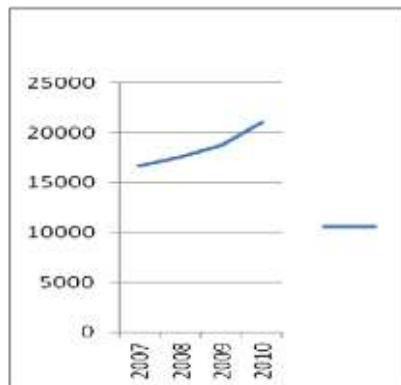
Table 4. Number of seats in accommodation establishments on Georgian Black Sea Coast

Years	Number of seats in accommodation establishments
2007	16704
2008	17573
2009	18741
2010	21086

Source: Statistical Yearbook of Georgia

Dynamics of accommodation places on the Black Sea coast of Georgia is shown in the following chart:

Figure 4. Number of seats in accommodation establishments on Georgian Black Sea Coast



Data obtained show that the number of accommodation of Georgia's coastal resorts grew annually in the analyzed period.

3.5. Tourist reception structures on the Russian Black Sea Coast

Sochi is the biggest resort of the Black Sea Coast of Russia. It extends along the shores of the Black Sea for 145 km. The territory of the municipal district of Sochi is divided into four districts: Adlersky, Khostinsky, Central and Lazarevsky. Unofficially, the city is called the summer capital of Russia.

The resort complex of Sochi is the biggest in Russia with over 600 different recreation facilities (therapeutic facilities, SPA complexes, vacation hotels, private hotels, holiday camps), that is, 50% of the overall resort potential of Krasnodar Kray. [15]

Table 5. Number of means of accommodation in Sochi, on Russian Black Sea Coast

Years	Number of means of accommodation
2009	228
2010	238
2011	246
2012 (forecast)	256

Source: <http://megaresearch.ru>

Given the data presented in the table, we see that the number of accommodation units on the Russian coast of the Black Sea had an upward trend.

3.6. Tourist reception structures on the Ukrainian Black Sea Coast

Accommodation on the Ukrainian Black Sea Coast is very easy to find, as there are various types of hotels that offer world-class facilities and amenities. During 2005-2011 the number of accommodation establishments had the following evolution:

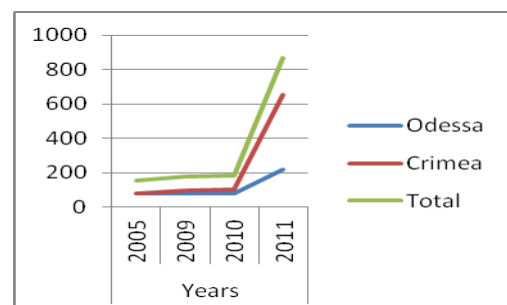
Table 6. Hotels and similar facilities for accommodation, by region on The Ukrainian Black Sea Coast

Region	Years			
	2005	2009	2010	2011
Odessa	79	80	81	217
Crimea	78	96	104	651
Total	157	176	185	868

Source: Statistical Yearbook 2011 [3]

Based on data from Table 2 I obtained the following graph on the evolution of the number of accommodation establishments on Ukrainian Black Sea Coast:

Figure 6. Hotels and similar facilities, on The Ukrainian Black Sea Coast



Data presented show upward trend in the number of accommodation units on the Ukrainian coast of the Black Sea.

4. Conclusion and proposals

Comparing data from the statistical institutes of the countries bordering the Black Sea, we can draw several conclusions about the evolution of the number of tourist accommodation facilities in recent years.

First, it notes that, overall, the last five years, the supply of accommodation has increased in countries of the Black Sea, except the one on the Romanian coast which in 2011 fell by 33% compared to 2010.

Also, the Black Sea coastal region has a rich tourism potential natural and anthropic, capable of attracting tourists and satisfying a variety of requirements.

Romanian Black Sea coastline stretches over a relatively small area (100 km) compared to other coastal areas, however, Constanta county holds many resorts equipped with diverse material base offering a wide range of tourist activities.

In order to improve the Romanian seaside tourism activity can be proposed several actions, such as:

- Modernization of hotels and other tourist structures with accommodation functions;
- Diversifying supply of accommodation places by building new tourist resorts;
- Develop special programs to conserve, restore beaches, prevention of beach pollution and bathing water;

- Improving the quality of tourism services in hotel structures with accommodation and food functions within the hotel complex.

With an investment in the region that rely on the upgrading of accommodation and food units, of the access roads and on a campaign to promote coastline and to educate people about the values to be preserved, Constanta county could become soon one of Europe's most important tourist areas.

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The Intellectual Capital Statement in Knowledge-based Organizations: The practitioners' and Academics' Answer for Reporting the IC

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Abstract

Currently, one cannot dissociate the idea of economic entity of its capital. Whatever form it takes, this constituent element of wealth is seen as the basis of business, whether in the form of financial capital (equity and debt), economic capital (capital employed) or intellectual capital (knowledge, skills, relationships, intellectual property, social attitude). The increasingly ample orientation of the companies towards the intellectual capital is based on the rediscovery of this resource with (almost) unlimited potential, generating economic benefits for a company. Given its importance, the information needs of stakeholders on this line have increased. Thus, in this context, it was put the issue of reporting information related to intellectual capital and the transparency of information published by companies, given that its reporting is not currently regulated.

Keywords: intellectual capital, reporting, European Commission.

J.E.L. Classification: C81, O30, O39.

1. Introduction

The problem of identification, representation, evaluation and reporting of intellectual capital in economic entities exists today in the attention of both academic community and practitioners. If initially it was treated as *theoretical economic resource* which generates future economic benefits, the practice has spoken, the corporate values began to increase on specialized markets, increasing the difference between the accounting value of the entity and its market value. This difference, attributed to intangible elements that were not reported separately in the annual financial statements,

requested, from the members of the business community, a reconfiguration of their attitude towards all the existing resources in companies.

There are authors who see the intellectual capital (IC) as *a change in the structure of investments*, specific to new discovered knowledge based economy [1][2]. Others authors, like Edvinsson [3][4], Sveiby [5], Andriessen [6], known for their preoccupations regarding the intellectual capital, consider this capital as a *source for creating value in the new economy*. Once the 90 were alerted to the existence of intangible assets in companies, subsequently it was established the term of *knowledge-based organization* [7][8][9].

Many studies based on the theory of knowledge-based organization researched the problem of *reporting the IC*. Since the first papers in this direction, the problem of classification and compound of IC [3][10] cannot be dissociated of the problem of its value. In this last situation, there are *three perspectives* in the specialized literature: one, according to which the intellectual capital should be included in the companies' annual reports [11][12][13][14][15], second, which states that the reporting of IC should be presented separately, so not included in the annual reports [2][16] and, not least, a third perspective, related to *the validation of IC in a managerial context*, related to the decision making process of the investors [17][18][19][20].

2. The necessity for a model for reporting the intellectual capital

Relatively new and widespread term of "knowledge economy" has generated a great interest for the intellectual capital. The very idea of its existence was not enough, stakeholders and managers requesting information on its value, its potential to

generate benefits and its contribution to company performance. The answer to all these questions, in fact, shows how intellectual capital is managed within organizations. Implicit or explicit assumption is that better management of intellectual capital will lead to unique, competitive and sustainable advantage [21][22].

The problem of a statement of intellectual capital was placed amid awareness of its growing importance, this being the context in which it was concluded that conventional management tools, such as scorecards, do not cover anymore the administration of this area. Thus, the project „Intellectual Capital Statement - Made in Europe" (InCaS) started in this particular context, being the result of a Consortium which included 25 SMEs from five European countries, experts, research institutes ("Fraunhofer IPK Berlin", "London School of Economics (LSE)" and "Universitat Politècnica de Catalunya (UPC)") and six business associations [23][24].

Since the beginning, the project itself has had as purpose:

- Strengthen competitiveness and innovation potential of European

organizations by systematic enabling of intellectual capital;

- Setting the Intellectual Capital Statement (ICS), as an important and valuable management instrument in knowledge-based economy;

- Integration and consolidation of individual national approaches on European intellectual capital statements.

The researches started in July 2006 [25] and they lasted two and a half years, period in which the statement was implemented in the 25 SMEs, was refined and finally published with the name of European Commission on it. In three fazes, the partners elaborated the ICS methodology, implemented and evaluated it, together with the companies, and, of course, they optimized and improved the methodology according to the requests of the users. Next, we will present the method created by this Consortium for the reporting of IC in enterprises, whatever their size and core operations.

3. The procedural model for the preparation of IC Statement

The procedural model for preparing the IC Statement is presented in figure 1:

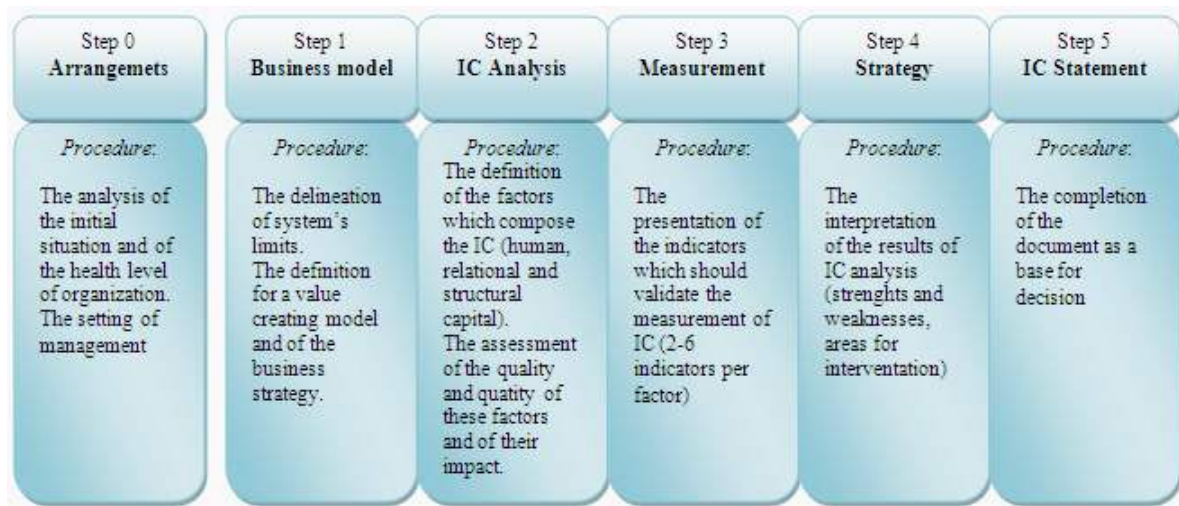


Figure 1. Procedural model for preparing the IC Statement

Source: European Commission, *InCaS: Intellectual Capital Statement. Made in Europe*, available online at <http://www.incas-europe.org/European%20ICS%20Guideline.pdf>, p. 9

Practically speaking, these steps can be described as follows:

- Step 0 includes history, culture, and institutional background of the company.

Also, It also refers to additional information on strategy, market development, trends etc. To finalize next steps, the company

constitutes a management team that has the role of completing steps 1-5.

- Step 1 requires a statement of how the company creates value from the products and services they sell and ending with the main processes taking place in the business. The answer to these questions must relate to the enterprise as a whole or only to a segment.

- Step 2 considers the analysis of the three components of intellectual capital and identifies those factors that compose them effectively. The level of detail should be high. It also analyzes the factors in terms of strengths and weaknesses. For factors such as organizational culture, quantitative-qualitative delineation is reduced, so that they will be treated as a single dimension and described as such.

For each identified factor, three questions must be answered:

1. Is the quantity/volume of this factor sufficient to accomplish the strategic objectives? (quantitative question)

2. Is the quality of this factor sufficient to accomplish the strategic objectives? (qualitative question)

3. There are measures clearly defined to improve this factor? (managerial question). The answers to these three questions appear on a scale from 0 to 100%, where 0-30% is "insufficient", 30-60% "partially sufficient", 60-90% "largely sufficient" and 90-100% "absolutely sufficient".

Thus, for each factor, eg organizational culture, we will formulate the question "How does organizational culture answer to strategic objectives?", we offer 85% and a reason for that percentage. Finally, factors, grouped into the three components of intellectual capital, are summarized in a table that included the question, percentage and the explanation for the assessment. In this way for each component of intellectual capital there is an adequacy process, overall and for each component.

Also, the analysis of the impact score for each factor is recommender, as follows:

Table 1 The analysis of the impact score of IC elements

IC Type	ID	Factor	The calculated position by every member of the team								Amount	Impact score
Human capital	CU1	Professional competence	5	1	3	2	2	7	3	3	26	7,20%
	CU2	Motivation	4	3	2	5	3	8	2	5	32	8,90%
	CU3	Social attitude	9	5	5	8	5	5	5	6	48	13,30%
Structural capital	CS1	Culture	7	6	8	6	7	2	8	8	52	14,40%
	CS2	IT	6	9	6	9	9	1	9	7	56	15,60%
	CS3	Know how, patents, copyrights, intellectual property	1	7	9	4	6	4	6	4	41	11,40%
Relational capital	CR1	Customers relationship	2	8	4	1	1	6	7	1	30	8,30%
	CR2	Investors relationship	3	2	1	3	4	9	4	9	35	9,70%
	CR3	Relationship with the environment	8	4	7	7	8	3	1	2	40	11,20%
Total			45	45	45	45	45	45	45	45	360	100%

Source: Adaptation after European Commission, *InCaS: Intellectual Capital Statement. Made in Europe*, available online at <http://www.incas-europe.org/European%20ICS%20Guideline.pdf>, p. 32

Each factor is given a score from 1-9 (total number of factors). Horizontally, we calculate the total points given by each team member and the percentage of importance, which may result in a classification of factors, depending on the importance and impact.

- Step 3 call for effective indicators of intellectual capital measurement to represent the factors taken into account. These indicators may vary from the information in absolute size (number of employees, number of managers, the number of patents and trademarks, etc..) to relative size indicators or

qualitative assessment, which are assessed by 1/0.

• Step 4 resumes the percentage of the three questions from step 2, and makes their average, which represents "the medium value" of each factor, the difference to 100% being *potential of improvement*. Also, one can calculate the medium value of each component of intellectual capital.

4. The interpretations for the results of the model

The portfolio of IC management is done in a graphic way, on the abscissa X being noted the impact score, and on the ordinate Y, the average result of questions from step 2. The dial is so divided in four parts:

1. Left down – *Analysis* – includes the factors with low importance for the strategic objectives, but with high potential for development;

2. Right down – *There is no need for action* – includes the factors with low importance for the strategic objectives, and with low potential for development;

3. Left up – *Development* – includes the factors with high importance for the strategic objectives, and with high potential for development;

4. Right up – *Stability* – includes the factors with high importance for the strategic objectives, but with low potential for development.

This graphical representation is a map of IC factors and of strategic development, directly related to these factors. All these conclusions must be processed in step 5, in IC Statement, in two separate versions, one for internal use and one for external stakeholders.

5. The IC Statement across Europe

In the preparation of a statement of intellectual capital, we consider that the example of the European Commission, presented above, is affordable, provide relevant information suitable to all categories of economic entities, regardless of size and, most importantly, based on experience of a relevant sample of companies and professionals. However, is not the only model, some developed European countries

presenting their own models in this respect [26]:

• Denmark – *IC Statements – The New Guideline* – the guide has four parts (The description of knowledge in organizations, The challenges of the management, Efforts and Indicators). Intellectual capital has three components: human, relational and organizational (processes and technologies). The idea is to reflect the components of IC into indicators and to establish strategic targets for them;

• Germany – *Wissensbilanz (Guideline on the preparation of an IC Statement)* is also structured in four steps: the first one aims at preparing a IC statement in a simple form, taking into account the environment, the strategy, and own representation of IC; the second one imposes the identification of the aspects mentioned before, using specific indicators; the third one determines the preparation of a document, with previous dates; the forth one aims at monitoring the development of the organization, by establishing target-indicators;

• Austria – *Austrian Research Centers IC Report* – combines four elements: goals, intellectual capital (human, relational and structural), knowledge processes and intangible resources. The capital is the input for processes, and, after that, the management establishes targets for results;

• Spain – *Intellectus Model* – facilitates the decisions regarding research and development activities, bringing to the fore a series of factors which can influence the results of innovation (human capital – culture, qualifications of the researcher; relational capital – scientific alliances with specialized centers, associations, collaborations; structural capital – full time employees, ongoing projects, equipments, industrial and intellectual property;

• Sweden – *IC Rating* – is an initiative of a Swedish company, specialized in the assessment and description of intangible assets, not presented in traditional financial statements. It is based on three domains: efficiency, risk, and renewal and development. 230 parameters are measured, to describe IC. Each parameter is converted in a question, which is evaluated from 1 to 8. The answers are grouped for each component of IC;

- Belgium – *ICV calculation* – represents a set of 77 formulas, which are applied to a company and then aggregated, with the inclusion of the result in certain margins;

- France – *IC-dVAI* – is a strategic approach of the intellectual capital, from a dynamic perspective, set around four dimensions of the competitiveness: - resources as inputs for the production process (tangible resources, R&D, acquisition of technologies, etc.); - processes; - the construction of intangibles (intellectual capital is seen as an amount of intangible resources); - outputs – measured in performance indicators and in market share of the company;

- Europe – *MERITUM* – is an European guide for the management and reporting of intangible assets, for the purpose of their identification, assessment and control, for them to become part of the company's financial performance. Given the fact that the year in which *MERITUM* was published is 2002, InCaS created IC Statement few years later, as an alternative.

European countries and others were actively involved and are still involving in providing solutions for the preparation of a statement of intellectual capital and intangible assets, as appropriate, responding to a need of today's economic entities regarding the reporting of this resource recently acknowledged. Given the wide range of examples, each company must choose the model that best suits its internal structure and external partners' informational interests.

6. Conclusions

Competitiveness of modern organizations, regardless of size and core activities, is based on the strategies applied. Conditioning performance through strategy, in last decades, is evident for companies and managers in most developed countries, and explains the large number of researches, education, training and consultancy in the field. An expression of this trend is the frequent references to strategic management, strategic alliance, strategic control, strategic planning, strategic coordination and so on, which have proliferated especially in the last decade. Passing over these issues, it is noted that the strategy has emerged as an essential component of management, both in theory

and in practice, and are means for the company to move towards long-term objectives by developing good relationships with internal and external environment.

Intellectual capital must become an important part of corporate strategies, regardless of their field. Its components must be identified and exploited to their full potential for the entity to benefit from maximum future benefits embodied in them. In addition, companies must understand that employees as human capital are easily identifiable and are extremely varied ways to motivate them, on a financial line or by social attitudes.

The IC Statement helps entities to follow the quantitative and the qualitative side of their IC, as a result of their attitude and strategies applied.

Based on the foregoing, we believe that management should consider preparing a Statement of Intellectual Capital, especially if the business they manage impose such an approach. The novelty of intellectual capital and its regulatory failure was and is both for practitioners (including the managers) and the academic community, a challenge in terms of quantifying the economic benefits expected from the exploitation of this capital.

Regardless of the methods chosen to reflect, assess or present the intellectual capital, it should not be forgotten that the *elements are evaluated are based on knowledge, therefore they have a high degree of subjectivity*. It is obvious that such an Intellectual Capital Statement can not be achieved within a company, based only on public information. Therefore, access to such a document can only be made by contacting people directly involved in the preparation of it, the report itself being a managerial product.

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Trends in Strategic Management of Banking Institutions in Romania

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Abstract

The integration of Romania in the European Union has determined serious implications on economy and on the national banking system that had to cope with the pressure of a competitive market having higher and higher demands from customers who ask for much more complex products and banking services.

Considering the evolution of the banking environment in the last period, for any institution of credit, aspects such as: diversification, innovation, personalization of banking products and services should be priorities.

Key words: strategic management, banking activities, trends, performance.

Clasificare J.E.L.: G21, G24, E59, F33

The sector of banking services involves a specific approach to study the customers demands and to set up the portfolio of the services that the credit institution is to offer.

All these appear mainly due to the particularities of the banking services and products such as: [1]

- banking products and services have a long life cycle- this due to the immaterial character, they are not liable to moral and physical usage. Their process of ageing is very slow, sometimes meeting products and services as old as the banking institution;
- the impossibility to protect the banking services by means of patents, because of the similitude of a banking product created and launched on the market by a banking institution, can be very easily taken over by the other banks in the system. The difference can be made

by emphasizing of some intrinsic qualities and by using a distinctive and personalized name;

- the demand of banking products and services is heterogeneous, the credit institution having to consider the needs and demands of each segment of customers in order to attract new and devoted consumers;
- the launching of banking products and services is highly conditioned by the existence of banking and fiscal regulations, the lack of a legal basis for promoting new products, as it was the case of leasing operations, that could not be used up to the appearance of a legal basis;
- carrying on the banking operations calls for the customers engagement. In order to get and use some banking products, a cooperation with the beneficiary is necessary, who will draw a personal documentation under the limits of a form frame used by the banking institution. The self-banking services, that are a way of externalization of the banking activity, allow the users to manage a financial situation by means of banking operations such as the bills payment, depositing or withdrawing cash, getting a statement of account, without restrictions;
- atomicity, another characteristic of the banking services demands, brakes carrying on the operations with the customers who ask more and more personalized services;
 - the banking products and services can be offered to the customers only directly, being no possibility of redistributing or reselling. This involves the existence of dispersed units in different geographical areas, determining the

process of developing in territory of the banking institutions. The banking branching is the place where the customers are got or lost. According to the latest evolutions, the structure of the Romanian banking system, that represents the dominant of the financial system of our country, has not been changed over the last two years, including in 2011 a number of 42 credit institutions, among which 32 banks Romanian legal persons, 9 branches of foreign banks and an authorized network of credit cooperatives (CREDITCOOP). Comparing to 2009, the number of the foreign banks branches is lower with a unit while the number of domestic banks is higher.

From the point of view of the countries that hold participations to the social capital of the national banks and of foreign branches, banks with Austrian capital still have the highest quote on the market (25,5%), being followed by those with Greek capital, however being on a decreasing trend.

On the third place, at a great distance those having Dutch capital, that comparing with 2011 registered a significant increase (Table 1) [2]

Table 1 Preventing foreign capital in the Romanian banking system

State	2010		State	2011	
	mil.l ei	%		mil.lei	%
Greece	382 9,5	26,6	Austria	4314,3	25,5
Austria	243 4,5	16,9	Greece	2762,0	16,3
Holland	129 1,7	9,0	Holland	1999,0	11,8
Hungary	623, 7	4,3	Hungary	570,1	3,4
France	565, 1	3,9	France	889,2	5,2
Italy	390, 7	2,7	Portugal	461,2	2,7
Portugal	383,	2,7	Italiy	247,8	1,5

	0				
BERD+ IFC	362, 8	2,5	BERD+I FC	400,6	2,4
Cypru	341, 8	2,4	Cypru	440,1	2,6
Israel	247, 8	1,7	Israel	103,2	0,6
German y	158, 2	1,1	Other contries	475,2	2,8
Other contries	147, 4	1,1	Germany	187,0	1,1
Great Britain	121, 7	0,9	Great Britain	116,7	0,7
USA	86,0	0,6	USA	200,4	1,2
Foreign capital on banking system	109 83,9	76,4	Foreign capital on banking system	13166, 8	77,8
Total capital	143 85,4	100	Total capital	16944, 1	100

Source: BNR- Yearly report 2012

At the end of 2011, the national banking market was dominated by five credit institutions that were holding together 52,8% of the total assets and deposits. BCR holds its leading position, followed by BRD-GSG (13,9%) and Raiffeisen Bank that ascended four positions. The fourth and the fifth are hold by CEC Bank that did not highly increase. (Table 2)

Table 2 Market quotes of the first 10 banks

Nr crt	2010		2011	
	Bank	%	Bank	%
1	BCR	19,1	BCR	19,8
2	BRD-GSG	14,0	BRD-GSG	13,9
3	Volksbank	6,6	Raiffeisen Bank	6,5
4	Alpha Bank	6,4	CEC Bank	6,4
5	CEC Bank	6,3	Alpha Bank	6,2
Total 5		52,4		52,8

6	UniCredit Tiriac	6,1	Banca Transilvan ia	6,2
7	Raiffeisen Bank	6,1	UniCredit Tiriac	6,0
8	Banca Transilvan ia	5,9	Volksbank	5,8
9	BancPost	4,5	BancPost	3,9
10	Piraeus Bank	2,9	Piraeus Bank	2,7
Total 10		77,9		77,4

Source: author's data

Keeping the same degree of concentration of the Romanian banking industry reflects an increase of the competition. The credit institutions in our country can be grouped in three large strategic groups having as clasification criteria the strategic advantages, competences and vulnerabilities, in this way:

The group of banks having a state majority capital made up of CEC Bank and Exim Bank that has the following competitive advantages: a well knowledge of the Romanian economic environment, the teritorial network widely spread and a great number of employees that are providing services to the customers, all these advantages not being correctly used can become negatives aspects.

Besides these, banks having a state capital present some vulnerabilities consisting in the low flexibility concerning the operation and the investing reticence highly produced by the control of the governmental bodies; the limitted managerial competences together with the generality of the banking products and services, determines a low quality level and the impossibility to focus future strategies on certain segments of customers;

The group of private banks has the following competitive advantages:

The staff and managers competence and high qualification stimulated by the selecting and motivating srtategies, the high flexibility of the operating way, of the investing polcies,

a well knowledge of the economic and social environment, the importance granted to the new information banking technology.

Besides all these, credit institutions having a private capital are vulnerable from the social capital point of view, that sometimes is not enough in order to serve the great companies and from the point of view of the low number of units in the teritory. Commercial banks that are affiliated to this group should develop its strategic area in the field of diversifying the customers segments, but also concerning technology and services offered;

The group of foreign banks branches, that have the possibility to take advantage of the banking experience got by the " holding" banks from the countries they are from, of an international banking know-how, by a good reputation among customers and of the relations with the correspondent foreign banks.

Another great advantage is setting the capital (in foreign currency) at the fluctuations of the rate exchange generated by inflation. The disadvantages of this group consist in: diminished network in the teritory, the impossibility to take advantage of the leading effects determining important advantages in the origin country, the limitted knowledge of the economic environment and of the restrictions of the customers segments.

The competition of the three groups consisted in applying differential strategies considering different aspects such as interst rate, geographical proximity of serving (teritorial network), the level taxes and commissions charged, the fast and safty ways of providing services.

Concerning the level of interests for the deposits received and the credits granted, the competition took place among the banking institutions that are part of the first two groups.

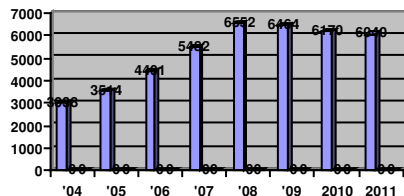
In order to meet the requirements of the customers concerning the serving proximity, banking institutions have developed up to 2008, its network of units in the teritory. This teritorial expansion is highly expensive for any banking institution, the exact price depends on the development level of the bank and on the final target. If it is aimed to get a 10% market quote, then at least 5-6% of the total units in the banking system should be hold, that is about 380 units.

Analized in its dynamics, the dimation of the teritorial Romanian banking institutions (Figura 1) is in this way: until 2008 when the highest level is reached 6552, the number of units increased, since then a number of units to be diminished, in fact the banking institutions closed 88 units representing about 1,4% of the teritorial network, reaching 6464 of units at the end of 2009. [3]

The dramatic diminishing of the crediting process and the significant increase of provisions negatively influenced the activity over the last three years, on the activity of the credit institutions. All these, in order to diminish its expenses and the eventual losses, applied measures to reduce the teritorial networks. The effects of this process can be clearly seen, many commercial banks giving up to their presence in different counties.

In 2010, a significant diminishing concerning the teritorial units took place, when 294 banking agencies were closed, representing about 4,8% of the total agencies and branches. The teritorial network still continued to diminish, so that at the end of the last year, this was made up of a number of 6040 units.

Figure 1. Teritorial units evolution of the credit institutions



Source:www.bnro.ro

At the end of 2008, banks registered 6552 agencies, meaning that only in the three years that past since the beginning of the financial crisis, the banking institutions were determined to close a number of 512 units.

CEC Bank can be considered a champion of restructuring, that since 2008 closed a number of 241 units reaching 1177 agencies in 2011.

The Romanian banks orientation towards retail customers since 2002 led to developing a network of banking counters, determining credit institutions no matter the dimitions to penetrate numerous areas of a high banking potential, many of the units opened having modest dimitions of 2-6 employees

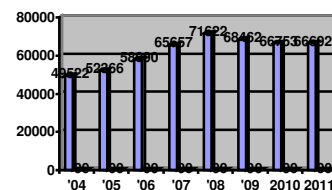
(neighbourhood units). However, the banking process of Romania is still modest having about 6000 citizens at the banking counter, much above the average of the member states in the European Union of 2297.

The fast development of the Romanian banking system in the first years of the last decade, was accompanied by the fast development of the labour force used in this sector of economic activity.

If at the end of 1999, the average number of the employees in the banking system was of 50784, one year later, as Bancorex closed and some restructuration measures were took by those banks having a majority state capital, the staff employed in the banking industry decreased up to 44802 persons.

Since the orientation of the Romanian credit institutions in 2002, towards retail activities that requires a numerous staff, the process of increasing the occupied available labour force in banking institutions, thus at the end of 2008 a number of 71622 (Figure2)

Figure 1 The evolution in number of the employees in credit institutions



Source:www.bnro.ro

Since 2009, the evolution in number of the employees registers a decreasing trend, thus comparing to the previous year, 3160 persons were dismissed. Commercial banks continued a slow restructuration last year, by dismissing 61 employees, reaching a number of 66692 persons at the end of 2011.

A higher cut off took place in teritorial units that decreased from 6170 to 6040 agencies and branches, banking institutions closing more than 2% of the teritorial network in 2011.

The trend of externalization in banking services is more and more evident. This is possible by the broker agencies of the banking services and by franchising system.

Mobile bankers represent the mobile sales component of the banking entities, by which one can obtain high results at low costs. In

case of crediting process, the responsibility of drawing the crediting file is assumed by the broker, so diminishing the queues and the time spent in front of the banking counters.[4]

The costs involved are supported by the banking institution, this not charging further commissions from the customers. A personalization of the banking services produces in this way, by moving the brokers to the branches of economic agents or to the addresses of the individuals, getting a considerable time saving.

Collaborating contracts are concluded between the brokerage companies and the commercial banks.

The first ones are not obliged to provide services to only one bank. This modality leads to a diminishing of costs for the banking entity, this paying a certain amount and a commission proportionally direct to the efficiency of the brokers, also diminishing costs due to paying the staff and providing the necessary conditions to carry on the activity. [5]

The offer in franchising system is another method to externalize the banking services. A training period and instruction is necessary for those who provide such kind of service. The training course will be provided by the branch to be able to use the soft, to check the data and to get used with the labour flow in general.

The deep changes that happened on the national banking market, mainly determined by the international regulations and new information and communication technology, involves new strategic orientations of the banking institutions materialized by changing the methods.[6]

In the future, the customer will have a central role, being more anticipative, more familiarized with the banking services and more authoritative. He will have the control and he will be interested only in those banks able to meet his demands.

The banking activities will focus on basic competences, aiming to identify those target fields and on developing them. Banking competition will take place on strict specialized market segments.

Thus, human resources management, inovative approach of banking products and services, information technology and applying a quality management will be

essential elements for banking institutions to succeed.

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Entrepreneur and entrepreneurship education. Entrepreneurship Education in Romania

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Abstract

In entrepreneurship research indicates a direct relationship between the level of entrepreneurial activity - the frequency with which an economy is creating new businesses - and growth. It is considered that the level of entrepreneurial activity in a country or region favors the growth of the country or region. The idea behind government initiatives to develop and implement public policies to support and encourage entrepreneurial activity across countries and regions.

In Romania, entrepreneurship education at all levels - primary, secondary, university or professional training - plays a major role in key entrepreneurial skills. Although entrepreneurial knowledge necessary for learning is growing, there are still a number of obstacles in the development of entrepreneurship education, especially in terms of finance and human resources.

Keywords: entrepreneur, entrepreneurship, entrepreneurship education.

J.E.L. Classification: L26, I25.

1. Introduction

Entrepreneurship is manifested in the economy under a multitude and variety of forms, with very different results not only reflect the economic and financial welfare. Equally, entrepreneurship is correlated with technological progress, create jobs and reduce social inequalities or environmental issues.

Globalization and the global crisis in recent years have favored a series of structural changes in plan entrepreneurial deeply felt. Increased competitive pressure on businesses, which resulted in an increase in productivity by using the new technologies

and innovation processes. New opportunities stimulated entrepreneurship and creativity, which are considered engines of economic development in 2020.

It is widely recognized, particularly economic analysts and policy makers, that business is generating wealth in society is a key to economic growth and job creation. Supporting entrepreneurship has become a priority as a solution to the crisis and stop the alarming rate of unemployment. In recent years, governments constantly allocates resources for recovery help businesses in different forms: loan guarantees, tax subsidies, credits for research and development aimed at forcing innovation or to encourage startups.

2. Entrepreneur from yesterday and today

Richard Cantillon (1680-1734) was the first to use the term "entrepreneur" calling him as the one who had to be constantly alert to speculate relationships and opportunities, be confident and willing to take risks [1]. Related Industry in the early revolution, Cantillon sensed no impact technological innovation or responsiveness status on careaceasta one determină.

In 1800, Jean Baptiste Say's vision of the entrepreneur creates new value in that person recognizing him as "transferring resources from one area of lower productivity into one with higher productivity and higher profits" [2].

Alfred Marshall believes that the most important function of the entrepreneur is to provide simultaneous innovation and progress [3].

In the twentieth century, Schumpeter distances itself from classical economic theories, centered on the ideas of balance and optimize and promote "man of action" and the concept of developing the kind of change that only genes within the economic sphere

and not in response to the phenomena produced in response beyond. Entrepreneur or "man of action" [4] has the courage, vision, creative spirit, the ability to initiate a new quality, to recombine or to imagine new combinations of already existing resources. Innovation is the process continually change and progress a natural consequence. Entrepreneur is "man swim against the current society in which he lives" because it is motivated by power and desire for self.

Peter Drucker is one that nearly a century after the first edition (1911), Schumpeter's work makes an observations enlightening demonstration: entrepreneurship is not a "feature either an individual or an institution. It is not a personality trait. [...] Entrepreneurship is behavior rather than personality trait. "Entrepreneur is a person who "always looking for change, responds to it and exploits that opportunity". [5] Therefore the link between innovative entrepreneur and dynamic imbalance of an economy is a direct theory. Moreover, one who "maximize opportunities" that "bring all parties together, integrating all resources (financial, human, knowledge) to transform business invention 'that practice' systematic innovation "(in an institutional sense). Moreover, Drucker lead judgment and addictive behavior in the vicinity of entrepreneurial management.

If Knight's entrepreneur based its ability to raise capital on the ability to handle uncertainty, intelligence, confidence and foresight Israel Kirzner (1982) exploit vigilance, creativity, leadership skills and ability to exploit profit opportunities. Existence of unexploited profit opportunities is a sign that some resources were earmarked wrongly and led to a kind of social waste"[6].

May source of fresh new and in an integrating vision, Adrian Tanțău shows that the entrepreneur is "a person who by intuition and creativity, sees opportunities where others do not see them, turn them into ideas that successfully apply in practice creating new jobs and taking a calculated risk "[7].

In 2007, cooperation between the OECD and Eurostat, the EIP [8] were developed standard definitions and concepts underlying the production and collection of statistical data from different countries. OECD-Eurostat approach combines several conceptual definitions empirical indicators.

Based on theoretical contributions of Richard Cantillon, Adam Smith, Alfred Marshall, Joseph Schumpeter to EIP adopted several definitions on entrepreneurship deliberately focusing on the link between entrepreneurship and business.

Were taken into account three components: entrepreneurs, entrepreneurship and entrepreneurship, defined as follows:

- *entrepreneurs* are those persons (business owners) who seek to generate value by initiating and developing economic activities by identifying and exploiting new products, services and markets;
- *entrepreneurial activity* is the enterprising human action to achieve value generation through the creation or development of economic activity, by identifying and exploiting new products, services and markets;
- *entrepreneurship* is the phenomenon associated with entrepreneurial activity.

Between the three components there is no perfect boundary. Entrepreneurship is one of the key success factors for the EU 2020 strategy, promotion and support of entrepreneurship is provided in a series of actions to smart growth, industrial policy, research, innovation and education.

3. EU policies to support entrepreneurship

EU policies on entrepreneurship guided by three documents: Small Business Act for Europe (2008) Europe 2020 Strategy and Action Plan for the development of entrepreneurship in the EU, 2020. "Small Business Act" (SBA) or the Small Business Act for Europe is the European Council initiative that arises recognition at the highest political level, the role and importance of SMEs in the European economy. In 2008 it was adopted European Industry Commissioner Gunter Verheugen said that "through the Small Business Act for Europe, a Europe full force involved in supporting SMEs by bringing all the resources of Europe to support small businesses in business their daily and to prepare the way for those that will create more jobs and grow "[9]. For the first time, proposes a partnership between the European Union and the Member States to establish a policy framework that is based on the "Think Small First". SBA promotes such a set of 10

principles to guide the design and implementation of public policies in this field, both at EU and Member State level.

Principles found in the 4 strands promoted by the European Commission in 2009, which followed consistently, primarily the implementation of the "Think Small First" by "SME test". SME test, already implemented by some Member States (Belgium, Denmark, Finland and Germany) to simplify accounting rules for micro and reducing administrative burdens for SMEs, introduction of single window operations and completion of one year within the judicial proceedings in the case non-fraudulent bankruptcy.

The second major direction of action relates to access to finance, by simplifying rules on State aid, adopt a manual on rules applicable to this area and adopting a temporary framework for state aid for 2009-2010 in order to counter the effects of the credit squeeze on real economy.

The third course of action is to market access by reducing fee for Community trade mark rights and simplified registration procedure.

The fourth course of action promotes entrepreneurship by organizing major events for the general public, allowing entrepreneurs to present their career paths and enable network activity. Are promoted examples of good practice, European prizes for entrepreneurship, to set up a European Network of Female Entrepreneurship Ambassadors and ERASMUS network supports young entrepreneurs, while a number of Member States have decided to integrate entrepreneurship education into their curricula.

'Europe 2020' [10]. is the European Union's strategy for growth, with the time horizon 2020. In a rapidly changing world, the EU wants to become a smart, sustainable and inclusive growth. Smart growth concerns an economy based on knowledge and innovation. Sustainable development requires competitiveness and resource efficiency. Inclusive growth means a higher rate of employment in the economy to generate economic, social and territorial cohesion in the EU. These three priorities are mutually reinforcing and are able to help the EU and its Member States to achieve a higher level of labor employment, productivity and territorial cohesion. In fact, five major goals

are set on employment, innovation, education, social inclusion and the environment to be met by 2020. Various actions at European and national level in support of the Strategy. The European Commission launched in autumn 2012, an Action Plan [11]. entrepreneurship development at all levels (European, national, regional), which aims to boost entrepreneurship in Europe in 2020, by unlocking the potential for growth and jobs.

4. Entrepreneurship education and training for entrepreneurship

Education is essentially an action oriented purposes. As a modeling activity, socialization, leadership training process of the younger generations, education is always done from the perspective of project personality, a kind of man who embodies the value system that society tends to perpetuate, to promote it and develop it through education.

Existence goals and the need to express their formulation under prospective nature of education, the fact that, by its nature, education is necessarily forward-looking. In this regard, while goals ensure ongoing consistency of educational influences, it prints the current educational activities and projected future destination. Need and importance of taking explicit formulation and enhance education goals for education systems and processes. Goals are, in this context, the central component that gives character planned, organized and systematic education.

In the current global context, policymakers in Europe and the United States believe that entrepreneurship is more than necessary to achieve higher levels of growth and innovation. Empirical research has shown positive relationships between entrepreneurial activity and economic outcomes [13]. Policy makers also believe that increased levels of entrepreneurship can be achieved through education [14] and especially through entrepreneurship education. Therefore, such education is promoted and implemented curriculum in many European Union countries and the United States [15].

The premise behind these programs is that entrepreneurial skills can be taught and are

not fixed personal characteristics. Indeed, it was shown that: the effect of general education, measured in years of schooling on contractor performance is positive [16] and that effort is effective business training is measured in the number of people who applied for microfinance to start your own business [17].

Entrepreneurship is a multidisciplinary field with a broad topical coverage. Shane and Venkataraman (2000) have defined the "the territory of the scientific examination of how, by whom and with what effects are discovered, evaluated and exploited opportunities to create future goods and services". What is the relationship between formal education and entrepreneurial performance? As demonstrated by Van Praag and Versloot (2007), there are enough studies that show the important contribution of entrepreneurs to the economic development of nations. Henrekson and Johansson (2005) shows that successful entrepreneurs are responsible for growth. The latter is supported by levels of competition, job creation and innovation. Private benefits imply positive social externalities. Consequently, many developed countries and regions, including the U.S. and EU, unemployment policies encouraging successful entrepreneurship. One is providing opportunities for people to develop human capital through education. In other words, these policies are consistent with the hypothesis that entrepreneurship involves skills that can be developed through education.

Opportunity cost problem of choosing between being an entrepreneur and take full advantage of this quality, and be entrepreneurial and employee performance measurement reads her idea through income earned and not of individual time. We read stories about successful entrepreneurs who dropped out at various stages of their lives. They include Sir Richard Branson (Virgin), Michael Dell (Dell Computers), Bill Gates (Microsoft) and Larry Ellison (Oracle). Not infrequently some of them said that education is a waste of time if you want to become an entrepreneur. Education would be useful only for salaried employees. Therefore, these statements imply that the skills required of a contractor can not get / can not be developed through formal education. However, the

latest list of billionaires in the world, included 1125 individuals of which only 73 of them, six percent gave up at some stage of schooling.

Inverting hypothesis, we could say that formal education is associated with a greater likelihood to opt for entrepreneurship, the reason being that people with higher education are more likely to see entrepreneurial opportunities. Investing in their education can multiply the number of their future business using superior information processing and with higher degrees of freedom when optimizing the use of labor in their company.

5. Entrepreneurship Education in Romania

In Romania, entrepreneurship education should be initiated and continued in school family. It is a priority one only from a pragmatic perspective (who will produce added value tomorrow?) Nor in terms of alignment with economic standards, but from the perspective of European education or cultivation of a way of being and living compatible with notions of welfare (A. Smith), sustainability and sustainable development in an economic, social and political high entropy.

In 1973, Edgar Faure [18] warn "competitiveness of an economy depends on the wisdom of its decisions concerning education, the ability to make decisions necessary reform, the ability to take on tasks that involve this type of investment. [...] Over the next 20 years, international competition will be linked largely by investment type and intellectual education itself will no doubt make a good international exchange will export >> << educational programs at the same time finished products ".

Characteristics' investment in entrepreneurship education "related to the specificity and magnitude of its economic and social effects:

- multiple and inter-effects - economic, social, cultural, political, educational demos, interpersonal manifest in terms of creation and innovation in the social participation, communication, dialogue and transparency, cooperation and collaboration, initiative and autonomy, participation in society, education and family strengthening social cohesion etc.

- attribute training, dissemination and propagation of individual scale investment: in performances, learning capacity, flexibility in terms of economic knowledge and occupational mobility - training and, ultimately, the size and scale of income and social security by contributing - via competence and performance - to increase the material and spiritual at the family level, there is transfer of knowledge, behaviors, orientation and education of children in the community in which they work, communication, and mutual respect, solidarity and cohesion etc.

- whether theoretically infinite, human resource development through assimilation of new skills through restructuring / reorganization of previously learned, transfer of knowledge, skills, competence;

- character "close" effects with respect to time investment is made, there is a noticeable distance in time when there are changes in education and training and employment patterns (trend of reduction, compression of the gap).

Investing in entrepreneurship education, regardless of the agent that they fund is a long term investment in terms of period (s) of time when it is done, and the short / medium beneficiary of this type of investment and human community of which part, usually expressed in competence, performance and income.

And Romania have made great strides by introducing elements of entrepreneurial culture in school curriculum early learning classes, continue to the secondary. By revising school curricula at all levels approved by Ministerial Order 5097/2009 entrepreneurship is explicitly recognized as cross-curricular goal. Development, the number and content of courses, the recent emergence of educational research and the current situation in education - reflects an apparent consensus in the need to provide adequate teaching entrepreneurship education for purchases.

However, the short history of entrepreneurship education indicate that it is not possible to share another collective experience, knowledge and meanings about how to do this. To move forward, there is a need to combine entrepreneurship studies methods of integration of knowledge into the curriculum and to focus greater dynamics in

the context of the implementation of specific cultural values of each people.

6. Conclusions

Romania should give greater weight to economic education and entrepreneurship, to identify the main factors that may contribute to enhancing the role of education in economic development through curriculum content invoice facilitating economic structural adjustments - the quality of human resources to the labor supply and allowing modeling work according to set patterns imposed by labor demand.

The considerations arise from the very fact that economic education, or entrepreneurship, by extension, means preparation for professional work as the main reaction and adaptation to change. Currently in Romania, entrepreneurial culture crystallizes especially in private companies founded after the creation of free market mechanisms in Romania.

EU employment guidelines work identifies entrepreneurship as a priority in education. Encouraging entrepreneurship involves promoting right thinking, entrepreneurial skills and awareness of career opportunities as an entrepreneur. Therefore it recommends teaching entrepreneurial subjects, inclusion and recognition in the national curriculum and the curriculum for each level of the education system.

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The Impact of the Economical Crisis on the Franchise Market in Romania

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Abstract

Franchise is definitely a superior concept of doing business and it provides the best answer to the globalization tendency, as it has the advantage of distributing risk, which leads to avoiding the danger of general economical crises with devastating effects.

In our country the impact of the economical crisis on this sector has materialized in the year 2009 by a decrease of 30% of the volume of franchised businesses, after which the figures have constantly increased, reaching in 2011 the same level as in 2007. The franchise market in our country is developing, and the specialists of this sector estimate that it will evolve explosively in the field of retail and in that of consulting and training services.

Keywords: franchise, franchise market, crisis, brand

J.E.L. Classification: M16

1. Introduction

Taking into consideration the national and international context of the economical crisis, interest lays upon profitable business. In these circumstances, a franchise business represents a winning bet because franchising becomes the most dynamic and powerful method to develop a business, as well as an economical opportunity and the franchised has the possibility of becoming his own architect of the franchised draft and of work procedures. Franchise provides the best answer to the tendency of world globalization, as it has the advantage of risk distribution which leads to avoiding the

danger of general economical crisis with devastating effects.

Franchises promote the entrepreneurial sense and that of initiative and also encourage independent work activities as an alternative for the job of an employee. The opportunities offered by such businesses are of great help for those who are just starting their careers and intend to become entrepreneurs, for the retired people who want to increase their incomes but also for the unemployed who can thus benefit from a professional reconversion and for those looking for a new job.

2. General considerations concerning franchise

The International Association of Franchise defines franchises as being a commercializing system based on a continuous collaboration between physical and juridical persons, financially independent, through which a person, called franchiser, gives to another person, called beneficiary, the right to exploit or develop a business, a product, a technology or a service in a certain territory.

Briefly, the franchise means putting in practice the fundamental pedagogical principle: "Teach me to succeed on my own."

The notion of franchise is defined in Romania by the law no. 79/1998 for the approval OG 52/1997 as being a commercializing system based on a continuous collaboration between physical and juridical persons, financially independent, through which a person, called franchiser, gives to another person, called beneficiary, the right to exploit or develop a business, a product, a technology or a service.

The franchise appears in all fields of activity, such as: fast food, restaurants, cafes, shops, beauty, real estate, services, education, Internet, auto, cleaning, security, advertising, finances, training, traveling etc. This business technique could contribute greatly to the modernization of the Romanian economy, especially commerce, by attracting foreign investments to its highest components, brand, know-how, modern technology etc, in a manner convenient for all parties. [1]

The advantages of a franchise in comparison to the traditional business would be the fact that the franchisee benefits from an extended training in developing a successful business, the franchisor guides the franchisee regarding the direction of the business, all franchisees receive training, guidance and planning before setting up the business, minimizing risks, both for the franchisor and the franchisee, the reputation of the product or service is already identifiable for the consumers, such a business does not require previous experience in the franchise field, financial assistance is offered in the form of consultancy, by associating with them the franchisee benefits from instantaneous local recognition, obtaining a business model, diminishing the risk associated with launching a business, rapid extension of the distribution network and other forms of help offered to the franchisee. [2]

On the list of weak points there are aspects such as reduced crediting of the private sector by the banking sector, the extreme long procedure of closing a business, the taxing system that burdens the private sector and the low expenses in the research-developing sector.

3. The evolution of the franchise market in Romania

In Romania, the first commercial contract containing specific elements for the franchise system was closed by HERTZ with the Romanian Auto Club, in 1975.

During communism, in Romania one has intended to annihilate the entrepreneurial spirit.

Starting with the 90's, as Law no. 31/1990 concerning commercial firms passed, developing the entrepreneurial sector became

an important component of the economical restructuring policy. [3]

Starting with 1991 the franchise entered our country through firms known internationally: Coca Cola, McDonald's and Pizza Hut, but the beginning of the accelerated expansion of great international franchisors really started in 2002. According to the data of the Romanian Franchising Network Association – ARFR, in 2000 there were 20 franchises, in 2003 - 103 franchises, in 2004 - 171 franchises out of which 43 were Romanian, in 2005 - 210 franchises out of which 63 were Romanian.

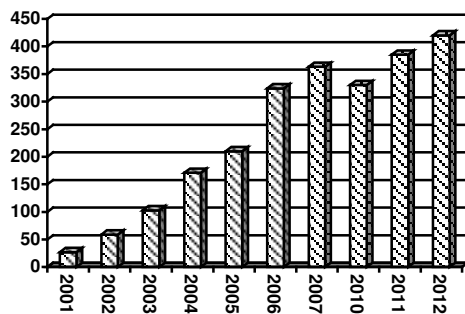
The business environment becomes more favorable for franchises in 2006 when the Romanian Franchise Association is established. The association promotes franchising as a commercial method on the Romanian market and it initiates actions against illegal franchises, counterfeits and to avoid know-how theft.

In 2007 the franchise system brought a new advantage to franchisees. Following the adherence of Romania to the European Union all companies must respect the norms of the Union. Auditing is fairly expensive in Romania and the offer of the franchisor is more advantageous because it is already formatted according to the E.U. In 2007 363 franchises were in function, 12% more than in 2006, the most franchised brand being Fornetti, with over 400 locations open.

The first attempt of a local brand to enter the market outside of Romania through the franchising system was in 2008 when Jolidon had its first exhibition at the Franchise Salon in Paris. [4]

In 2011 there were 385 franchises, 17% more than in 2010. Nowadays in Romania there are over 400 franchises operating with a lower or higher degree of success. The evolution of the number of franchised businesses in our country is synthetically represented in graphic 1.

Graphic 1. The evolution of the franchised brands on the Romanian market



Source: Data processed by the authors

The best known Romanian franchises are: Gogoșă Înfuriată, Elvila, Turabo Cafe, Jolidon, Musette, Tina R, Startonight, Rodipet, Rompetrol, Piritex, Ana Pan, Best Clean, Rent a Benz, Expert Detailing, Mobexpert, Romstal, Fereastră Suki, Perfect Nails.

The best known brands that have entered the internal market by franchising are: McDonald's, KFC, Broaster Chicken, WU XING, Four Star Pizza, New York Pizza, Pizza Hut, City Wok, Fornetti, Danny Donuts, Burger King, Golden Pie, Wienerwald, Clate, Coca-Cola, Pepsi, Yves Rocher, H&M, Miniblu, Replay, Mexton, s.Oliver, VERO MODA, Veronesse, Gloria Jean's, New Look, Motor Jeans, Etam, Safety Broker, Mr. Bricolage, Lavazza, Segafredo Zanetti Espresso, Caffè Filicori Zecchini, Caffè Vergnano, Illy Caffè, Julius Meinl, Euroins.

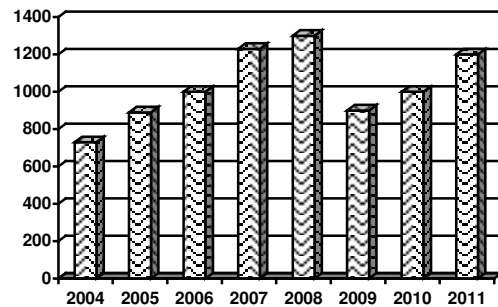
At this moment there are big brands from U.S.A., Canada, Italy and France which are interested in entering the Romanian market. The most sought after franchises remain those in fast food, services – especially gambling, sport bets and beauty saloons but also retailing. [5]

According to CHR Consulting Group data, in 2004 the turnover generated by the franchising system in Romania was of approximately 730 million Euros. In 2005 the franchise has registered a turnover of 890 million Euros, in 2006 it increased to 1 billion Euros, it continued its increase in 2007 and 2008, reaching 1.2 billions and 1.3 billion Euros and it dropped to 900 million Euros in 2009.

In 2010 the income generated by franchises rose again to 1 billion Euros and to 1.2 billions in 2011. Graphic number 2

presents the evolution of the turnover resulted from franchises in Romania from 2004 until 2011.

Graphic 2. The evolution of the turnover resulted from franchises on the Romanian market



Source: CHR Consulting Group

From the graphic above one can notice that in 2009 the impact of the economical crisis over this sector materialized in an approximately 30% decrease of the volume of franchised businesses, less than in other businesses – such as leasing, where the decrease was of 74% during the same year.

The explanations of the development of franchises in our country would be the following:

- the rising competition in all fields of activity which leads to the idea that the faster a firm enters the market the smaller the initial costs, the weaker the competition and the stronger the development will be;
- the current level of the balance between prices and salaries – prices tend to align in a relatively short amount of time to world prices, while salaries align to global ones during a longer period of time;
- the existence of a highly qualified, cheap and easily adaptable workforce;
- the acute lack of quality services and products;
- numerous staff dismissals both in industry and administration;
- the existence of small entrepreneurs who have gained a certain experience and who have been forced, because of

environmental changes, to reduce or close their own business;

- the positive attitude of political parties and of governmental institutions towards foreign investments in Romania;
- the existence of an attractive natural environment that can be valorized effectively in a franchising system;
- the deficient juridic system that determines foreign investors to make investments of intelligence instead of financial ones;
- the franchising system promotes businesses of reduced proportions which imply a small financial effort;

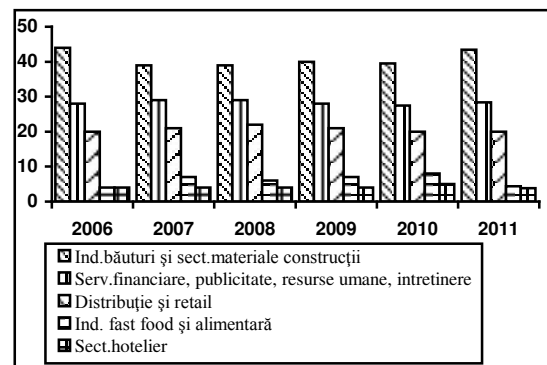
The franchise represents a management school for the Romanian entrepreneurs who benefit of the experience, know-how and research of foreign businessmen, thus providing them with the professional standards necessary to attain success. Romania needs to develop and apply the concept of franchise, a concept important for the reduction of the imports of services and products.

Nowadays, Romanian investors have become more prudent in deciding how to spend their money, in the context of facing a lack of liquidity. On the other hand franchisors are more conciliating, more willing to negotiate certain clauses in the franchise contract. If until now foreign franchises were usually less interested in Romania, now, in their desire to externalize, they are looking for emerging markets. It is a favorable moment for franchisees and master franchisees to obtain certain advantages such as some discounts when it comes to entrance taxes, the level of royalties, dividing payments. Moreover, foreign franchisors are facing with a certain degree of saturation of their own markets and they are looking for other consumers in their wish to expand. At times like these they become more conceding as the potential candidates start from different positions in comparison with previous years, when it was possible for those

wanting to become master franchisee for a certain brand not to be even considered by the franchisor. [6]

Regarding the structure of franchised businesses, it has suffered insignificant changes between 2006 - 2011, its evolution being presented in graphic number 3.

Graphic 3. The evolution of the structure of the franchise on the Romanian market



Source: data processed by the author

An ascending trend on the Romanian market of franchises belongs to businesses in the field of restaurants, including fast food ones. Positive evolutions are also registered in the retail market and in the services market. Franchises in the field of sports betting and cosmetics also have good results. Hence, one of the most dynamic Romanian franchises, GS Bet, sports betting house, targets reaching in 2012 a number of 400 franchisees nationally and it intends to obtain accreditation sell the franchise in other countries. Also, the franchise Biothecare Estetika, of Portuguese origin, opened in Sibiu and it represents a serious competition to franchises such as Nomasvello and Cellulem Block. Another franchise from the cosmetics field, also from Portugal, Depil Concept, aims at entering the Romanian market. A Greek franchise, specialized in developing and implementing modern methods of learning foreign languages has managed, after three years of activity, to reach

impressive figures, the pilot unit being set in Pitesti.

2011 was the year in which well known franchises have come to Romania – for example H&M and Subway – a brand that has recently surpassed McDonald's in the USA. In a global top of the first 10 franchises Subway is on the second position while McDonald's is on the sixth. [7] The secret of the franchise's success was positioning Subway as a healthier alternative in the fast food industry. Other factors have also helped – for example cheaper properties, access to better commercial areas and more agreeable conditions offered by the owners of the commercial spaces. Another important factor was the low tax of the franchise – only 15,000 dollars. The company is now present in 100 countries amongst which Romania, where the necessary investment to open a Subway restaurant is of about 100,000 Euros while in the USA the costs rise up to 250,000 dollars. Another strategy that paid off was choosing nontraditional areas. About 20% of the restaurants of the franchise are set in university campuses, auto dealers' quarters and even churches. At this moment the Subway chain has 36,000 units out of which 2,100 were opened in 2011. [8]

Romania remains a profitable target for the development of franchised businesses even during the crisis, the success rate of the franchised networks being of 89% compared to 93% in 2005. Nowadays the most profitable areas in which one can invest for franchises are alimentation and services.

A significant evolution was registered by expanding franchises in areas outside the capital city. Until now, 75% of the franchises were found in Bucharest, but a medium term expansion of the franchise chain is expected in areas outside the capital, the targeted cities being Timișoara, Constanța, Arad, Suceava or Iași. Moreover, luxury franchises were affected the most by the crisis, taking

constant losses because of the crisis, despite the fact that some of the franchisors have lowered the prices. Another effect of the crisis on luxury franchises is increasing the time in which the investment is recovered. If in past years the time of recovering the investment in a franchise was of 2-3 years, now it has increased to 5 years.

In addition, if in the past the sums of the most sought after franchises were between 75,000 and 100,000 Euros, now the ones that are sought after are those of approximately 30,000 Euros, as the risk for them is smaller and many investors still believe the Romanian market to be insecure thus preferring a smaller investment with a quick profit. In general, the minimum investment for a unit open as a franchise is between 10,000 and 80,000 Euros, depending on the placement and on the field of activity, but it can also reach 250,000 dollars, sum that was invested for the opening of a Musette shop in New York. It is not by far the only example of an exported Romanian franchise, this already being a clear tendency on the Romanian market.

'Native franchising networks represent 45%-47% of the market share of all franchising systems, mainly because of the fact the products and services are adapted to the needs of the consumers, but also because the price and the necessary investments are considerably smaller than the ones for foreign franchises', states Constantin Anton, the president of the Romanian Franchise Association.

Of course there is also bankruptcy among Romanian franchises. One of the examples is Credit Team, a franchise of bank brokers that went into bankruptcy last year, without going through the procedure of reorganizing, only a year after it had received an excellence award for 'solutions for crisis'.

4. Conclusions

The relaunching signs are many more, and investors from a wide range of domains want to bring new franchises on the market. The franchise market in our country is developing and the specialists estimate that it will develop explosively on retail, consultancy services, training. The big franchise chains have entered Romania but there is still place on the market.

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Brand Image Perception: Case-study at Volkswagen AG

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Abstract

In this paper I studied the perception of brand image within the Romanian consumers. Brand holders want their brands to enjoy a strong awareness and notoriety. Brand image is an important constituent of customer mind-set, the value of the brand belonging to the customers. Various instruments were set up to measure the brand image. I used the customer based brand equity model to measure the attitudes of the Romanian consumers toward the Volkswagen brand. The objective of the study was, at theoretical level, to asses the explanation power of the customer based brand equity model and, for the practical purpose, to see how Volkswagen brand perform for the Romanian public. As a methodology I selected a sample of students from the University of Craiova. The results showed that the customer based brand equity model is useful tool in assessing the brand image and that Volkswagen is an appreciated brand.

Keywords: brand image, brand associations, awareness, Volkswagen.

J.E.L. Classification: M10, M31

1. Introduction

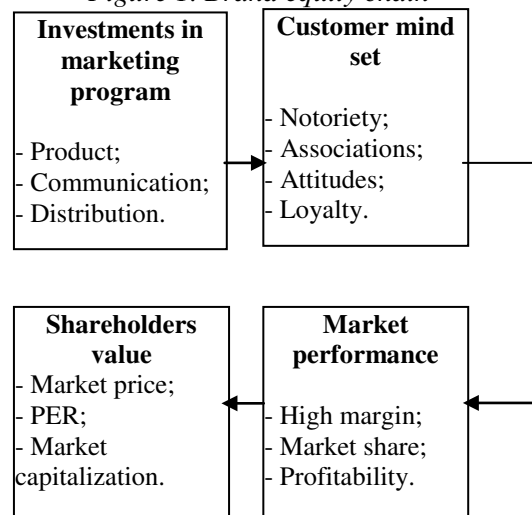
Brands are the connection, the bond between the production and consumption. A product is no longer a sum of functional benefices; it is mostly a symbolic item, with many associations. In order to stimulate the sales of a product it is not necessary to change its utility, but only to slightly modify the emotional connotations that the product generate. It is necessary to change the perceptions of the public and to reinterpret the product. People consume fewer products and more brands. The consumption can no longer be interpreted as the rational decisions

of consumers to maximize the utility. At the moment, the consumption is a social act with strong cultural implications. The brands have a strong importance in the business world, being a sign of the acknowledgments and notoriety. Brands mean respect, quality, leadership, competitive advantage.

2. Literature review

Brand equity is a set of assets and liabilities tied to a brand, to its name and symbol, which ads (or deduct) something more to the value furnished by a product or service. Those assets and liabilities must be in connection with the name and the symbol of the brand, in order to contribute to brand equity [1]. Brand evaluation must take into considerations many elements. Keller (2008) is suggesting a system called the brand equity chain, as a structured approach in order to identify the sources of the brand values and the ways the marketing activities create brand value [2]. The brand equity chain starts from the assumption that the brand value is the mind of the consumer. The process to create the brand value begins with the companies investments in a marketing program, in order to attract actual and potential clients (figure 1).

Figure 1. Brand equity chain



Source: Adapted from Kevin Keller, *Strategic Brand Management*, Person Education, 2008.

Brand holders try to create a set of associations in the mind of consumers. In this way, they are aware of the fact that brand equity is higher if the brand evocations are numerous. Brands became the must-have thing. Brands became an ideal at which many people aspire. Above the aspiration brands are the identifications brands, with which the people wants to get identified. The dependence is created at various levels. According to Kornberger (2010), the brand equation is as follows [3]:

Figure 2. The brand equation

$$\boxed{\text{Brand}} = \boxed{\text{Functionality}} + \boxed{\text{Evocations}}$$

Source: Adapted from Kornberger, Martin, *Brand Society: How Brands Transform Management and Lifestyle*, Cambridge University Press, 2010.

This equation ensure the formula of success and profit in many industries. It is useless to conclude that the evocations assure the highest part of the brand value. If a consumer has a strong bond with its brand, then this is less inclined to change the brand [4].

A model of brand equity starting from the clients perceptions is the Keller model of customer based brand equity (CBBE) [3].

Developing brand equity is a difficult, complex and sensitive process. The CBBE model approaches the brand equity using the customers perspective. The basic assumption of this model is that the power of the brand is based on what the clients have learned, felt, seen and heard about a brand, based on their experience with that brand over time. In other words, the power of the brand is in the mind of consumers. Keller defines the customer based brand equity as the differentiate effect that the brand knowledge of consumers have on the consumers response to the marketing activities of that brand owner company.

The construction of a successful brand using the CBBE model is realized in a four steps succession; the passage to the next phase is realized only when the previous objectives have been touched. The four phases are:

- The clients must known the brand; they

should be able to associate it to a product or service (brand awareness);

- The clients must to be aware of the totality of significances of a brand, by associating tangible and intangible elements with certain properties (brand meaning);

- To obtain the desired outcome from the clients (brand action);

- To transform this outcome in a active, intense, loyal relationship between client and brand (brand relationship).

The CBBE model can be represented under a pyramidal shape as in table 1. The left side is more a rational way regarding the brand equity development, whether the right side is a more emotional approach. The most admired brands have been consolidated both ways.

Table 1. The CBBE model

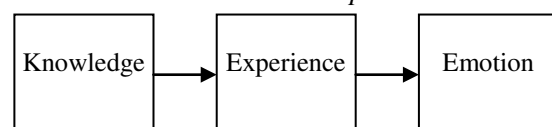
Resonance (loyalty, commitment)	
Judgments (considerations, credibility, superiority)	Feelings (love, fun, security)
Performance (basic characteristics, design, price)	Imagery (user profile, personality and values, purchasing experience)
Salience (associations, information gathering)	

Source: Adapted from Kevin Keller, *Strategic Brand Management*, Person Education, 2008.

Keller's model approach has some drawbacks because even if it does offer an analytical and conceptual description of brand equity development, the approach lacks a firm theoretical foundation. It remains unclear how qualitatively based brand evaluation can be converted into monetary units. Keller's system is a conceptual strategy for brand appraisal that remains as yet unconfirmed by empirical evidence.

Basically, brand-customer relationship experiences three stages: knowledge, experience and emotions, as depicted in the figure 3.

Figure 3. Stages in brand-customer relationship



Source: author conception

Knowledge is reflected in that a person learns the concrete characteristics of an object, such as its name, its appearance or its physical properties.

Experience is the process of interacting with the brand world, resulting both consumption and networking.

Emotion represents the feelings, positive or negative, brought to mind by an object or idea.

A brand representation that is activated quickly and easily is more likely to influence a decision at the point of purchase. Hence brands with more balanced associations across these three areas are more likely to be strong and primed for continued growth. This is evidenced by elevated levels of bonding leading to brand's future performance [5].

3. Volkswagen company

Headquartered in Wolfsburg, Germany, Volkswagen AG is the biggest car producer in Europe. In 2011 VW sold more than 8.2 millions cars all over the world. The group has a multibrand strategy including among others for example: Volkswagen, Audi, Seat, Skoda. Its main markets are: Europe (more than 4 millions cars sold), Asia-Pacific (2.64 millions) and South-America (0.93 millions). Volkswagen has a strong presence on the markets that generate the highest raise in the selling figures: China, India, Brazil, Russia [6].

Volkswagen cars have a solid technical reputation. The cars are reliable and offer a good price to value ratio. Despite the current economic crises, Volkswagen increases its sales due to a good brand image and reputation. The company is not so interested in offering discounts to its models, such as the competition. Also, the company is interested to maintain the reselling value of its cars.

The group strategy for 2018 is:

- to deploy intelligent innovations and technologies to become a world leader in customer satisfaction and quality.
- to increase unit sales to more than 10 million vehicles a year; in particular, Volkswagen intends to capture an above-average share of the development of the major growth markets.
- to increase its return on sales before

tax to at least 8% so as to ensure that the Group's solid financial position and ability to act are guaranteed even in difficult market periods.

- to become the top employer across all brands, companies and regions; this is necessary in order to build a first-class team.

Volkswagen intends attain its objectives by a judicious allocations of technical and commercial resources. The company has more than 54 production locations in the world. The company invests in hot areas, with greater demand such as: China, India, Brazil.

From the technical point of view the company is investing constantly in new technologies that will make driving a remarkable experience. Making new technologies widely available, Volkswagen democratizes automotive technologies. These new innovations are in the area fuel-emissions reduction, helping the driver to enjoy to manage the cars. The company is engaged in new futuristic projects, such as the cars that drive their self.

Other innovations are realized in order to increase the autonomy of the electric engines. All these innovations are to be found on the new cars releases. Volkswagen invested in 2011 in research&development more than 7 billions euro.

From commercial point of view, Volkswagen continues to engage in new products and markets development. Its strategy is designed to increase the number of cars sold and also to launch new models. The diversification of products is necessary in order to better satisfy the clients needs.

Audi brand is targeted for consumers with high income. The brand's success can be explained by better engine solutions combined with a stylish driving emotion. Volkswagen, "Das Auto", is appreciated by consumers that want a German car, with a good reputation, and that is still affordable. For the people in the developing countries Volkswagen is an aspiration car. The Skoda brand, "simply clever", also increased its awareness and reputation on its target markets.

In general, the customers are satisfied with the brands of Volkswagen AG. The results of the satisfaction surveys place the brand on leading positions in Europe, and all

over the world [6].

4. Objective and methodology

The objective of this paper is to investigate the brand image of Volkswagen in Romania, using the CBBE model. For practical reasons, I focused only on the Volkswagen Brand. The survey used a sample consisting in a number of 158 bachelor and master students from the University of Craiova, Faculty of Economics and Business Administration. The sample has no pretention to be representative, but it is useful in two ways:

1) from a theoretical perspective to verify the applicability of Keller's model on a specific brand;

2) from a practical perspective to acknowledge the image of Volkswagen AG on Romania market.

All the students investigated had a valid driving license and they confirmed to poses a good information on Volkswagen. Potentially they all are future clients of this brand.

For each category in the CBBE model we realized 5 items, asking the respondent to place itself according to a 5 point Likert scale, from 1 totally disagree to 5 totally agree. Then we checked to see if the items were representative. For this reason we used the Alpha Cronbach test, resulting a satisfying value of 0.932 (table 2).

Table 2. Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.932	.931	25

5. Results and discussion

Then we performed the means for each of the five categories. The descriptive statistics is listed in the table 3.

As we can see from the table above, the highest score (4.26) was obtained by the item: *The products of this brand are well-done*. The lowest score (2.84) was obtained by the item: *I identify myself with the people using the Volkswagen Brand*. Overall, the *Performance* category obtained the highest score (3.98). Volkswagen is appreciated by its technical characteristics and features.

Table 3. Descriptive statistics

	N	Mean	Std. Deviation
Performance_1	158	4.26	.717
Performance_2	157	4.13	.785
Performance_3	158	4.20	.835
Performance_4	158	3.72	.772
Performance_5	158	3.58	1.023
Imagery_1	158	3.39	1.008
Imagery_2	158	4.02	.829
Imagery_3	158	4.08	.743
Imagery_4	158	3.83	.843
Imagery_5	158	4.03	.735
Judgements_1	158	3.52	1.001
Judgements_2	158	3.77	.871
Judgements_3	158	3.69	.811
Judgements_4	158	3.80	.967
Judgements_5	157	3.70	.995
Feelings_1	158	3.09	1.209
Feelings_2	158	3.34	1.045
Feelings_3	157	3.67	.928
Feelings_4	155	3.25	.990
Feelings_5	155	3.45	1.082
Resonance_1	157	3.11	1.270
Resonance_2	158	2.90	1.155
Resonance_3	158	3.04	1.090
Resonance_4	158	2.84	1.202
Resonance_5	157	3.14	1.327

The overall performance is detailed in table 4. We did not check the *Salience* category, since every body was aware of the Volkswagen brand. As we can see, overall the performance and the judgments are better evaluated by the respondents. Volkswagen is better known for its reliable, good technical performance cars than by the felling its car produce to consumer. The *Performance* (3.98), the *Imagery* (3.87) and the *Judgments* (3.70) obtained good scores. Scores were lower for *Feelings* (3.36) and *Resonance* (3.00).

Table 4. General sores

Resonance	3.00
Feelings	3.36
Judgments	3.70
Imagery	3.87
Performance	3.98

The results for male and female is detailed in table 5. In general, women do exhibit a strong bond with an auto brand, such as the men.

Table 5. Results for males and females

	Male (N = 87)	Female (N =71)
Resonance	3.09	2.89
Feelings	3.45	3.23
Judgments	3.70	3.68
Imagery	3.92	3.79
Performance	3.98	3.96
Average	3.63	3.51

From the table above we can find that there are significant difference between male and female regarding the perception of Volkswagen brand. The males seem to appreciate more the brand, especially in relation with the feelings and the imagery of the brand, while the females are somehow not attracted by the emotions of the brand. Both males and females appreciate Volkswagen in the same manner concerning the performance features and judgments. Overall, men appreciate the brand more than the women. This can be explained to the fact that cars have a much stronger influence and attraction on men.

6. Conclusions

The CBBE model proves to be a solid tool for measuring the brand image, especially the representations customers have. A sound theoretical construction, the CBBE model can be used successfully to capture the customer mind-set and the customers associations toward a certain brand. From the managerial perspective, the CBBE model is a reliable instrument to asses the brand-image perception. Our paper emphasized that Volkswagen has a good reputation, especially regarding the judgments about the brand. Concerning the emotional side of the brand image, Volkswagen is developing positive emotions among young Romanians. The quality of its cars and the positive perception of the public can help Volkswagen to achieve the group strategy.

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The Particular Aspects of Intellectual Capital in Romanian Knowledge Economy

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Abstract

Knowledge-based economy offers a new vision. This involves the intertwining of all the aspects of information, economic, managerial, social and technological approaches. Implementing the new vision at local level must be of a strong originality, the interdisciplinary approach is evident.

The success of knowledge-based economy requires innovation and creativity, qualities that are especially promoted by the higher education system. Entrepreneurship and leadership development is to include, according to various studies, in the academic training.

It is considered that the knowledge economy will provide a huge advantage for the emergent markets, for the isolated parts of the world economies, or for the countries like Romania.

The society of the third millennium enjoys the benefit of employees who are valuable due to their knowledge. In many companies, worthiness does not consist in tangible assets, but in intangible ones. Intellectual capital is the term attributed to combined intangible assets that allow a company to operate efficiently.

Keywords: knowledge, intellectual capital, human capital, intangible resources

JEL Codes: F15, F50, O10

1. Introduction

At the present it looks increasingly obvious that the world passes through a continuous rapid transition from an economy based on industry to a knowledge-based one. It can be argued that the resulting knowledge and more knowledge. Knowledge is a public property. Once being discovered, it becomes virtually free of charge for all (excepting the

knowledge protected by law). The benefits of the new discoveries will be for the benefit of everyone, sooner or later. It should be noted some important aspects of the new economy as being fundamentally different from those of the old economy, meaning that the economic laws were not changed, but the economy has changed in a radical way.

In the industrial economy the capital is more important than the land. In the new economy, innovation through knowledge is the most important, it underlies many aspects of the economy. In the global knowledge economy, which is promoted, supported advantage of nations will not come from natural resources owned or on cheap labor forces, but in their ability to harness the intellectual capital. Today and tomorrow, "mind" and not "muscle" will be important for the economic growth.

2. Aspects of intellectual capital in knowledge economy

The development of civilization, knowledge-based economy can be regarded as a further step, which presents favourable prospects of a new better way of life. This economy has an economic and also socially important impact, it is based on the use of information in all spheres of human existence and activity.

Time evolution for the concept of knowledge-based economy has led to investigations which have established foundations, as follows:

- Industry of knowledge, which will note that the future will support those industries based on knowledge, innovation, development of the design activities;
- A second approach which preceeded the knowledge economy was the Knowledge Management approach. The first specific international conference

and exhibition held in Brussels on 20- 22 December 2000. The emblem of the conference was "Europe's future is the knowledge economy" and was highlighted by Robert Taylor and Unisys.

Defining the knowledge economy is a difficult goal. First, we consider the wide variety of successful implementation of the concept, and secondly, the specific of the countries which registered recognized significant progresses such as USA, Britain, France, Germany, Finland, Austria, Singapore or South Korea.

During the preparations for a knowledge-based economy, an important factor may be the recommendations elaborated by the World Bank Institute and OECD in a country study published in 2000. It was entitled "Korea and the Knowledge-Based Economy: Making the Transition" where there are presented some lines of action for the transition towards a knowledge-based economy. For example we can remember:

- Strengthening intellectual property rights, promoting exploitation of intangible assets;
- Take the necessary policy measures to encourage competition (competitive firms are more oriented to innovation);
- Managerial and curricular reform in higher education;
- Encourage greater interrelationships between firms, universities and government research programs;
- Allocation of resources to universities.
- European Union efforts should be driven up to build the knowledge society, and to the continuous improvement of the administrative capacity. They are absolutely necessary priorities to support and diversify the labor market.

Only a better exploitation of local and regional potential by strengthening local and regional powers can lead to both a sustainable development of communities, as well as by a coherent sectorial policies and changes, they look feasible because of strengthening trade relationships and inter- and regional changes.

The knowledge measuring assets refer to the evaluation, monitoring and managing business success through a number of increasingly large intangible factors. The

name of intangible (incorporeal) associated with these activities reveals their immaterial form, a characteristic which makes them especially difficult to identify and assess.

Intellectual capital consists of knowledge accumulations and flows owned by an organisation. They can be seen as intangible resources which, together with tangible ones (money and material assets), provide the total or market value of a firm.

Considering the definitions given by [9] author so far, we can infer some characteristics of intellectual capital, as follows:

- it is intangible, even if a material form can be attributed to some elements of the intellectual capital (for instance patents, registered trademarks);
- there is a close connection between the intellectual capital and knowledge under various forms;
- the human capital of a modern organisation, which is a part of the intellectual capital, is represented by professional knowledge, skills, abilities and health status that could contribute to an enhancement of the creative capacity of any person and, implicitly, to an increase in the prospective future revenues, or it represents humans' capacity to produce goods and services in an efficient mode;
- it offers opportunities to achieve superior performance in the future.

The development of the knowledge economy where the investment in human capital is a priority and human resources become an important asset will create prerequisites for the employment policy to build a close relationship between education and training.

Globalization and knowledge economy expansion creates a competitive environment defined by the criteria of efficiency, competitiveness and economic performance where the human capital develops.

Human capital consists of the characteristic abilities of individuals that remain the same in any social environment and can be exploited on the labour market in exchange for any kind of economic resources.

Within the higher education system the human capital refers to all the academics (in

terms of knowledge, experience, skills and their individual talent) and the number of students involved in the educational process. Students' education is done through the transmission and the development of basic and specialized theoretical knowledge.

Human capital concept reflects the investment in education and the development of competencies and skills necessary to perform certain economic activities. Basically, human capital consists of educational capital (skills acquired by individuals while they are enrolled in a school but also the skills acquired outside the school) and biological capital (physical abilities of individuals, most often synthesized as the health status). Universities distinguish from other education and training institutions because they increase knowledge and generate graduates and researchers with creative and innovative potential.

The term *human capital* reflects the investment in education and the development of adequate aptitudes for the labour process. [10]

Economists consider that investment in education produces human capital, by analogy with the investment in physical capital used in industrial enterprises. Human capital develops progressively within the formal frame of the school, in the family, within the organization, and through individual efforts of study and reflection.

Intellectual capital consists of knowledge accumulations and flows owned by an organisation. They can be seen as intangible resources which, together with tangible ones (money and material assets), provide the total or market value of a firm.

3. Conclusions

The evolution of society shapes an era of knowledge, which is equally aimed at by the entire humanity and by the business environment/world. Economy is gradually redefined and renamed, being gradually transformed into a New Economy that gives up its former approaches, seeking to clarify the increasingly complex reality which unfolds for/to us. A major role is attributed to information, which constructs the intellectual capital.

The central idea of all theories concerning intellectual capital and societies based on

knowledge is that the hierarchy of values has changed. Hence, the impact of physical resources has gone one step lower, so as to allow intangible resources to go higher, while the latter become an increasingly important factor for, among others, the development and profitability of a firm.

Knowledge has become the basic resource of the firms, the way they gain power, prestige and wealth in modern society and economy.

The generation, the acquisition and use of knowledge are critical for the sustainable economic, social and cultural development.

This principle equally applies to individuals, organizations, public institutions, companies, regions or even states.

The organisation and the coordination of specific knowledge every organisation has, known as the "knowledge management" plays an increasing role in Romanian organisations. Managers can take the best decision within a reasonable period of time only if they have the necessary knowledge in order to carry out the planning, organizing, coordinating, leading and controlling processes.

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Trends of Remuneration Based on Results

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Abstract

While time-based wage system has some advantages such as simplicity, low bureaucracy regarding accounting salaries, safety on the amount that employees receive, etc., however we can not observe the shortcomings that this pay system to determine: the need for close supervision, poor incentives employee incentives, low income workers compared with other pay systems (piecework system), unable to establish easy and expected cost per unit of work, prior to work, i.e..

Key words: remuneration based on results, straight piece-work system, standard hour.

J.E.L. classification: M 52

1. Introduction

Wage system employees after work output (piecework or by result) aims to address one of the fundamental drawbacks of direct labor wages and the lack of direct incentives for improving production and productivity. Could cost as by emotional appeals or coercion exercised strict control over workers through other means, we can not ensure the effectiveness of their work performed in excess of 80-90% of their actual possibilities. Impact defines motivation reward with firm performance and employee motivation [1].

To overcome these shortcomings, and optimum use of the full potential of employees, including the company's resources, was used to design and incentives designed to increase productivity and thus lower the cost of labor per unit of product.

The payment agreement was widespread in most industrial countries. There are many reasons for this trend. First, increasing mechanization and specialization of industry have largely removed some of the old

incentives, job pride and satisfaction due to the job and had to be replaced by a financial incentive.

Second, the growing belief developed among employees that are fair for workers to be adequately remunerated work that he performs. Traditional attitude of trade unions were in favor of uniform wages as time worked, but to the best workers wish to be remunerated in relation to their superior qualifications and extra effort made, in most cases unions have agreed, with some reservations, payment after results.

Value but increased incentive payment according to work, payment by results seems to stimulate the desire to excel and introduce an element of interest and competition at work, thus compensating to some extent and its monotony. Simple rules to work fixing agreement sets them a task worker, provide an end, an opportunity to show the importance and superiority, which may contribute to increased satisfaction from work.

Generally, the payment agreement may be applied in good conditions with repetitive work is carried out under conditions allowing more or less standardization, so that ensures that a certain amount of energy and encouragement will lead to results in a certain volume of production.

Even in cases where standardization is not possible, but the product can be easily measured in quantitative terms (e.g. the extraction of coal, ores), using payment system agreement is possible or appropriate. Best results are obtained when the main objective is quantity produced, where quality control can be performed without difficulty and finally, when unit labor costs are going up. Proper implementation of the agreement is not the size of the production speed can result in a great waste that compensate or exceed gains achieved by additional production. The agreement also may be

applied to work in small repetitive in nature random or intermittent work, including work generally called "indirect" or "directly unproductive" - the preparatory work of the production processes, the type of maintenance machinery and equipment, in this work fixing inconveniences precise time are very high. Similarly, the application of this method is specified or where the volume of production (or operations) is determined by the speed of the machine or the process respectively.

1.1. The main forms of performance-based pay

An overview of very complex systems of remuneration in agreement possible and necessary at the start.

Although remuneration systems in the agreement (as results or performance) have common characteristics, they are not totally homogeneous, but differentiated by wage bond strength results of production.

Thus, the overall system of payment by return (in agreement) can distinguish three main subdivisions regarding the extent to which workers receive full or increased production:

a. payment systems that vary directly with production volume in which employees (individual or team) receive the same price for each unit of product (or operation), regardless of their number. In this system, any gains or losses on labor costs per unit, resulting from changes in production that benefit or are incurred by workers. Instead the company incurring losses or gains made changes in general overheads per unit.

b. Payment systems where employees varies proportionally less income than production. Their essential characteristic is that it divides the enterprise worker gains (relating to unit labor costs) resulting from changes in production beyond fixed time, the worker receives only a share of the amount due to overflow.

In this category includes among others: the Halsey, Rowan system, Bedaux system and Barth system with variable participation.

In most cases their application is associated with guaranteeing a minimum wage (after working hours) when production reaches a certain level not specified.

These systems give the company an added

benefit of exceeding production worker, but Western economists argue that they can achieve a "braking action" excessive efforts of the workers, or excessive increase work speed that can be detrimental employee health, or detrimental to product quality and, finally, the quantities of materials consumed per unit of product (waste).

c. Systems that income varies proportionately more workers than manufacturing, characterized in that the worker, in addition to receiving proper rate for each part or process, also participates in some of the savings in overhead costs made by the company after overcoming rules. Usually, in these systems, standards are very high, which pushes the disadvantage of an excessive effort that can be harmful to health workers-drawback common to all systems that accelerated growth rates paid. In practice this framework based on a tariff system (high piece-rate system) which recognizes the increased effort that we must make the worker to increase production. For each increment, for example, 1% of the premium paid production is successively higher (going from 1.1% to 1.25%, 1.33% and so on). The system is generally limited to companies whose management is urgently needed workforce collaboration to increase productivity. In line lies a system based on productivity index, i.e. the relationship between employee productivity and time set for the task to fulfill. The first, which is 57% original commence to be paid to achieving a 5/6 of the time, it gradually increases to 80% for standard performance and achieve 130% of base salary to exceed 33% of the rule set.

We believe that pay systems can not be treated only in a general form, it is necessary to illustrate each of the three main categories of systems models that have been used and are used today in practice developed countries economically.

1.2. Remuneration varies in proportion to yield agreement

These first categories of payroll systems include three types of systems: salary proportional to the number of parts produced, the system time allocated (standard time).

Straight piece-work system or proportional salary crafted pieces, is the system in which payment is made after the number of parts

and operations performed. Is the antithesis of salary after time spent (in direction). Wage is equal to the product of the number of parts (or operations) and the rate (price) established for each of them, in other words remuneration vary directly with production volume. Therefore he defined "full salary bonus."

Salary in direct agreement (or part or full bonus) is the general model, the basic salary in line:

$$s = s_0 A; \text{ and because } s = \frac{S}{t} \text{ and} \\ A = \frac{T}{t}, \text{ we have } S = s_0 T$$

It should be noted that the total salary (S) is given by a formula that is similar to that of the salary for time worked, but the time spent is replaced by the allotted time. It can therefore be said that salary is a salary track after the allotted time.

Since the worker's income is directly related to work performed, number of tracks, the worker is determined to produce a large number of parts (or carry out a large number of operations). The system is particularly attractive for experienced and efficient workers.

Since the establishment of full wages in proportion to yield, presents some risks for workers less handy be either due to possible disruption of work for reasons beyond the control of the workers resorted to a form of "softening" of the system. In this case, it was established as part of the salary is based on the time of attendance at work, which is a guaranteed minimum wage, regardless of the realization rule. This should not be confused with the minimum rate below which no worker can be paid, usually about tariff established by legislation. Guaranteed minimum wage in this case is minimum wage which the employee will receive for time worked, regardless of the amount of its production. If time is fulfilled, and especially if it is exceeded, the employee receives an additional (first) equal to the charge per unit multiplied by the number of additional pieces worked. Unit labor costs as part of cost price; reduced by the time you reach 100% production rule set, after which they remain constant, however, the company benefits from reducing overall overhead fixed or

semi-variable. The latter include administrative and sales expenses in a moderate increase of production remain unchanged or vary not strictly proportional increase above a certain limit production volume (as opposed to depreciation of buildings, plant and machinery, which are tasks fixed independently of their use).

The first form of the piece wage system is the time spent or "standard time system" (standard hours). It is also known as the "standard time", considered by some as essentially identical payment agreement the number parts, meaning that in both systems pay is directly proportional to the work performed. The difference is that instead of specifying a price (tariff) for each unit produced (payment agreement), establish a "normal time" (standard time) for the manufacture of certain parts or to perform a certain operation; worker is paid based on its hourly wage, depending on the actual work performed within an hour, which however may exceed labor provided by "time zone". Specifically, if "standard time" is an example of 6 pieces per hour and worker produces 9 pieces, he is paid 50% more than its fare zone. It must however be noted that, unlike treaty payment system in which production is equal to equal pay for all workers in the workers received payment system varies not only by production volume, but also by the basic hourly rate, which usually differ from one worker to another. This method was adopted to remove difficulties arose when some workers salary climbed were put to work based on individual agreement whose price per unit (relatively small) are not allowed to make and of course income equivalent to avoid the difficulties arising from the need for these workers setting (highest paid originally) a higher price per piece. Given these differences, it is considered by some to be a failure to fully assimilate the system of direct payment agreement because it is actually a variant thereof. Applying this system has the advantage of not requiring a review for modification wage rates.

The time standard can be applied in two versions: with or without the guarantee of a minimum wage. In the first alternative, a worker who does not meet the norm is paid on a time basis, as if to fulfill the norm, the second alternative it is paid by quantity

produced strictly based on time spent (time) for each part or surgery.

Another form of wages per piece is the system "Standard minutes" or time per minute. It is a variant of the "normal time" where norms are set in minutes. Minute standard includes the amount of work that an employee has to perform, as a minimum, during the one minute timer. Work to be performed is calculated in a way that takes into account the inevitable time delays at work, fatigue and personal needs of the employee so that the average worker is able to perform an average over an hour, work equivalent to 20 - 30% more minutes than the standard 60 minutes without being subjected to stress or not to accelerate pace of work. In most cases workers are expected to make an allowance for time average of 75 minutes in an hour, which entitles them to a premium of 25% over base salary. In this system the employee's remuneration is directly proportional to the work output. The company does not benefit than reducing overheads per unit of product, as a result of increasing production volume.

1.3. Nonlinear systems link between remuneration and yield

We presented three types of linear systems of remuneration in relation to performance. We believe, however, necessary and nonlinear analysis of pay systems in which pay increases in proportions that vary in relation to performance.

Also multitude of nonlinear systems can be classified into three broad categories:

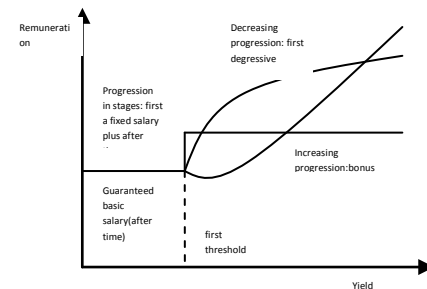
- Remuneration with gradual progression: pay by time (in direction) plus a fixed premium;
- Pay the increasing progression: first progressive;
- Pay with decreasing progression: first digressive.

Presented graphically, these three categories of remuneration systems also expressed their full coherence to the different situations of economic and social practice.

It should be noted that in these three cases (categories) their pay - performance is not linear, i.e. wage increases at a rate which varies itself with efficiency. One can speak of a double flexibility, both remuneration and efficiency, hence if all other conditions are

the same, the cost per unit will be lower without thereby reduce the motivation of worker. Effort by both workers adjusts parameters: level (s) remuneration and performance levels. Let's examine the major systems of nonlinear compensation.

Figure 1.1. Payroll systems as a result



Source: Les systèmes de rémunération liés aux rezultats, Bureau International du Travail, Genève, 1985, pp.11

1.4. Compensation benefits after return (in agreement)

Motivational effects of pay for performance depend largely, as I mentioned, the shape of the relationship between pay and performance, but also have many positive effects extremely important and primarily economic, to stop us below:

- Increased production volume. According to international experience, salary increases consistent production, usually between 25 to 33%.

To determine the correct size of production growth generated by the work agreement must take into account all the variables that influence the overall work environment, namely:

- The number of workers and hours worked are unchanged from the previous situation;
- Workstations are occupied by people with the same level of qualification;
- Structure of the operations performed will not change;
- The calculation of each type of work (content, standard working hours) is similar;
- No changes in the supervisory and management personnel;
- The physical environment of work is the same;
- Technical jobs, cars, plants are the same, unchanged.

In practice it is very difficult to meet all those conditions. But made rigorous evaluations are required to speak the effectiveness of the agreement or its forms. On the other hand, the physical effort of worker decreases as improving production techniques [2].

- Remuneration systems in the agreement have the effect of significant increases in wages and incomes of workers. Thus, if production increases from 25 to 33%, remuneration may increase about 20 to 25%. For these reasons, workers appear interested in removing any obstacles that stand in the way of increasing production and its economic efficiency. Worker effort plus the effort and professional competence and management decisions for the entire organization of production and work to permanently achieve higher gains, increased.

- Payment agreement can not be achieved without fixing the amount (tariff) for products or transactions made or no time dedicated. These requirements may be applied only if the first systematic study of the work is done (organization of production) revealing new directions in practice to improve production processes. Development of production rules is an incentive to increase production and to improve labor management, efficiency;

- Pay for performance stimulates innovative faculties of workers, improving work processes are under their direct control, such as physical organization of labor, minor changes gauges adapting speed work, power machinery etc. Director remuneration system does not have these incentives;

- All factors (benefits) labor agreement mentioned contributes to reduce wage costs per unit of product. This is due to the salary systems varies less than output, and especially for all systems as general overhead costs (fixed and trimmers) is distributed to an increased volume production. Of course, this effect is less agreement if the remuneration system grows faster than labor efficiency;

- Labor system in accordance worker becomes its own supervisor, helping to eliminate the company's staff costs, even if quality protection consistent production work requires a staff increase. If we talk about participatory work systems in which workers make their own quality control, then reduce personnel costs is even greater;

- Payment systems in direct agreement have the advantage of simplicity both for workers and for calculating wages. This element of simplicity of calculation reduces administration costs of salaries, calculating the cost price and production control. The contribution of these systems must be assessed as if coexistence records and systems involving more laborious calculations leads to reduced impact on overall production costs;

2. Disadvantages of remuneration after return (in agreement)

Practice shows that all payroll systems, without exception, in addition to advantages and limitations (disadvantages). Thus, for remuneration after return, we mention the following drawbacks:

- Can not avoid the effects of bad appointments of staff;

- The first can not generate a spontaneous improvement of working conditions, if there is no favorable climate change and innovation;

- First agree not to suppress labor disputes; work environment does not improve, if they are not integrated into policy management, staff training and dialogue with staff.

In theory and practice are recognized worldwide inconvenient three main categories of remuneration after return (in agreement): physiological, socio-economic, and psychological.

Tend to produce more to get higher wages can lead to excessive fatigue of workers, with negative consequences on their health status. Practice shows that man is capable of exceptional work only for short periods, which can not be extended without their harm. Ergonomic studies undertaken over time, a subject treated by specialists is more work capacity (physical or intellectual) considered as a parameter of professional activity. Analysis activities must show, among other things, capabilities or skills body professions and compliance requirements of them, so that activities are performed in biological balance [3].

Fatigue at work resulting in decreased ability to work effectively, psycho physiological manifestations (sensory changes, metabolic, i.e.). And subjective symptoms (discomfort, emotional and

behavioral changes and so on).

In a physical environment acceptable to work consistent with training and capacity at a level of remuneration for the work submitted, any individual can provide, on average, an amount of work equal to the contribution of optimal.

Remuneration according creates difficulties establishing working time and charges: generates conflicts between management and workers, some want to maintain or even reduce wage costs per unit of product, while others (workers) want to increase wages, employees no certainty that prices (rules) once established, will not change, in some plants, setting labor standards is very difficult and shortly after the accumulation of experience and the promotion of technical changes, technological, these rules require revised. Therefore, some experts declare for eliminating premiums paid based on performance. This would increase the ambiance and spirit of collaboration.

In paid employment agreement results in increased working speeds, which leads to deterioration of product quality. This impact can be minimized by the introduction of monitoring and quality control. Promoting check each piece before moving on to the next operation. But this would increase the number of control staff and hence wage costs. To reduce this cost is often used to control sample quality manufactured parts. Other companies to reduce their costs or expenses, introduced award bonuses for quality, so that the worker himself to achieve an increase in salary after production quality output with respect, knowing that positive incentives are always more effective than negative incentives (penalties). Finally, the same principles, in some countries (Japan, i.e.) remuneration systems by protecting the quality and efficiency by promoting self stimulate increased production quality.

Remuneration according differentiation generates gains made by workers who perform the same work because of the difficulty of achieving equilibrium labor standards, but also due to individual characteristics of workers. For these reasons appear complaints, disputes, complaints, envy, jealousy, damaging the climate and collaborative work, with adverse consequences on production.

The sources of these negative aspects are either insufficiently prepared to pay for return transition, in particular measures necessary for production and labor, but also the various forms of bias, favoritism promoted by some superiors, especially in the division of work favorable to the worker.

3. Conclusion

Remuneration as performance suffers wear conditions generated use it. Most times giving up yield premiums is justified in some cases such as:

- Labor standards diminish their quality until the question of the transition to pay the overhead (time spent);
- Custodial staff (team leaders, foremen) the remuneration is disinterested after return;
- General policy of the company, public personnel management and organization are insufficient;
- Introduction form of agreement was not prepared the necessary corrective measures in the organization of production, in preparation workers without proper training and lower middle management staff, especially staff and supervisory norms.

Remuneration after giving yield maximum efficiency when incorporated into the overall management of the company, department and production workshop.

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Variable Pay - a Motivational Factor for Employees

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Abstract

In conditions of crisis in which we are finding ourselves about few years, the companies are trying to reformulate their salary budgets. In this way, they are turning to increased variable payments and benefits that reward performance.

Key words: Incentive pay, profit sharing, share option, group bonus, individual bonus.

J.E.L. classification: M 52.

1. Introduction

Due to competitive pressures organizations are continually looking to increase the added value of their employees by encouraging them to increase their effort and performance beyond that which is at a minimally acceptable standard, or reducing labor cost to a minimum [1].

1.1. Variable pay

The system is actually the first application in a form evolved and adapted to modern conditions, the systems used in the past, in which a contractor, hire a subcontractor who, in turn, pay the amount received by all workers use [2].

Finally, the appearance of mixed payroll marks a comprehensive optimization payroll process. If the systems in line, and overhead systems are placed somewhere in the natural history of polar pay, remove this polarity mixed systems, not only because it eliminates the disadvantages of each of these systems, especially systems that blend the benefits of agreement and directing.

Apart from reducing inflation, limiting the variable part of salaries provides a guarantee of a party increasingly higher wages for a period of increasingly longer. It is here a

tendency to pay monthly, eliminating the disadvantages that include both the agreement and directed hourly and daily when calculating licensing rights.

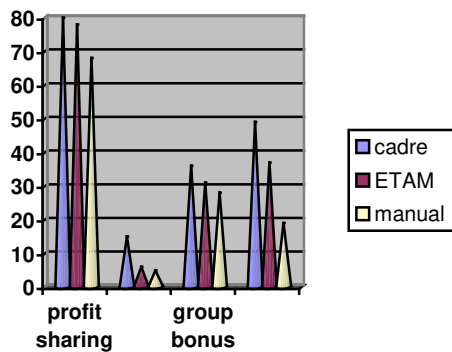
Wage workers are similar in terms of structures. Workers paid in addition to directing the base salary for skill and complexity, receive a supplement (premium) with the collective character (can not measure individual contribution but the contribution of each employee matters, contributing to the tasks and increase the salary). Workers, in addition to base salary for the classification and complexity of work receive a bonus (premium) of individual intake (measured) and a first collective nature of the overall results (team, workshop etc.).

The need for individualization of injection led to the development of scoring systems for services rendered, other elements that may occur in salary structure is not related to individual benefits, but raw shop floor productivity, factory bonuses.

According to a study conducted by Price Waterhouse Cranfield in 1991, on variable pay in European countries reveals that there is an upward trend in terms of flexibility in pay systems. So, the percentage of organizations who have reported increases in various parts of the variable payment of rewards in the total package over three consecutive years in private sector was: in France 51%, in Germany 54%, in Spain 60%, in the United Kingdom 45% and in Sweden 57%. In the public sector the situation it's a little bit change: in France 22%, in Germany 17%, in Spain 57%, in the United Kingdom 56% and in Sweden 48% [1].

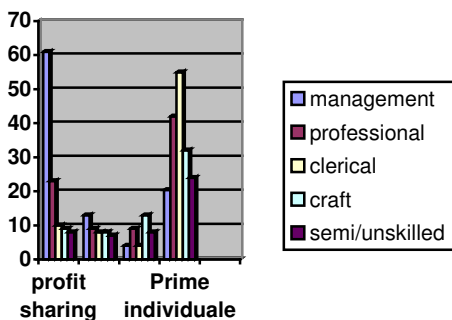
Another aspect pointed out by this study highlights the incidence of various incentive-based payment systems such as individual or collective bonuses, profit sharing or equity, differentiated by categories of staff in five European countries (Figures 1.1 - 1.5).

Figures 1.1. Incentive pay in the private sector in France



Source: Hegewisch, A., "European Comparisons in Rewards Policies. The Findings of the First Price Waterhouse/Cranfield Survey, SWP/1991, pp. 7-8

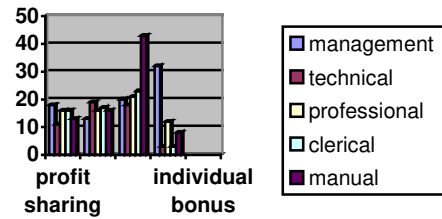
Figures 1.2. Incentive pay in the private sector in Germany



Source: Hegewisch, A., "European Comparisons in Rewards Policies. The Findings of the First Price Waterhouse/Cranfield Survey, SWP/1991, pp. 7-8

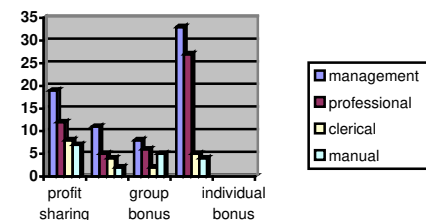
From the figures presented, we note that the largest share of the profit-sharing incentives based on one found in France, where this system is strongly encouraged by the government, and in Germany where there is an old tradition in system implementation managers in medium-sized enterprises [1].

Figures 1.3. Incentive pay in the private sector in Sweden



Source: Hegewisch, A., "European Comparisons in Rewards Policies. The Findings of the First Price Waterhouse/Cranfield Survey, SWP/1991, pp. 7-8

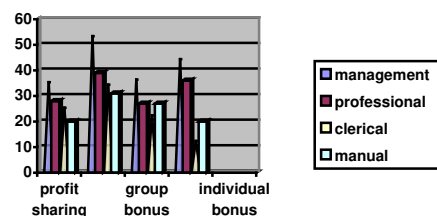
Figures 1.4. Incentive pay in the private sector in Spain



Source: Hegewisch, A., "European Comparisons in Rewards Policies. The Findings of the First Price Waterhouse/Cranfield Survey, SWP/1991, pp. 7-8

In Spain the individual first applies primarily, while Sweden prefer collective first, especially for manual workers, confirming the importance of team work and performance in their business culture.

Figures 1.5. Incentive pay in the private sector in UK



Source: Hegewisch, A., "European Comparisons in Rewards Policies. The Findings of the First Price Waterhouse/Cranfield Survey, SWP/1991, pp. 7-8

Profit sharing has the largest share in the United Kingdom, where this system is encouraged by the government.

In Romania, variable pay is more often applied by employers amid financial deficit experienced by many companies. To the management level, the share of variable pay is 13%, while in Germany, for example, is 35%.

The Mercer Salary Survey 2012 assess that this year the value of variable payment is still a widely used means of compensation and policy regarding such bonuses have not been modified, in exchange received by employees are still up from previous years. Also, the variable bonuses represented as a percentage of annual base salary, do not show changes from previous years, they maintained at the same percentage since 2012: 20% top management, mid-management professionals between 15% and 10% - 15 %.

While the variable pay fixed salary plus local market employees can reach the equivalent of three monthly salaries it becomes a motivating factor for employees.

Other trends in terms of solutions applied in different countries to which we referred above may prove very useful in the design, choice of forms of remuneration, as in the transition from one system to another.

2. Conclusion

The conclusion is obvious that the choice of one of these mixed forms, directing and consent, becomes more efficient, is easier and faster, taking into account other factors to the occurrence of mixed forms of pay not could be taken into account in the sizing of wages.

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Participatory Management of Human Resources - a Solution for Organizations Success

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Abstract

The gaps between the Romanian and the developed countries in terms of a strong affirmation of the effectiveness of management in general and the participation of human resources in particular have convinced us that our choice might draw attention Romanian companies on the most effective methods management to extend it faster and generally improve overall human resources management in Romania.

Key words: participatory management, efficiency.

J.E.L. classification: M 52.

Introduction

High efficiency and increased participatory management is of great significance for improving the quality of products, labor productivity and, hence, the ability to compete, the economic performance of Romanian companies under a single market.

Choosing participatory management of human resources approaches that follows is, we believe, welcome and for the knowledge society in which mankind came further amplifies the need for participatory management, and a series of restructurings likely to further increase the usefulness and its economic efficiency and social policy.

1. Content and participatory management features

In management methodology in its subsystem world appeared and strengthened increasingly strong participatory dimension, a spectacular evolution and even revolution.

Literature consulted, particularly rich and

valuable, it still contains a definition of participatory management. However, the wealth of existing approaches allows us to venture in a bid to help crystallize the concept of participatory management. Thus, participatory management could be defined as "a set of methods, techniques and leverages more or less special training and professional capacity and scientific exploitation of employees, either individually or in groups, with manager to address and resolve problems or complex functions to meet business objectives, increase its performance, its ability of economic competition" [1].

Elements of involvement, participation and we find authoritarian model created by FW Taylor, under the domination forms of motivation through coercion. What else is in this model using normal work and especially the degree of its fulfillment. In this regard, we can cite even Taylor's belief that technology is not considered sufficient to increase labor productivity, but requires the participation of labor and its exercise in the best possible conditions. In Taylor's model, employee participation was minimal results and possibilities for their individual physical and intellectual, separated from each other, were limited in increasing production and productivity.

Participation in its present form appeared in the previous management models, namely human resource management practice. Its precursors, of participatory management, supported by early needs for more interesting work-attractive, more creative, better treatment for workers, better working conditions to protect the health of their employees and increase productivity firm surveillance over democratic labor etc.

Genuine participation in the contemporary sense of the term is detached from its previous forms since the employee is no

longer confined exclusively to the execution of tasks and procedures of record (description) job, but also extends the scope of design and decision rationale and choice of company objectives.

Consider this process and to discern the main features of participative management even driving style. Reflects its historical development process gradual transition from authoritarian management model to more advanced models (human relations and human resources) to participative management style.

Referring to driving style, Professor Eduard Rădăceanu reserve us a picture of involvement-participation with manager and employees as we present you below:

Table 1.1. Involvement-participation with manager and employees

Decisional involvement of the superior						
Involving performers						
Auth oritat ive	Patr iarc hal	Info rmat ive	Cou nsel or	Coo perat ive	Parti cipat ory	De moc ratic

Source: Eduard Rădăceanu, Management (Generatorul succesului), Editura Bren, București, 2001, pp. 34.

Eloquence in painting the involvement, employee participation, alongside manager is beyond any doubt or question. We should just point out that senior managers always felt the need to promote the start of simpler forms such as reforming, and further forms, such as those of consultation, collaboration (co), so that in decades recent training junior employees and managers take the form of wider democratic, participatory. In fact today, the manager at any level, depending on the branch, sub-branch, and organization or in relation to specific problem involving a decision may take one or more of the attraction, engagement, consultation and participation in decision-making.

Affirmation of participative management, in all its theoretical and practical process is observed more clearly in historical succeeds key management models.

Participatory management has gradually given way, hastening the end of the employee and accelerating the emergence and widespread passive active employee and

partner.

Participatory management continues to evolve today, it will generate and other features and improvements in terms of the knowledge society.

Starting to improve quality and productivity requirements, management tends to get a broad, holistic to Total Quality Management.

It is expected that participatory management with preference to focus on knowledge worker - the only category that creates - innovate and learn. If before participative management is based on the participation of all employees in terms of the knowledge society, it is possible and even necessary for routine workers are to remain in the area of participatory management, but to apply specific methods of participation so that employees routinely to be mobile and to make high pay.

Participatory management in the knowledge society is based mainly on democratic coordinate - one that provides employee access to the act of creation and innovation.

So far, participatory management has a social component generalized almost unique. In terms of the knowledge society, this component could be structured in increasing business flexibility, human resource management, deregulation and reduction could result in rigidities that cause labor laws, unions, negotiation methods and scope of collective bargaining, the practice of using contracts indefinite employment for all or almost all employees etc. Social protection, treatment and motivational Remuneration generally will be large differences in firm knowledge, for knowledge workers.

Promoted in practice especially for the needs of creation and innovation, increase product quality and raising labor productivity, authentic participatory management, modern design eliminates the separation between executive and was imagined and made a part of the growing scale of employees in based on four essential elements:

1. Need to communicate the vision for the future of the company, to its knowledge and acquired by employees. Practice shows that no one can participate without knowing creator-innovator firm vision of the future, the way of confrontation with the internal

and external environment;

2. Enrichment and job duties. The classic Taylor type characterized by a direction opposite action by separating work design and work execution and by poverty and divided tasks;

3. Promoting continuous training to enable employees to perform work tasks, creation, execution, execution or creation. In this way, participatory management not only assume the role of effective realization of human resources, but also the continuous development of human resources, both in the company and outside the company, national and international scale;

4. Empower employees with authority to control tasks. The company's new organizational structures in which coordination is done through various mutual adjustment mechanisms, facilitated by structural decentralization and the emergence of flattened structures, such as "lean management", and teamwork.

2. Forms of participatory management

During the last century of the second millennium, participatory management, according to literature high and new synthesis achieved in Romania takes four main forms [2]:

2.1. Participation in work (running)

Is the potential human targets with a high degree of education and more training for more complete and efficient use of other means of production, so that the company can reduce costs and increase productivity while to improve production quality, increase output and superior ability to achieve economic competition.

These objectives, as discussed below, are equity and other forms of participatory management. It is noteworthy, however, that participation in today's workplace is done according to a number of objective and subjective conditions and peculiarities of industries and businesses, both on a old Taylor by separating design execution and new bases, by redefining jobs and job functions, i.e. by bringing together smaller or larger version with design, physical labor to intellectual labor;

2.2. Participation in management in the decision making and coordination

It is a higher form practiced in upstream participation at work before presented. This form of participation is achieved through the identification and selection of employees able to make a significant contribution in making decisions as representatives of employees in the works council or trade union representatives. This form of participation is achieved not only humanizing relations company-employees, but a "path" through which to stimulate and further polarize the human energy accumulated history of human beings through education and performance desire. This form of participation in decision-making is itself an expression of physical work to eliminate separation intellectual work, work design and work execution, restoring the unity of these two components. As Taylor efficiency type called separation concept execution, today the same criterion, efficiency requires combining, blending with design execution. Finally, it is worth emphasizing that through this meeting in execution and concept was to not only improve decision making, effectiveness, but also another management function, that of coordinating production processes and decision making among all company departments, both internally and in its external environment and customer first, with the market;

2.3. Participation in sharing economic and financial results of the company

It is a form of participation that operates independently of other listed or combined with them. Forms of remuneration, salary growth rate compared to the standard realization with its quantitative performance and quality of products and services, the first workshop for quantity, quality, as well as participation in benefit sharing or profit played and plays a strong motivation both in terms of organization and type Taylor management and participatory management today (denial of Taylor work). The essence of this form of participation could not and can not be even today associated with individual or collective work.

2.4. Participation by association capital of the company

It is a form of participation that recognizes and strengthens the position to which the employee recognizes ownership, the shareholder. It is a form of employee association to "power" the decision in its aspects concerning not only the management side or the other, but the complexity of decision-making.

We note that all forms of participative management contribute to shaping behavior modification and employees to promote harmony and equity in the company to focus their interests and aspirations of the organization, to increase production and quality, reduce time losses and streamline its spending to increase labor productivity enhancing competition in the company.

3. Factors of expansion and diversification of participatory management

Participatory management was born into a long historical process under the influence of a complex of causes, the premises of factors and conditions. Diversity, and participatory forms of management, requires us to classify explanatory factors in several different categories:

- The need to attract adherence and involvement of employees in achieving company objectives. Adhesion and employees with business goals focus - with or without separation of execution and conception - bring substantial quantitative and qualitative contributions, elimination of various forms of waste and loss, increasing the capacity of innovation, competition and firm creation;

- Increasing the role and place of human capital among factors of production. A high level of education and high capacity, unlimited creativity and innovation reduces the role and scope of natural resources and capital on growth significantly increases the quality and efficiency and viability of the firm. Participatory management in all its forms became an important mobilizing creative energies employee's extension among all other forms of general management, concerted growth of health and availability of resources of the planet, blending the interests of generations present the interests of future generations.

Knowledge society in which mankind came along with the involvement of all

employees and therefore emphasizes the role of knowledge worker expansion and diversification of participatory management in all its forms;

- Extension of participatory management is strongly driven by new information technology. This favors the transition from functional organization to organization on processes and products (projects), and the transition to a multi-level hierarchical organization, a networked organization.

All these processes and trends favoring participatory management in all its load factor to which we have referred to so far in the preceding paragraphs, require new and important developments in the field of human resources management of the company on at least three levels:

1. Developments in human resource management function:

- Powerful new technology works towards increasing weight and participatory management;

- Communication management function is carried regarded as top-down and bottom-up as far as it retains some hierarchical levels, but especially is done promptly and efficiently in a horizontal plane in the networked organization, communication becomes important importance in the company. Performance management is not possible without moving power, knowledge, information and earnings to lower levels;

- Recruitment, selection and promotion of staff is conducted complex criteria and requirements in relation to changes in staffing structures and participatory management's new requirements;

- Motivation is based and diversified multi-criteria for each form so as to satisfy individual, group and company;

- Stimulate the emergence of new forms of organization and management of human resources such as teamwork (quality circles and productivity), work remotely at home and so on, all these forms is to supervise the professional capabilities and deep loyalty to the company ;

- The relationship between the employer (manager) and trade unions are deeply restructures. Knowledge worker and other employees will find their needs and aspirations in a complex relationship collaborative partnership, collaboration, creation and innovation and not of

confrontation, conflict;

- Reducing the distance, up to integration between execution and leadership activities promoting teamwork and reducing the number of hierarchical levels;

- To produce a wider process of overlapping formal links informal links are developing strong a release of creative energy;

- New technology requires substantiation increase the quality of decision making while reducing the time, both being crucial advantages in terms of economic competition between firms increasingly sharp;

- Effectiveness of participatory management of labor resources is superior to other forms of management that are associated therein, focus and coordinate direct managerial power (manager), knowledge (know-how), information and motivation;

- All changes that we referred to above and others that they draw after them can lead to achieving progressively the full Japanese model of total quality management.

2. Mutations in human resource structures and their participatory behavior:

- Increasing workforce and employee share knowledge workers while reducing weight routine, producers of goods and services. Knowledge workers who work in complex teams will propel obviously increasingly participatory management;

- Unskilled workers reduce their proportions as unskilled activities will be replaced, removed;

- Repetitive work tasks and low productivity will be replaced by innovation and innovative workers, creators;

- Individual firm authority is not given by the hierarchical position and the hidden battle for it, but what the individual works, creates, innovates;

- Content enrichment labors in the execution (job enrichment) giving individual autonomy on the one hand the execution of tasks, and on the other hand the possibility of exercising self-control, because he knows how well the task was performed. Labor content enrichment and expansion of participatory management fullest human potential and leverages it contributes to better use of all other material resources;

- Active participation of employees in company affairs beyond daily tasks strictly

professional;

- Better working climate in the firm, affirmation and learning ability and fidelity increases attachment individual's desire to contribute the acquisition of a new culture, the higher the firm.

3. Changes in forms of work organization

New technology leads to rediscovery of teamwork. Teamwork is practiced by knowledge workers and other workers. It provides:

- Approximation executive management, i.e. the process;

- Increases the effectiveness of decisions;

- Strengthen the rationality of the whole production chain;

- Promoting informal leaders;

- Reduce the number of foremen and middle managers and lower;

- Blends and harmonizes master team leader, complementing and eliminating rivalry between them;

- Stimulates learning as product project implementation progresses;

- Take some preventive maintenance tasks machinery;

- Stimulate innovation in human resources management;

- Facilitate and promote participatory management;

- Integrates more management components, such as: hiring, promotion organizations, labor payment and quality control and production work;

- Teamwork is the most productive by P. Drucker [3]. The problem is what kind of team is chosen because, in practical life, there are several types of teams. Essential not only teamwork, but also choice of the type of team that they need process that best suits the process. Thus, wrong team "can destroy productivity";

- Teamwork fosters creativity, cooperation increases pecuniary motivation of employees to achieve ever better results;

- Quality circles and productivity are extremely important forms of teamwork. These circles have a participatory role Extreme important because:

- Enhance support and collaboration of team members (6-10 employees);

- Stimulates the growth of labor quality and productivity;

- Reduce material losses and customer complaints;

- Reduce delays in service;
- Team collaboration in decision making;
- Ensure staff responsible for quality control of products;
- Stimulates raising skills;
- Contribute to increased opportunities for advancement in the hierarchy;
- Quality circles are a prelude to achieve total quality management;
- Quality circles are in fact in many cases partially autonomous work groups.
- Business culture, national culture derived from a set of values, the traditions, beliefs historically constituted generates two attitudes towards participatory management, especially compared to the first two forms of it. On the one hand stimulates the use of participatory management (of Japan). Moreover, brake extension participatory management (for North American, European and even South of Central and Eastern Europe, etc.). In this framework may run even conceited behavior manager not to share with anyone driving act, especially those who exercise executive processes.

At the confluence of organizational culture with other factors that promote participatory management results in a variety of versions of participatory management, considerably higher than those to which we have referred in the preceding paragraph. Moreover, the literature would reveal infinitude of participatory management features of the contemporary world.

Fighting cultural factors that hinder the use of participatory management is impossible. It takes under management experience accumulated worldwide, the development of strategies and policies that promote values, norms acting in favor of extending participatory management. It is therefore longer lasting action in the medium term and, if necessary, long term. We believe that, with these strategies, sharpening strong international economic competition will accelerate the learning process by companies' most productive cultural values of nations and peoples of the world [4].

This possibility depends to a large extent by the association which is the motivation for all company activities. Note here that the motivation is strongly influenced by the culture of the organization. Therefore, actions to promote participatory management should not exclude and objectives to facilitate

changing the culture of its own vision of our employees and the forms of reasoning.

Conclusion

Great advantages of participatory management have been highlighted in previous approaches. But here we can not avoid summary of potential benefits of participatory management: stimulates considerably improving the quality and productivity; favors promoting effective work methods; create flexible field work to accomplish tasks; enhances the attractiveness of work; complex motivation, increased fosters harmonization of company employees; raise the qualifications of employees, promoting participation in field work creates solid foundation for a decision.

Participatory management, like any other form traps has negative effects that need and can be avoided by management wisdom throughout the work. Potential negative effects of these possible additional costs related note: insufficient wage growth coupled with high efficiency participatory management; resistance to change so important in promoting new, often manifested by middle and lower level managers; a term sometimes excessively high background process decisions that may lead to missing opportunities.

Avoid these negative effects involving at least meet two requirements:

- Each concrete situation requires specific management solutions and not global models;
- Good correlation empowering manager, knowledge (know-how) information and, of course, motivation (monetary intertwining motivations of non-pecuniary motivation).

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HR Outsourcing in Romanian Companies

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Abstract

In this paper we analyze how important it is to outsource some activities of human resource management, the advantages and disadvantages.

We will also study the stage of Romanian companies outsourcing.

Key words: outsourcing, payroll, human resources.

J.E.L. classification: M52.

1. Introduction

In recent years, the literature focuses increasingly on outsourcing strategy when addressing the topic selection variant planning [1].

1.1. What is and what outsourcing entails?

Outsourcing involves delegating some tasks or objectives to organizational segments belonging to external drives, often through a formal agreement.

HR Outsourcing (HRO) refers to the outsourcing of certain activities related to the human resource function of a company. Choose activities that are being outsourced or managed business based on how much control you want to have on the HR function.

Let's see first what the main areas of human resource management are:

1. Work organization and job design

- Project organization and its development;
- Designing stations;
- Job analysis.

2. Staffing

- Forecasting staffing needs;
- Human resource planning (number and structure);
- Recruitment and selection;

- Assessing the qualities and placing staff positions.

3. Development (improvement) staff

- Training;
- Retraining;
- Education and training in line with other requirements (reliability, confidentiality, cooperation, self-help, business success, etc.)
- Promotion functions;
- Vocational careers.

4. Performance evaluation

- Employee performance;
- Potential and costs on jobs,
- Highlighting the current limits of employment and staff
- Education and scientific research.

5. Rewards employees

- Payment systems;
- Payment for qualification;
- Payment for working conditions;
- Payment for labor intensity;
- Payment for quantitative and qualitative results;
- Rewards for loyalty, participation and so on;
- Other benefits for employees.

6. Employee Relations - employer

- Law (rights, equal opportunities and obligations);
- Regulation of organization and functioning;
- Participation-involvement;
- Join a union;
- Informing, advising staff
- Communication and negotiation.

7. Benefits and welfare of employees

- Pension schemes;
- Security systems;
- Payment for time not worked (vacations, i.e.)
- Cultural and sporting facilities and transport facilities and hygiene;
- Transport facilities and hygiene in and out of hand.

8. Employee health and safety

- Humanization of work;
- Measuring physical and mental energy;
- Applying ergonomic work stations - this is necessary to increase the concerns of modern organizations to increase the supply ergonomics in design oriented work environment as major HR implications that will enhance the efforts of managers to make pleasant work workers so that they, in turn, be motivated to improve work efficiency and productivity in general especially without neglecting ensure the safety and health of employees[2];
- Measures of protection and occupational safety.

9. Administration-management employees

- Employing staff;
- Working hours (flexible);
- Managing job costs;
- Discipline and control;
- Information systems.

HR Outsourcing (HRO) in Romania, for many companies is a taboo. One of the secrets to a successful business is the ability to know what services to outsource. HR can be outsourced, at least theoretically, all services. Should however be taken into account when such an approach is effective.

Benefits HR outsourcing enables companies to focus on key activities. Ability to budget and track you're spending easier for certain administrative tasks. Mitigate risks associated with the correct application of all legislative changes as a result of calling the services of specialized companies and accredited human resources. Increase productivity and simplify employee management staff.

Saving time and money. Flexibility according to the needs constant company - client by preparing the statements and reports in a format agreed by the parties. It is very difficult to apply only method of outsourcing or in sourcing simply at an organization, which involves using them together, complementing each other.

Outsourcing advantages related to lower long-term rates, internal resources more specific and beneficial for the company, but for employees who are not saturated with

various tasks plus faster response. Companies using outsourcing can win long term 20-30 percent of turnover plus employees more efficient, more motivated and loyal.

Disadvantages HR outsourcing: One disadvantage is lack of knowledge about client's outsourcer environment, both internally and externally. Of course, a good collaboration, communication and patience, this impediment can be easily removed.

A second disadvantage, which I mentioned above, it, would be incorrect to define the objective of outsourcing an activity, after a thorough analysis of the outsourcing decision.

1.2. Which activities are outsourced human resources in general in Romania?

In Romania there is so much work outsourced payroll, but more work is outsourced training and recruitment and selection. The training was apparently function HR department outsourced most, followed by recruitment and selection and then pay. The vast majority of firms prefer internal performance assessment to be made as an external resource can not know all the details of the person, its progress, results and partial contributions of individuals to achieve organizational objectives.

Outsourcing is higher in small companies, where salaries and general administrative activities are conducted by third companies. Companies with a large increase in calls for 2.5 to 4 times more outsourced services than those with medium or low growth. Here an important role is held recruitment activity which, because momentum is achieved by specialized intermediary firms.

For a dollar invested in wages and benefits, the company and receives the lion recovers plus 0.7 RON. We nearly five times better than companies in Western Europe and twice better than those of Central and Eastern Europe. But Russia has a return of more than two times higher than Romania. Due to the fact that wages will increase to stay with a high yield companies should increase total revenue and control wage costs.

IT firms have developed recently integrated human resource management, payroll and timekeeping. Using these programs, companies can recruit, select and distribute staff at work and establish methods

and systems staff remuneration and salary calculation.

The advantages of this method are reducing payroll process payroll time allocated, which is very important, especially in organizations with a large number of employees reporting process and adequate accuracy by authorities, but also to management. But the costs are quite significant: the actual purchase of software, infrastructure investment required for installing, maintaining personnel costs application, the update due to legislative changes etc.

At first glance, buying a soft computing is a cheaper solution compared to human resource companies that charge a monthly fee depending on the number of employees. But buying program is not the only expense you have to do those interested. Customer must pay a maintenance fee monthly, quarterly or yearly, which often approach the purchase price.

The trend in the last two years is that large companies with thousands of employees, to use all the companies specialized in leasing and payroll.

Recently, for large companies, the cost of outsourcing solutions seems this service, or hiring a human resources company that provides payroll employees. What in the specialized language called "payroll outsourcing" is thus how companies get rid of the hassle of an accounting department, paying instead a firm dealing exclusively with this activity.

Although experts expected to increase payroll services 15% compared to 2011 and forecast a significant increase over the next three to five years, companies in Romania are reluctant to outsource payroll and wage calculation prefer "in-house". Prices for services outsourcing company is determined by specializing in payroll and company who wants such a service, so it is difficult to set an exact price for outsourcing services wages.

The price is set only after a meeting with the client, which includes exactly the requirements and needs. Market price of Romania is based on two euros per employee, reaching about 12 euros. Companies specialized in providing corporate payroll solutions payroll process optimization, reducing costs, minimizing

effort in the department of human resources and payroll, with special software.

Staffing services are services provided by specialized companies acting as employer for personnel operating companies - customer. By law, this concept implies that temporary employment agency provides a company employee hired through a temporary employment contract. This temporary work can only be done in two situations: either when employees go on vacation or when business needs seasonal labor. Also, customers should be aware that a temporary employment contract has the same value as indefinite contract, grant seniority and require the same financial obligations, both the employer and the employee. Staff Leasing has become a form of labor use more common in Romania, mainly due to entry of multinational companies with fluctuating activities that have hired staff to cover busy sales periods (during holidays Easter or Christmas). Cases (most relevant) which may use personal leasing are few employees: situation often encountered in multinational companies due to internal policies, insufficient number of employees: the period of the leave or medical promotion and organizational changes. Long time to approve a new position: although the need for a new employee is often urgent approval of a new job can take time, budget restrictions: usually they apply to salary budgets or other categories, less budget for contracted services, exactly where the budget falls working with such a company specialized internal resources insufficient or inadequate: can mean either lack a human resources department or insufficient resources allocated to the department to handle a large volume of work required for projects of limited duration. Employment during the test: is a pretty frequently requested by some clients to test the abilities and skills of future employees through leasing companies during the probationary period, then to engage them on their payroll.

Outsourcing recruitment: If there developed a specialized department then you need to outsource recruitment. But if such a department can be discussed working with a specialized company? Most times not. For recruitment simple, everyday there are people who are supposed to ensure the efficiency of the operation. For any complex recruitment

recruiter can provide arguments for which you must choose: sources more extensive search, media job promoting much wider selection tools and so much more refined. A situation that can be counterproductive recruitment outsourcing is that the market is restricted and specialized reporting and as such, the employer is more commonly known candidates than could ever be recruiter. If a large real estate company, for example, look for people who specialize in this area most likely they will either learn quickly or already in its database. No recruiter will be able to identify and attract talent more effectively than companies' representative area of the field, even if not admitting it. This situation makes it superfluous: a good recruiter can provide professional element in such recruitment even though he identified candidates. A good recruiter can cover the identity of the employing company, he deals with the best results most professionals, specialized tools involved in the selection process can get references from several directions, can assist employers in negotiating terms of employment. Generally speaking, may assist selection.

HR outsourcing is becoming more common, integrated external market this year is estimated at 12 billion dollars worldwide, according to a recent study by Gartner Inc.

Why outsourcing business in today's increasingly required?

It is generally accepted that there are five main reasons why companies prefer to outsource HR activities:

- Focus on core business
- Achieve global services
- Permanent access to the latest technology
- Permanent access to specialized expertise
- Tight control over operating costs

Outsourcing was imposed in response to the increasing pressure exerted on the human resources department and the entire organization to improve services and to manage resources and costs efficiently.

Administrative activities and salaries of staff in Romanian companies work three times more people than in Western firms.

However, human resources departments of Romanian companies are not numerous. On the contrary even. According to PwC Saratoga study Human Capital Benchmarking [3], Romania 2007, a human resources specialist takes care of 78

employees, while a colleague in Western Europe dealing with only 66 employees. In this way, the Romanian specialists have less time to provide strategy or policy or retention compensation and benefits.

Outsourcing human indicator calculated as the ratio between the costs of outsourcing human resources and its total cost is 9.9%, similar to Western European companies (11.7%). According to the study [4], "Outsourcing in Central and Eastern Europe" conducted by Accace in Romania, Ukraine, Poland and Hungary in 2012, the most commonly outsourced services in these countries are payroll services (96%), followed by accounting services (93%), tax administration (93%), financial reporting (85%), financial planning and analysis (64%) and IT (57%).

Conclusion

The principle of outsourcing is that always a competent entity specialized in a particular service, can make that work better in terms of cost and quality. Indirect benefits for the customer are: first, removed from the day to day operations unrelated to the core business, secondly, there is no need to allocate resources for secondary sectors.

Outsourcing can provide a high level of service and increased efficiency, reduced response time and data availability can increase employee satisfaction with a direct impact on productivity.

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Reputation Management of Romanian Small and Medium - Sized Enterprises under Crisis

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Abstract

Increasing global competition and e-commerce are trends which reinforcing the pressure to rethink existing intangible value. The good reputation of a company's can be destroyed in a matter of minutes on the Internet by anyone; even a competitor. So, more and more enterprises will realize that concept of the reputation management is a mission critical part of management. Reputation management neither can be ignored nor can be dismissed because in the age of internet it has become more visible especially for Romanian SMEs which face a new challenge. The aim of this paper is to contribute in bringing more clarity into the question: what is the current status of Reputation Management in Romanian SME's? Future business success will depend on an enterprise control the reputation management and managing his brand. The research will establish which constituents are essential for attain high reputation management in the SMEs market.

Keywords: small businesses, reputation management, crisis

J.E.L. clasification: H12, J54

1. Introduction

In changing organizations, information is power and that is why you need to be absolutely sure that the information going out about your company is accurate. A bad review or misleading information from a competitor could mean lost business.

The role of Reputation Management is a growing field which just started to get attention a few years ago. Managing your reputation is critical in today's world because, as billionaire Warren Buffet says,

"it takes 20 years to build a reputation and 5 minutes to ruin it." [1]

Reputation is the total of a company's perception by all of its stakeholders, but this concept can be separated into three different categories. Obviously, it is managing the reputation of a company, but it can be for a company of any size, whether it is a larger company who wants to self-promote, or a just-established company which wants to get its name out there. Therefore, the Romanian small businesses did not care enough about managing their reputation in an appropriate way.

In the same time, the Reputation Management is needed because picture customers searching the company's relevant keywords and being faced with negative words just next to your company or products names in the first results page. In this case, online Reputation Management is the response for any company to overcome this damaging information and establishes other unexplored information gateways between the company and customers.

Romanian SMEs performances highly depend on the priorities set by entrepreneurs and managers. We should notice that over a quarter of the managers intend to undertake managerial restructures and increased the importance of monitoring, managing, protecting and promoting their reputation. As a result, a user rate of more that 30 percent demonstrates that Reputation Management has already arrived Romanian SMEs. The general understanding is considered as proficient although the term itself is still rather unknown. Summarizing, users are regarded as more vital, less vulnerable and more successful.

The challenge of high volatility in capital needs and company risks Reputation Management would meet with more stability, higher prices and an increasing customer

loyalty. However, this intention requires strategic planning which is not strongly distinctive in Romanian SME's. All the more it is essential that there is an explicit commitment of the entrepreneur and the willingness to drive Reputation Management actively.

2. Literature review

In the international literature there are often used interpretations reflecting a general understanding, but there is still a lack in definition of Reputation Management. All presented interpretations share the view that reputation is an intangible asset, which depends on people's perception. Although the conceptual focus differs it is clear that there is a relation between reputation and economic success. It is also undisputable that reputation contains attributes like trustworthiness, orientation and experience.

The empirical investigation of literature review reveals that to complicate the issue of mix-up, reputation and Reputation Management are often used in a context including terms like corporate responsibility, corporate ethics, corporate governance and sustainability (Bennet and Gabriel, 2001)[2].

To clarify all terms and putting them into relationship would go beyond the scope of this work. Thus, it focuses in the following on the definition of reputation and the delimitation of reputation and image, which is the most commonly misused term.

Following Bauhofer (2004), Reputation Management is the concerted application of activities, which is based on the precondition of a stakeholder-oriented company aiming to create sustainable value. The main difference in his interpretation is that reputation is not an aggregation of several individual images but it represents corporate culture, which is characterized by creating sustainable value [3].

Thielemann (2004) represents the version that Reputation Management is stakeholder--support respectively public perception management, which is first of all opportunistic [4]. He differentiates between ethical activities, which are executed due to their relevance for the higher aim that is economic success and activities, which are executed because they are for the sake of an ethical matter.

Today's Internet culture demands transparent and authenticate communication from organizations (Gonzalez-Herrero & Smith, 2008) [5]. Regardless of whether stakeholder comments have any veracity or the author's identity is obscured, organizations operate in a whole new communication paradigm where not responding is wrought with potentially negative consequences.

Regarding the delimitation of reputation and image, the interpretations are more controversial. Regarding the delimitation of reputation and image, the interpretations are more controversial. On the one hand, the image has a short-term phenomenon and therefore volatile and subject to permanent changes reflecting what a company wants to be regarded as of its target groups. Reputation in the sense of a good record reflects the experience of all market participants with a person or a company. Due to the impact of communication on reputation, it is useful to establish and promote a relevant communication network. On the other hand, image can be modified quickly using unidirectional communication. Whereas reputation aims to grow sustainable long-term company value, image is appropriate to generate short-term value in attracting potential buyers.

3. Methodology

The methodology of research was focused on two directions: first, we tried to identify the elements that constitute the reputation management potential from the firm point of view; second we analyzed outlines differentiate results for various participating groups according to the objectives of this paper.

The method was chosen as it is web-based questionnaire and the survey instrument used in this study was a structured questionnaire for the quantitative study. The questionnaire was made up of two parts and it comprises a total of 25 questions. The first part of the questionnaire gathered background information of the respondents from different Romanian SME's, which filled up the questionnaires and representing Reputation Management users. The second part of the questionnaire addressed the scale items related to the social organizations

(Reputation Management non-users or indecisive). The variables were measured using multiple items. All of the scale items represented in the survey instrument utilized a five – point categorical rating scale. The anchors used included: a) 1 = not at all, b) 2 = few, c) 3 = partly, d) 4 = good, e) 5 = very good.

The online survey system provides a total of 2104 data records.

4. Results

Based on the scoring results in the questionnaire 54 percent of the participants associated Reputation Management with strategy whereas 34 percent regarded the topic as an additional instrument for corporate management and even 19 percent acknowledged Reputation Management as one of the most important competitive advantages in future. Eleven percent identified a current trend and for another ten percent the topic was yet completely undeveloped. This result indicates a general confession of Romanian SME's to Reputation Management as an important management topic. Considering different sub-groups it is remarkable that micro enterprises assumed with 19 percent an over-average attitude that the topic is only trendy which is intensified with an under-average vote of only 12 percent for the consideration of Reputation Management as a competitive advantage. From those participants considering the topic yet as a completely unimproved land, 82 percent argued that they heard for the first time about Reputation Management in the survey.

The questionnaire survey has demonstrated that 21 percent of all participants committed themselves to the use of Reputation Management, 49 percent were non-users and 30 percent were not sure if it is used in their companies. This is not remarkable because general comprehension expects an increasing willingness for strategic planning and the availability of resources as a function of increasing company size.

The question "Does the Romanian SME's use Reputation Management?" categorizes the participants quantitatively in Reputation Management users, non-users and indecisive.

According with data the result admits the follow considerations: either the participating Romanian SME's have a different understanding of managing reputation or they are pioneers in Reputation Management yet before large-sized enterprises which appear unreasonable. This result reflects that the importance and relevance of the topic is associated correctly to corresponding functional areas. It leads to the conclusion that Reputation Management users are aware of a proper integration into business.

In consideration of the figure 1 in average 41 percent stated a good or very good knowledge of stakeholder needs, 31 percent indicated to know expectations partly and 19 percent confessed to few familiarity or do not know needs at all. Comparing Reputation Management users and non-users about 50 percent of users are familiar with their stakeholder needs, stating good or very good knowledge, only 35 percent of non-users agreed to this level. This leads to the conclusion that the use of Reputation Management clearly supports a better understanding of stakeholder behavior. Within different company sizes, micro and medium-sized enterprises dominate the result positively. At the same time medium-sized enterprises show a percentage of 13 percent in the category few to none, which is below the average of 19 percent.

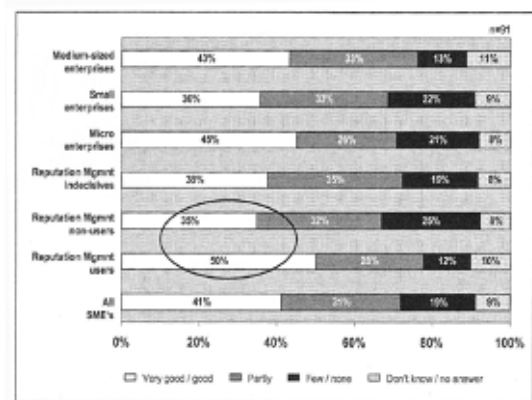


Figure 1: Values perspective at the Reputation Management in Romanian SMEs

According to the figure 2 the influence of Reputation Management in applying Romanian SMEs, participants were asked to state if there are changes of aspects that represent reputational benefits from literature. In average 36 percent indicated an improvement, 47 percent an unchanged

situation. Only one percent stated that Reputation Management worsened things. There is a general agreement among the participants that customer loyalty (65 percent), employee motivation (59 percent) and attractiveness for applicants (51 percent) significantly improved.

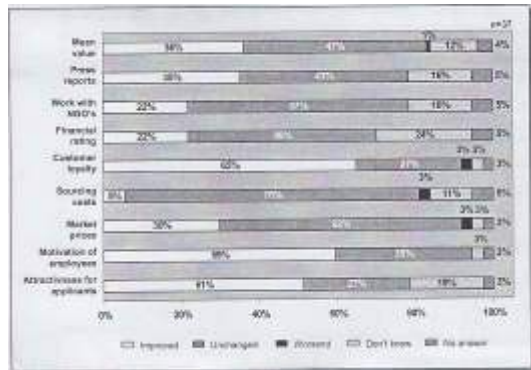


Figure 2: Influence of the Reputation Management in Romanian SMEs

For another point of view, the participants of questionnaire declaring to measure reputation focus on different methods: 65 percent indicated to execute surveys for identifying stakeholder perceptions. The evaluation of press reports was noted by the additional 22 percent as the method of choice. Finally, 13 percent stated to get reputational feedback on customer site through personal contact and common work. Despite of few entries it can be assumed that SME's focus on classic marketing measurement methods like surveys and media analyses are already known. This is not bad because these methods provide a lot of relevant information although they should be completed with reputation specific key figures. Those participants relying simply on their gut feeling have to be explained that this approach might be sufficient for individual case but contradicts a systematic Reputation Management approach as well as strategic planning with a negative impact on business.

As a result, Reputation Management users can be regarded as more active and less vulnerable, which reduces business risk, due to the intensive exchange with their stakeholders. Based on the high correlation it can be assumed that major efficiency issues in communication do not occur among the participants, as it would be expressed in the case of little knowledge despite of high contact.

5. Theoretical and Practical Implications

The important effects on Reputation Management in Romanian SMEs which have to be taken in account is the number of channels which have to be considered increases and comes along with a higher speed on building reputation as well as an additional coverage of publicity.

The results of present study leads to the conclusion that all mean values are over-average, which confirms that Romanian SME's have already a considerable level of proficiency in Reputation Management. The well-balanced best practice shows that it is definitely possible for SME's to use Reputation Management in a professional and successful way. Regarding the mean value it is obviously that, beside of the internal dimension, there is a large potential for advanced optimization. The worst practice shows the example of a company that is mainly market-driven whereas other aspects are regarded of lower priority.

After regarding the influence of Reputation Management obtain with this design, it is useful to confront the expectations of non-users with the experiences of users. As experiences prove that many enterprises introduce Reputation Management as a reaction on a sudden damage of reputation. Practical in the Romanian SMEs case, the Reputation Management is useful to think about an enhanced or modified measurement.

6. Conclusions

From a perspective of size, small enterprises represent the majority of users, followed by micro enterprises and medium-sized enterprises. More than half of the companies are experienced users indicating to practice the Reputation Management for more than five years, whereas the implementation comprises most aspects of stakeholder value perspective and reputation drivers on a high level of activity and over-average results.

Although a percentage of three quarters indicated that Reputation Management has medium or strong influence on business, the reasons for not applying Reputation Management are still not clear. It can be assumed that the topic has not yet reached the

consciousness of decision makers in an adequate relevancy.

The originality value of this research are: considerations regarding the role of Reputation Management as a pivotal instrument to support management in changing organizations and actual concerns regarding the maintain reputation of Romanian SMEs for measure progress because there is no control to anticipate concerted activities or step in if requested.

This study confirmed that the use of Reputation Management in Romanian SMEs improves the exchange with all stakeholders and enhances the knowledge of stakeholder needs. Reputation Management users have a high contact rate with their environment and work intensively on business improvements.

Strategic planning is considered as the most important supporting factor to implement Reputation Management in Romanian SMEs because if this factor is not given, it can be assumed that an implementation.

For sure the implementation of Reputation Management is more difficult in the case of a damage of reputation owing to the management of reputation needs intensive exchange with all stakeholders who require trust and credibility, and both suffer in the case of damage.

The real problem for Romanian SMEs today is managing the information about his company on the web where online reputation management can give their serious disadvantage over their competition. To make sure that the company does not come under one of these unfair attacks the Romanian SMEs should consider hiring a reputation management firm.

In future every Romanian SMEs has to answer to questions like: "Which factors influence the implementation of Reputation Management in your company?", "How does Reputation Management help?", "How can activities in Reputation Management are identified in your SMEs?" "When would you expect significant success after implementing Reputation Management?"

So, the Romanian SMEs must be opened for external support in Reputation Management and is better to create a measurement system referring to six beneficial aspects regarding this concept: internal, financial, market, public relations,

political-legal and online. Due to the fact that Reputation Management influence all dimensions and is the most important theme today.

Reputation is a phenomenon which exists and it is helpful to know that the work is dealing with socially constructed interpretations of people and companies. Moreover, the Reputation Management in Romanian SMEs is subject to permanent changes and is influenced by individual perception. In times of crisis, companies must look beyond their corporate borders to manage corporate reputation effectively. In most cases, the loss of reputation is the result of a company's own short-sighted business and communication tactics.

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Case Study: a Model of Taking Over of Railway Institute in Bucharest

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Abstract

In the context of the global economic crisis the business environment leads to new mergers and acquisitions. In order to consolidate the economic and financial situation, many companies choose to merge or to be absorbed by stronger companies and to continue their domain of activity or to keep on supplying services. It represents an ideal solution for companies in difficulty, as it is the case often during this economic crisis period.

Key words: current liquidity ratio, acid test ratio, method of compensation

J.E.L. Classification: M49 Accounting and Auditing

The Railway Institute was founded in November 1947 based on a Decision issued by GENERAL DIRECTION of CFR aiming to achieve a unitary concept on the railway operation and development, thus separating the study and design activities from the construction one.

So the new institute could benefit by numerous specialists from the Railways and very soon could be operative and able to create and use the elements of the Railways logistic base.

Even from its starting-up, in November 1947, of the Railway Institute, it was required to be a central and strong organization that will gather all the railway design, attributed till that moment to each department of the railway regional. Up to that moment, all projects were an attribution annex to all CFR units, with no practical guidance or control from the part of General Direction of the railways.

This bad organization became more and more projecting after the finalization of the Second World War, when the rehabilitation works started, sometimes even to new

constructions that had to be performed in that time.

Studies, as well as projects were performed under the pressure of open sites, but without having the necessary documentation or with incomplete documents or documents containing the big errors in measurement, quantities and so on. The situation was even harder when talking about objectives that were related to different activities: finalized constructions, without additional installations, with a superficial specification of the necessary equipment. In such a manner, inadequate workshops, warehouses, centralization cabins, water castles were built. These constructions were not functional and, in the same time they were blocking the investment funds.

The studies and the designs were not elaborated in anticipation, their making-off and putting into operation was superficial, with many delays in the decision making process; with no concern for the financial resources or the importance and emergency of these types of activities of the CFR Company.

In order to fix this situation, the General Direction of CFR decided to separate the execution and design activities. In this favorable context, in November 1947 the Railway Institute were born.

The Institute had to perform the Unitarian of the technical conception upon development of the material means, the best regarding the exploitation of the railway network.

The Government Decision No. 235/1991 and 570/1991 establish the starting up of the National Company of Romanian Railways; with own autonomy and own legal personality, having in its structure the Railway Regional, Direction of Railways Constanta harbor, the Welding Railway Company, Informatics and Computation Center of CFR, Training Center and CFR Museum.

By Government Decision No. 570/1991, the Railway Institute is part of the units that will separate from SNCFR, becoming, based on Governmental Decision No. 692/04.10.1991 a limited liability company under the denomination Railway Institute S.A. Bucharest.

At the end of 2006, AVAS tendered 70% of the shares of ICF SA (the rest of 30% is the SM portfolio) and beginning with 1st of November 2007 the main shareholder of ICF SA became SC AC SA together with a group of persons.

AC is a Romanian Company established in 1994, having as main activity domain civil works and industrial constructions.

Partial privatization

Although passenger railway services are not a state monopoly in Romania, CFR remains the only passenger carrier operating at a national level. However, after the reorganization of CFR in 2011, around 15% of Romanian railway tracks have been leased to private companies. These are known as non-interoperable tracks in Romania. The main operators are: S.C. Regional S.R.L., S.C. Transferoviar Grup S.A., S.C. Regiotrans S.R.L., and S.C. Servtransinvest S.A. which now operate a significant number (especially Regiotrans) of routes <<http://tren.transira.ro/>>. Early transfers to these companies included Zărnești–Brașov, Brașov–Întorsura Buzăului, Sfântu Gheorghe–Brețcu, Sighișoara–Odorheiu Secuiesc, Șibot–Cugir, Blaj–Praid, Galați–Bârlad, Buzău–Nehoiășu, Iași–Dorohoi, Timișoara Nord–Nerău, Satu Mare–Bixad, Arad–Nădlac, Bistrița Bârgăului–Bistrița Nord–Luduș, Arad–Brad, Roșiori Nord–Piatra Olt and many others lines. On these lines, CFR is not allowed to operate its trains—companies which have leased the tracks have a virtual monopoly on their usage. Aside from CFR Călători, 12 other companies provide local passenger services, on non-interoperable tracks, even though none of these services exceed 40 km in line length. 28 private companies, including Petromidia and Servtrans, operate freight transport services on main lines with their own rolling stock, leasing usage rights from CFR. As of 2005, some of the leases have been breached and the tracks have therefore fallen back under the operation of CFR. In August 2005, CFR announced that it

intended to privatize CFR Marfă, its freight division.

The company has a subscribed and paid social capital of 4.582.400 lei.

In the end of 2007 the turnover was of 20.242.260 lei and the company obtained a Net Profit of 77.351 lei.

Revenues made in 2007 amounted 21.686.111 and it come from:

- exploitation revenues from design works, studies, technical assistance, internal partners as well as external partners as well as service activities amounting 21.576.670

- financial revenues added from interest rates and exchange differences, in value of 109.441 lei.

Expenses occurred during 2007 amount 21.608.760.

- expenses coming from exploitation revenues amount 21.562.998 lei

- financial expenses from interest rates and exchange currency differences amount 45.762.

Note that in the Profit& Loss Account both operating revenues and operating expenses are influenced by the adjustments regarding the current assets and the provisions for risks and expenses, litigation.

Operating expenses-on primary elements-are:

- consumables, energy, water, other material expenses 1.388.625

- depreciation 455.894

- gross salaries 11.420.933

- social security expenses 3.143.269

- taxes and fees 292.235

- subcontractors 7.890.797

- adjustments in value for current assets (3.335.519)

- other operating expenses 306.764

The company's debts amount 7.939.186 lei from which the ending accounts receivables at 31.12.2007 was 7.855.747.

At 31.12.2007 are recorded debts in total of 2.598.111, representing debts that should be paid within 1 year, as follows:

- suppliers, collaborators, designing 659.747

- debts to personnel 769.695

- social security funds 341.132

- unemployment funds 27.831

- income on salaries 149.667

- VAT 499.876

Debts to personnel, social security funds, income on salaries, VAT and special funds were all paid during January 2008.

In what concerns the debts towards specific suppliers (as the renting supplier), the method of compensation will be applied as it was done so far.

At the end of 2007 the annual inventory of assets and liabilities was performed according to OMFP No. 1753/22.11.04 for Norms approval regarding organizing and performing the active and passive elements inventory.

During the reported period the economic-financial activity was performed, in average, with a number of 43 employees.

The balance sheet, the Profit& Loss Account, the informative data, the situation of the fixed assets and its depreciation and the situation of the provisions for depreciation at 31.12.2007 are presented according to the legislation in rule established by the Ministry of Public Finance for the year 2007.

Total capital of the company is in amount of 10.363.660 lei.

The result of the year (profit) amounts 77.351 lei.

The management of the company is responsible for preparation and presentation of the financial statements.

Main economic-financial ratios for the year 2007:

1. Liquidity Ratio:

1.1 Current Liquidity ratio (current capital ratio):

$$= \text{Current Assets} / \text{Current Debts} = 12146913 / 2598111 = 4.68$$

$$\text{Debts} = 12146913 / 2598111 = 4.68$$

1.2 Immediate liquidity ratio (acid test ratio-quick ratio test):

$$\text{Current Assets} - \text{Stocks} / \text{Current Debts} = 12146913 - 1509625 / 2598111 = 4.09$$

Quick ratio specifies whether the assets that can be quickly converted into cash are sufficient to cover current liabilities.

Ideally, quick ratio should be 1:1.

Our quick ratio is higher, meaning the company keeps too much cash on hand or has a problem collecting its accounts receivable. Higher quick ratio is needed when the company has difficulty borrowing on short-term notes. A quick ratio higher than 1:1 indicates that the business can meet its current financial obligations with the available quick funds on hand.

2. Risk Ratios:

Debts degree ratio:

$$= \frac{\text{Borrowed Capital}}{\text{Own Capital}} \times 100 = \frac{0}{10363660} = 0$$

3. Activity Ratios: activity ratios are critical in evaluating a company's fundamentals because, in addition to expressing how well a company generates revenue, activity ratios also indicate how well the company is being managed.

3.1 Clients Debts Turnover=

$$\frac{\text{Average credit Clients}}{\text{Turnover}} \times 365 = \frac{7855747}{20242260} \times 365 = 141,65 \text{ approximately } 142 \text{ days}$$

Turnover ratio indicates how many times the accounts receivable have been collected during an accounting period. It can be used to determine if a company is having difficulties collecting sales made on credit. The higher the turnover, the faster the business is collecting its receivables. It can be expressed in many forms including accounts receivable turnover rate, accounts receivable turnover in days, accounts receivable turnover average.

3.2 Turnover Supplier's Credit:

$$\frac{\text{Average credit Suppliers}}{\text{Acquisitions}} \times 365 = \frac{620433}{13001385} \times 365 = 17,42 \text{ approximately } 17 \text{ days}$$

The accounts payable turnover ratio indicates how many times a company pays off its suppliers during an accounting period. It measures how a company manages paying its own bills. A higher ratio is generally more favorable as payables are being paid more quickly. When placed on a trend graph accounts payable turnover analysis becomes simplified: the line raises and lowers just as the ratio does. Common adaptations used to calculate accounts payable turnover yield results like accounts payable turnover ratio in days, ap turnover in days.

3.3 Turnover fixed assets:

$$= \frac{\text{Turnover}}{\text{Fixed Assets}} \times 365 = \frac{20242260}{1077695} \times 365 = 6855,77 \text{ approximately } 6856 \text{ days}$$

The fixed asset turnover ratio measures the company's effectiveness in generating sales from its investments in plant, property, and equipment. It is especially important for a manufacturing firm that uses a lot of plant and equipment in its operations to calculate this ratio. If the fixed asset turnover ratio is

low as compared to the industry or past years of data for the firm, it means that sales are low or the investment in plant and equipment is too high. This may not be a serious problem if the company has just made an investment in fixed asset to modernize, for example. If the fixed asset turnover ratio is too high, then the business firm is likely operating over capacity and needs to either increase its asset base (plant, property, equipment) to support its sales or reduce its capacity.

3.4 Total Assets Turnover:

$$= \frac{\text{Turnover}}{\text{Total Assets}} \times 365 = \frac{202242260}{13224608} \times 365 = 558,46 \text{ approximately } 558 \text{ days}$$

The total asset turnover ratio measures the ability of a company to use its assets to efficiently generate sales. This ratio considers all assets, current and fixed. Those assets include fixed assets, like plant and equipment, as well as inventory, accounts receivable, as well as any other current assets. The lower the total asset turnover ratio (the lower the # Times), as compared to historical data for the firm and industry data, the more sluggish the firm's sales. This may indicate a problem with one or more of the asset categories composing total assets - inventory, receivables, or fixed assets. The small business owner should analyze the various asset classes to determine in which current or fixed asset the problem lies. The problem could be in more than one area of current or fixed assets. Since current assets also include the liquidity ratios, such as the current and quick ratios, a problem with the total asset turnover ratio could also be traced back to these ratios. Many business problems can be traced back to inventory but certainly not all. The firm could be holding obsolete inventory and not selling inventory fast enough. With regard to accounts receivable, the firm's collection period could be too long and credit accounts may be on the books too long. Fixed assets, such as plant and equipment, could be sitting idle instead of being used to their full capacity. All of these issues could lower the total asset turnover ratio. What if the total asset turnover is excellent as compared to historical data for the firm and to industry data? That means the company is using all its assets - its asset base

- efficiently to generate sales and that is a very good thing.

4. Profitability Ratios

4.1 Return on capital assets=

$$\frac{\text{Gross Profit}}{\text{Owner's Equity} + \text{Long-term Debts}} \times 100 = \frac{77351}{10363660} \times 100 = 0,75 \%$$

The profit percentage of assets varies by industry, but in general, the higher the ROA the better. For this reason it is often more effective to compare a company's ROA to that of other companies in the same industry or against its own ROA figures from previous periods. Falling ROA is almost always a problem, but investors and analysts should bear in mind that the ROA does not account for outstanding liabilities and may indicate a higher profit level than actually derived.

4.2 Net Profit Ratio:

Net profit margin is a key financial indicator used to assess the profitability of a company.

$$\frac{\text{Net Profit}}{\text{Turnover}} \times 100 = \frac{77351}{20242260} \times 100 = 0,38\%$$

4.3 Economic profitability ratio:

$$= \frac{\text{Exploitation results}}{\text{Total assets}} \times 100 = \frac{13672}{13224608} \times 100 = 0.10\%$$

Net profit margin measures how much of each dollar earned by the company is translated into profits. A low profit margin indicates a low margin of safety: higher risk that a decline in sales will erase profits and result in a net loss. Net profit margin provides clues to the company's pricing policies, cost structure and production efficiency. Different strategies and product mix cause the net profit margin to vary among different companies. Net profit margin is an indicator of how efficient a company is and how well it controls its costs. The higher the margin is, the more effective the company is in converting revenue into actual profit.

Net profit margin is mostly used to compare company's results over time. To compare net profit margin, even between companies in the same industry, might have little meaning. For example, if a company recently took a long-term loan to increase its

production capacity, the net profit margin will significantly be reduced. That does not mean, necessarily, that the company is less efficient than other competitors.

Conclusions

The ratios computed above show that the taking over was the clever solution to be adopted by the management of the Railway Institute in order to maintain its activity and to sustain the expenses incurred.

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The Effects of Uncertainty and the Asymmetric Impact of the Economic Crisis on Sectors of Activity and Companies in Romania

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Abstract

Economic strategies for today's Romania should be in this time of crisis, more than ever, a priority for both government and main political and professional organizations, economic research institutes and universities in the field but also general business environment. But the economic crisis in Romania full installed at the end of 2008, resulted in dramatic decreases in spending among companies and significant adjustments budgets. In an attempt to keep business afloat, companies looking for effective solutions ranging from monitoring of cash flow, renegotiating contracts with suppliers, rethinking strategies tailored customer service, to more drastic solutions, such as redundancies personal.

Keywords: economic crisis, anti-crisis measures, crisis support, economic decline, the analysis of macroeconomic

J.E.L.Classification: D00

Introduction

In conditions of crisis, the company, the state plays a decisive role in fostering, protecting and strengthening economic and political independence of the country, so must act vigorously and giving priority to local producers providing training, building, operation and Development internal market to meet social needs, with gainful productive activities for both the state and the population.

As a matter of national interest with profound economic and social implications, should develop measures to mitigate the global financial and economic crisis, which may make it possible to avoid a severe crisis in our country and create conditions to maintain or increase the living standards of people through civilian and not military investment.

This goal can be achieved by "turning all natural resources" and especially those in agriculture, where our country has a large unused potential, which means an increase in subsidies and a substantial amount of investment will create a strong impact economic and social development and give rise to other areas of activity: industry, construction, trade, tourism, services and allow time and territorial rural development real and lasting.

To this end must be urgent action at national and regional levels to:[1]

A. Reduction or suspension of import of food products and raw materials that occur or may occur in the country and export of agricultural products and/or virgin forest and allocation massive funds for development of domestic production in these areas;

B. uptake or emergency access to community funds necessary territorial development particularly for agriculture and infrastructure, where there is the possibility of obtaining quick results, multiple major and visible;

C. Establishment and / or working in partnership by the Village Hall or urban small and medium units in private sector activities that meet local needs, such as:

1. Production units or sections and/or service, in each municipalities own, such as construction, repair and maintenance of streets, garbage collection, which currently are paid enormous sums to the state budget,

2. Anonymous-stock companies formed or formed joint ventures, public and private, including a wide range of activities such as:

a) The execution of agricultural works by taking the form of lease municipalities/and/or association of arable land/orchards or vineyards or unkempt worked by owners, for various reasons and the establishment of agricultural units with their agreement with the basic land as private property and the council will be equipped with necessary equipment investment,

b) processing of agricultural products to obtain goods and services supply basic necessities to the population and not only that: mills, bakeries, canneries, compotes and jams, collection, processing of milk and milk products, slaughterhouses/meat sections and meat products obtained from their own farms or from local producers, cutting fabrics, garments and knitwear, manufacture of furniture, bricks and others,

c) Construction, development and maintenance of roads, bridges, drainage, hydro facilities, dams, hydropower plants for farms/stations/industrial workshops, regulation of rivers near the village and the earth formation displaced by dams on the one hand and other paved or concrete, a distance to avoid flooding, directing water to irrigate farmland and channel formation of ponds or ponds for fish farming, greenhouses and vegetable crops of mushrooms, construction of buildings or premises necessary production workshops industrial warehouses, silos, residential buildings, dispensaries, communal bathrooms, schools, etc,

d) Disposal of products of own facilities and/or goods that are required locally for personal or household needs, the grocery, general stores;

e) Arrangement of sightseeing symbol landscape/historical/musical/cultural area and the establishment of characterizing locations for tourism, with pensions, cottages specific local,

f) The organization of fruit tree nurseries, for the establishment of orchards, trees for afforestation of deforested areas, landslide areas / on dams, curtains/selvedges of trees in

addition to national and county roads, city streets and streets.

Implementation and operation of these enterprises will be made based on:

- Financial resources consist of: State and private capital investment will include the state budget - plus subsidies - accessed funds from the European Union-based projects concrete investment funds from individuals in the country, the diaspora and those who return, low interest loans from CEC Bank and not least foreign capital;

- Investment funds from individuals can be achieved through a policy of attracting savings by presenting the importance, necessity and benefits of creating profitable productive activities, both for those taking part with funds that will be guaranteed by the state, and for those who want to work;

- Autonomous stock companies, joint ventures will be the state with investments and subsidies., The earth's population, specific buildings, equipment and funds or savings funds, and how the results will be key: the shareholders (the state and individuals) will receive profits/dividends in proportion to the degree of participation, those who work/working in establishments with payroll.

D. Processing of the entire state-owned underground riches, to ensure energy independence and it can households, exploit, process and distribute the entire society, as a national asset that belongs to all Romanians present and future, is an important source of income to budget the state;

E. To encourage, stimulate and assist farms, small and medium private productive units to obtain the necessary funds to develop their business, supporting existing tourism, the local craftsmen and open to tailoring, cismărie, repair and/or car washes, repairing bicycles, electrical appliances and others.

Macroeconomic analysis of the evolution of Romanian economy by sector in the period 2008-2011

Macroeconomic analysis shows that the evolution of Romanian economy in the fourth quarter 2008, global economic crisis began to unfold in Romania.

In terms of *sectoral developments*, the Ministry show that the gross industrial value added grew by 1.3% over the whole of 2010,

compared to 4.8% in the first nine months, following the decline of industries in the fourth quarter (textile products, Automotive, metallurgy, machinery and electrical appliances, furniture) and reduce growth in the first half, with important contributions in other branches in manufacturing industries (food and beverages, electricity and heat, other mining and quarrying).

The construction sector in Romania is already affected by tightening credit conditions and increased costs that inhibit the development of demand in the residential segment. Reduced demand will be partially covered by infrastructure development and construction works agro-industrial and grants financed by the European Union (EU). Gross value added in construction in 2010 recorded an increase of 26.1% compared to 31.1% in first 9 months.

For services, the effects of the crisis were made mostly felt in business, namely retail and services provided to the population as a result of tighter credit conditions that have led to a decrease in volume of activity in the banking system and limiting the amount of activity in the industrial sector.

In all of 2010, gross value added of the tertiary sector rose by 5.1%.

In the first quarter of 2010, there was a contraction of the Romanian economy for the first time since the early 2000, respectively 6.4% from the first quarter 2009, according to seasonally adjusted statistics.

In the first quarter of 2010, industrial production declined in real terms by 13% (raw number), mainly due to lower processing industry by 15.2%. However, developments show a certain return monthly industrial production in March was 21.5% above the level recorded in January 2010 and 21% higher than in December 2009. As a result, industrial production in March 2010 was only 8.5% below March 2009.

In March, activities that provide 36% of manufacturing industry has achieved a high production level in March 2008, MFP mention of the tobacco products (+23.3%), manufacture of other transport equipment (20.1 %), manufacture of motor vehicles (+7.4%), wood (6.2%), printing and reproduction of recorded media (1.1%), food (+0.5%) . During this period, the volume of construction works increased by 4.4%.

According to data provided by the National Institute of Statistics in June 2011, industrial production declined from the previous period, both as gross series and as adjusted series, depending on the number of working days and seasonality, by 1.5%, 2.2%. Gross decrease of 1.5% causes were due to reduction in all industries: manufacturing and supply of electricity, gas, water, heat and air conditioning (-4.3%), mining and quarrying (-4.0%) and the processing industry (-1.0%).

Also, and in the industrial groups have declined for most categories of goods: durable goods industry (-3.7%), energy industry (-3.3%), intermediate goods industry (-2.2 %) and household goods industry (1.3%).

In Romania, the first economic sectors affected are those related to exports, especially exports to the EU is moving about. 70% of total exports. Intra exports were worth 23.7 billion, representing 70.4% of total exports, while exports were 10 extra billion.

Eastern European states, whose economies have recorded growth rates higher than those in Western Europe will not escape the effects of global economic slowdown and the demand for exports coming from the Eastern European region will decrease.

Intra imports were 38.9 billion, representing 69.1% of total imports, and the extra 17.4 billion. The increase of intra imports was 6.4% and 18.1% of imports outside, obviously a shift to areas outside the Romanian trade.

Reducing consumption will affect global production all over the world, and exporters will be affected first. Metallurgy, ArcelorMittal Galati has already decided to reduce production of rolled and closure of production capacity, ArcelorMittal is the largest exporter in Romania.

Although currently, the statistics do not reflect the decline of industrial production and exports, the effects of international financial market turmoil will be felt in Romania in the future.

International Monetary Fund revised estimates of Gross Domestic Product (GDP) growth rising of Romania for 2011, down from 5.4% to 8.6% advance in April and expects next year's economic advance of

4.8%, slightly over the previous forecast of 4.7%.

In the first quarter of 2010 due to weaker external demand, exports of goods continued their downward trend recorded in the last quarter of last year, decreasing by 19.4% over the same period of 2009, recorded in the lower reduction first two months (-26.0%) due to diminishing exports decline in March to just 6.9%. It said strong growth in exports of goods by 23.0% in March compared to February of this year. In contrast, imports of goods decreased in the first quarter by 35.4%.

In the first quarter of 2010, compared to the previous year, there is a structural improvement materialized in increasing the share of exports of machinery and equipment exports in total exports of goods transport by 6.7% (from 33.9% to 40.6%). Corresponding to this evolution of foreign trade, the commercial deficit FOB - CIF was reduced by 61%.

The current account deficit increased by 1.3% in 2009, reaching EUR 16.9 billion (12.3% of GDP), financed at a rate of 53.8% through FDI, accounting 9.1 billion, compared with 7.3 billion recorded in 2007.

In the first quarter of 2010, the current account of balance of payments has improved its deficit decreasing by 82.1% to EUR 709 million.

The current account deficit was financed entirely by foreign direct investment, which stood at 1.456 billion euros compared with 1.691 billion euros in the first quarter of 2009.

Trade deficit (fob-fob) amounted to 1.337 billion euros, down from the first quarter of 2009 to 67.2%.

In early 2010, the annual inflation rate continued growth manifested since the second half of 2009, falling in July to a level of 9.04%.

Since August noted, however, a change of trend, so that the annual rate of inflation has reached the end of December to 6.3%.

In the first three months of 2010, the annual inflation rate reached 6.71%. In the first four months compared with same period previous year, national currency recorded a depreciation of 13.4% in nominal terms against the euro.

It becomes increasingly obvious that the world of tomorrow will record other global

equilibrium dynamics sometimes turbulent change.

In general, tightening credit and increasing costs, the relative lack of liquidity is already affecting businesses in various economic sectors in Romania.

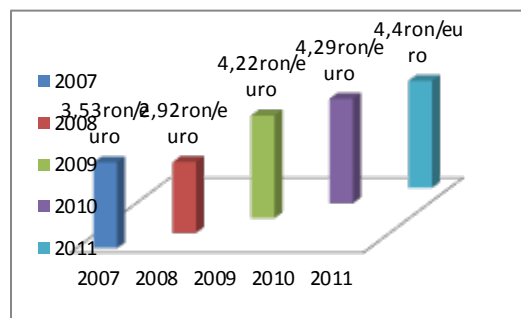
Falling demand - the main problem of the Romanian economy

The main factor affecting the business environment in Romania is in demand. This however must be seen as part of a complex and independent of factors, including the most important are: availability of credit, exchange rate, the emergence of arrears and liquidity problems, etc. All the effects of public policy too little calculated at the time of their adoption and voluntary contraction of private consumption as a means of protection against the effects of the crisis.

Availability of credit problems come mainly from lack of liquidity existing global financial market in Romania, Romanian National Bank (BNR) increased the reference rate and reserve requirements for banks to discourage the granting of credit too easily. The result is a high cost for working capital and to finance investments for institutional clients. Individuals were tightened credit conditions. 44% of managers in metallurgy, metal constructions and metal products and chemical industry considers 40% of credit availability one of the key issues that lead to lower demand in their sectors.

One of the unknowns in the equation of the economic crisis is the exchange rate. In December 2007 the RON / Euro was 3.53 to reach 3.92 in December 2008, 4.22 RON / EUR for late 2009 and 4.29 RON / EUR at the end of 2010. Panel of experts convened by the SAR expected for the end of 2011 an average of 4.4 course Roni / euro, but dispersion predictions is very high, which reflects the current state of volatility in the short term analysis of Romanian National Bank (BNR) in January 2011, when shows that exchange rate affects 36-45% of companies in metallurgy, textile industry and means of computers.(Figure 1):

Figure 1 - Evolution of exchange rate RON / EURO in 2007-2011



Sourcecode:<http://cursvalutar.clubafaceri.ro/evolutie-curs/?an=2011>

Commitment to adopt the euro in 2015 is maintained and is an important anchor in budgetary and structural reforms necessary to increase the flexibility of the Romanian economy.

In preparation for the changeover to set up a ministerial committee under the coordination of the Prime Minister, which includes NBR, MPF and other responsible institutions. In February 2010 was established at the National Bank, a changeover Preparation Committee, aiming to create technical support, organizational and legal framework necessary to achieve the tasks of the central bank in the process of introducing the euro. Since October, the Committee shall be invited permanent representatives of the Ministry of Finance.

Among the concrete actions undertaken by this organizational structure can remember drafting proposals for euro adoption law, the study of the institutional structure used by other central and east European countries in preparation for adoption of common currency, analyzes the degree of fulfillment by Romania nominal criteria and real convergence criteria, etc.[3]

Emergency application of anti-crisis measures

General Union of Industrialists Romania - UGIR-1903 calls for emergency anti-crisis measures agreed with the Romanian Government. At the anniversary celebration of 106 years of existence of the movement of employers in Romania UGIR-1003 is concerned with limiting profound economic crisis in Romania.

Given the difficult global financial and economic crisis, UGIR-1903 welcomes the opening of the Romanian Government, the Presidency and other central administration bodies for full consultation and dialogue with social partners for Romania's 2012 budget structure UGIR-1903, with other employers' confederations and trade unions, the Government filed a substantial package of measures proposed to mitigate economic crisis effects in Romania, which also measures were accepted and budgeted.

Develop a draft budget of this year Romania has to stay under the sign of realism, the drastic reduction of public expenditure, except expenditures for infrastructure investments have a positive multiplier effect. It is necessary for companies to benefit from tax incentives to help reduce the tax burden and improve their working conditions in an increasingly difficult economic environment, fewer fees and taxes, as well as generated parafiscalități them.

At the same time, UGIR-1903, fully understand the situation of 1500. public sector employees whose income growth will be limited by reduced activity more in the private sector of the economy which should provide the budget with taxes supply the necessary amounts. Becomes obvious in this context that maintaining a job is "cheaper" than creating a new one, or the payment of unemployment benefits.

Union of Romania General Industry also considers that it is fully justified as in the current economic circumstances. Romania to focus the priority use of products and services to those made in the country.

Therefore, UGIR-1903 aims to launch a national campaign to support domestic production with the slogan "Choose românesc100% and keep a job" in the campaign all companies operating production or provision of services within Romania will be invited to get through UGIR-1903 certification under the brand "100% Romanian." This program is to support both producers and service providers that create jobs in Romania and of the population who will find this means needed to mitigate the crisis.[4]

Conclusions

It becomes increasingly obvious that the world of tomorrow will record other global equilibrium dynamics sometimes turbulent change. In general, tightening credit and increasing costs, the relative lack of liquidity is already affecting businesses in various economic sectors in Romania.

Economists problem is that next year will not have nothing to finance consumption: speculative capital left, outside the Romanian workers will not easily find work, and exporters will be more difficult, because demand has fallen dramatically in countries where we sell our products to date (EU). Domestic demand (not just the consumption but also investment) will drop dramatically to the point that can be financed. In turn, domestic supply will be affected by the difficulty of financing capital goods.

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Firm's Price Strategies Typology

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Abstract

Thus, the strategies of the firm, are responsible for the harmonization of the results, and for the exigency of the parties concerned in the life of the firm: stockholders, accounts payable, state. We analysed all the specified and typological gamma of diversification strategies, strategic alliance role and of the relational strategy.

As a measure of improve it 's that the firm, but also the specialists in communicational strategy, focuses the efforts for the definition of the best strategical options, in account with the compartiment of the competitors, but also with plenty of sectorial inter and in factor, for the improvement of the business environment.

Key words: firm, strategy, relations, business, competitors

JEL Classification: M31

Introduction

In the specialized literature are found a series of strategy definitions, its first utilization appears to be from 1947 [7] (Neumann & Morgenstern, 1947), when the fast changes from business with the increasing of the instability and competition, determined one hand the dynamism of the companies and on the other hand the evolution of the economy to the new concepts and instruments which outlines the new reality.

Price Strategies

It was considered a long time that the development of some protection strategies of the markets represents the most efficient way

for the protection of the profits obtained by the firm. For a such strategy the essential element is the price or the access barrier in that field.

When the entrance barriers are carefully formed by the competitors from the field with the purpose to limit the others to enter, we talk about the defensive strategies.

These represent the communication to the attacker about the existence of a report between him and the competitors that exist in the field, they group together in defense or the fight takes place by one or by a restricted group of competitors [1] (Dimitriu, 2009).

So the realization of an informational asymmetry [4] (Harrington, 1987) between the attacker and the possible victims from the field constitute an efficient strategy of market protection without using the real forces of the competitors.

1. safeguarding strategy is the lost chance for the defending firm, because it does not have a capacity to form its protection barriers of the market, and the attacker understands this incapacity, resulting that the defending firm is in a situation very vulnerable. In this situation the defending firm has two strategic instruments: partition of the legal rights of the organization between more shareholders and undervaluing the assets. In this way the attacker can be convinced to give up the attack, the victim is not anymore interesting strategically even if is easy to obtain.

2. In the situation in which the perception of the aggressor firm over the defending capacity of the target-firm is weak , but the capacity is important, we talk about the tactic advantage of the defending firm. The defending firm can use its defending power by access interdiction in the field or by reprisal (escalade of prices).

3. persuasion is the defending arm used by the firms with a weak capacity for defending, but the attacker see it as powerful. So, even if the defending power is limited, by creating an impression of lack of interest of the offensive tactic, the attacked firm can reinforce the force perception from the attacker's mind.

The firms which confronted in a field obtain a reputation depending on their repetitive behavior. By maintaining a reputation of response to the competitors attacks, the firm makes an intimidation of the competitors.

The second way of maintaining a position of the firm in the field, as well as attack or competitive attack, is the applicability of prices strategy.

The price is the element on which the strategy of the market protection focuses and can be [3] (Glais, 1992):

- a threshold price fixed by the firm with higher position in the field
- a ruinous price that a firm adopt hoping to ruin its competitors
- a discriminating price for increasing the profits and the economic power.

The strategy of threshold price and capacity exceedance

This price strategy can be adopted in the fields where are important investments in fixed funds because these generate higher fixed costs and the investment bet is important, none form the investors do not want to lose something from the owned part on the market. This is the case of the ironworks industry, oil-chemistry and electric industry.

To adopt a such strategy, defending strategy, can be transformed from a defending one in an advantage for the competitors because this strategy can be considered less credible for a long term and the firm which will adopt it will lose as a result of the maintaining the prices at a limit-level (being afraid by the competitors) which diminish the profit for a long term and may disappear (because will not have sufficient resources for the next development).

The strategy of ruinous prices

Endorsing an aggressive behavior towards competitors and declaring war to prices assume the existence of the following premises:

- to settle an inequitable level of the price; this strategy is supported by intense advertisements or by market's saturation with new fake products.

- lack of a direct profit which is temporary and it can be compensated for long term profit, higher and safer.

The strategy of ruinous price is different from the one of threshold price, because the latter remains settled at a level which is superior or equal with the cost of production, while the ruinous price is settled so that the competitors go bankrupt and discourage the possible competitors, sliding here and there in its *dumping* extreme aspect, punishable by law [5] (Heil &.Helsen, 2001).

This can be realized with the help of additional investment necessary to obtain fixed assets (to increase the production capacity above the necessary optimum one).

The purpose of this investment is to support the aggressive company during the war of prices which will be unleashed when the company's activity is being threatened by present **or** possible competitors, and in order for this additional goods quantity be engrossed by the market, it needs to be accompanied by a big price cut.

Therefore we can see that the aggressive company needs to do a big price cut if it wants to remove easily its competitors because this type of policy cannot be maintained on long term since it implies the allocation of important financial resources (for additional production capacity and for supporting the lack of profit during the war of price).

Consequently, the aggressive company has to be sure that its policy will not be counteracted and that will persist on the market for a long enough period of time in order to retrieve the loss.

An aggressive policy can also have disadvantages; thus we can suppose that the aggressive company will look for having the support of its traditional clients by attracting them with the lowest prices on the market,

which is actually the strategy's essence we are analyzing. However it is possible that these clients, knowing the ominous consequences that the creation of a tradesman's monopoly market can have, to refuse the cooperation, preferring to conclude a delivery agreement with the aggressed company at a higher price than the ruinous one, that is at the normal price corresponding to a medium competition in the field.

Another disadvantage is that such a strategy it is not meant to help the initiator to be more credible because if he manufactures for several markets then it is obvious that he will try to minimize the loss by increasing the prices on the other markets he dominates.

The strategy of discriminating prices

This strategy doesn't necessarily have negative connotations. There are cases when price discrimination makes the product easy to access for certain categories of customers because the price *can be higher for some customers and lower for others*.

In order for a company to be able to use the discrimination, it has to fulfill the following conditions:

- to determine the price on the market, that is the company to activate on a market where is either exclusive producer(distributor or provider) or it vies with one or more competitors with less economical power, so the examined company has a part of the market enough important to allow it to determine the price. We can conclude their favorable negotiation position towards any of their customers.

- to be able to identify those clients that are open to pay a discriminatory price, in other words the company must be able to segment the market with the help of variables such as age, income, hours of consumption, type of consumption etc.

We can give the example of the railway transport which offers lower prices to students, veterans etc. and higher prices for the other categories.

- to manage to control the sale of the product from the one who acquired it at the

lowest price and to the one who acquired it at the highest price.

Thus the company needs to be able to prevent the product's transfer between different categories of customers because otherwise the discriminating prices cannot be applied anymore.

This discrimination can be produced in several ways, such as:

1. thanks to so called *reservation price*
2. by means of *commercial rebate*
3. thanks to *secondary products*

The features of each one are the following:

1. the policy of the reservation price is the one through which the bidder forces the company which needs that product, to pay more so that it can be able to have all the utilities of the desired product. It is possible that even the monopolist desires to determine different prices for each union of products or an initial fixed amount (a kind of permission to enter or subscription), followed by a fluctuating amount depending on the desired quantity of the product or of the desired service. It is the case of mobile company services. You pay a subscription and they give you free minutes, but they also tax in addition whatever goes beyond the subscription.

2. the policy of commercial rebate, when the price is determined depending on the quantity of that product that is being sold, that is each customer is being proposed the same catalogue price but he will be offered a discount depending on the quantity they bought.

3. the policy of using secondary products, when the bidder offers a principal product to the client, but conditions its acquisition on buying another product (secondary). It is the case of those companies that produce cars and also offer their clients the spare parts needed.

Strategies of differentiation

As to the strategy of differentiation, the company determines its competitive advantage according to the *specificity* of its offer, on condition that it should be recognized as such and valorized therefore by the market to which it consigns. This type of strategy limits the

direct competition concerning prices, and costs, promoting the differences that make the company's offer to be hardly compared with the one of its competitors [7] (Radu, 2006).

By choosing to apply the strategy of differentiation, the company seeks to make its offer singular which would allow it to create a lasting advantage in comparison with the direct customers on the market.

For this to happen, we must take into account the features' ensemble that define the offer's nature. It can be outlined the company's offer in a multidimensional way, that is like a sort of resultant of different features' ensemble such as: quality, price, image, localization.

In most of the activity fields, we can notice the existence, through the possible combinations of these features (dimensions), of a base level, which in specialized literature is called reference offer.

This is defined as being that offer's level which most of the customers expect to find on a certain market, for a certain product and at a certain moment. If all market companies want their offer to be placed above the implicit market expectation, they must be able to demand and determine a price superior to the medium one for a certain product.

The ways one can differentiate a product are many, and they mostly depend on the nature of the activity field, starting with the product's features (as mentioned above) and ending with the distribution network or the product's image created by marketing policies [2] (Dimitriu, 2012).

From the company's point of view, the search of the product's originality that they manufacture, shouldn't stimulate high prices which are obtained when selling the differentiated product; if the relation between these two elements is inverted, then the applied strategy is not efficient anymore.

We can talk about differentiation as a strategy only when it was perceived by the market company as such and if its application changes, in a negative or positive way the market's value assigned to the company's offer in comparison with the value assigned to the reference offer, from where it also appears the difference of selling price.

Strategy of differentiation- typology

As the possibilities to modify one or more features of a company's offer are many, it is difficult to classify the strategies of differentiation, but we can determine two coordinates which define them:

- on one hand, the evolution's sense of the '*couple value perceived by market/price*' in comparison with the reference offer *and*

- on the other hand, the existence of a pre-segmentation or post-segmentation on the market where the differentiate offer penetrates. At their crossing point, there are four types of strategy:

Improvement strategies correspond to a perceptible differentiation, valorized by most of the market's receiving factors; consequently, at equal prices, the 'improvement' strategy would definitely be preferred by the customer's reference offer, and sometimes itself becomes the new market reference.

I. Specialization strategies, which we will talk about in the next chapter, encourage the creation of a differential offer addressed *only* to a certain customers' segment previously identified and which is the only one able to value the singular and special feature of it. The 'specialized' offer is conceived so that it can satisfy a certain need of a considered market segment, a bad or not at all satisfied need of the reference offer and only that market segment can manifest.

II. Combing out strategies are those whose product differentiates by degradation from the reference offer (after a certain number of criteria), being offered in exchange at an inferior price to it.

III. Limitation strategies, like the specialization ones correspond to a pre-segmentation of the market, in respect of determination of a customers' segment who perceives a part of the reference offer's features as being in addition to its expectations. In this way, by removing those features, thinking of that segment the resultant offer is not less valuable, but increases because the selling price diminishes proportionally, hence the product's activity increases. Such strategy could be applied, for example in the white products segment by elimination

(concomitantly with price cut) of some features, such as design elements, which have to do less with the product's functions and more with its look, being incorporated in the fashion phenomenon.

The classification of differentiation strategies into four different categories, as shown above, doesn't automatically mean that this typology agrees with a totally tight strategic actions and this is why labeling the company's strategy is left at some point to the likes of the analyst and can be subject to interpretation, especially as the practical strategic thinking must be under the pressure of the economical reality, much more flexible than theoretical pattern

Strategy of specialization

This strategy, often called, strategy of focus or concentration consists in specializing the company on a customer's segment, a type of product or geographical area, by occupying an unassailable position on that segment, either due to some advantageous costs or to the strong differential character of the offered products or to the coexistence of the two features.

This strategy is, most of the times the only path to follow for small and medium size company which activate on an oligopoly type of market, dominated and controlled by big companies. Thus, the company is looking for its outlet on a specific strategic niche which allows it to avoid any frontal competition with the sector's giants; by focusing on this niche, the company has great chances to be protected from the aggression of the more powerful competitors because these are not interested in a such small market portion, where they cannot render their trump valuable (volume effect, cost advantage).

Conclusions

In order to succeed in implementing a specialization strategy, the company has to segment the market in a creative and original way and in addition, to take care that the chosen niche does not engross too much the other powerful competitors attention.

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Possibilities of Customer's Loyalty in Tourism Industry

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Abstract

Increasing the quality of tourism services must be established as a priority for owners and resorts under management increased competition Powerful tourism market of our country. Competition has become increasingly close in recent years, so providing an optimum quality-price may contribute to attracting an increasing number of tourists and the retention of existing..

Keywords: quality, tourism, services, loyalty, customer

Jel Classification : L83

1. Introduction

Tourist services are dominant and crucial component of tourism, the flexible combination of assets that are characterized by dynamism, mobility and ability to adapt to the growing demands of tourists. They can materialize as held for sale commercial act, which requires the existence of effective travel packages and client's decision to accept the offer of tourism products in the market.

Through their specifics, tourist services to create optimum conditions for restoring the body's natural ability, while instructional spending free time. Consumption services helps ensure active leisure tourists in order to mitigate the negative effects of pollution and stress in large urban areas.

2. Customer loyalty

In tourism, quality of service results in attracting new tourists and losing as few among existing ones. Quality is the main element that creates loyal customers, satisfied customers that chose that unit after experiencing its services, customers will use

in the future to service the unit and they will recommend to others.

As in all fields of tertiary tourism and quality of provision is a competitive, quality is what differentiates a unit other travel service. A tourist service quality is a profitable strategy because it ensures greater price stability in a close competition. If the tour is provided at a higher quality, profit will be overflowing, but this is not all. Tour quality service and satisfaction that is based on building a culture of quality in that unit. Working in an organization that permanently increase knowledge and qualification, employees have a sense of accomplishment, they are interested to use the best qualities because they know they will be rewarded for the work performed.[3]

Thus, we can say that tourism services are an extremely large area, which is often difficult global approach to issues of quality of the services. Quality in accommodation services, for example, involves both receiving quality equipment and quality bedding, furniture, that of plants and ultimately not on the staff. A series of activities such as guides, animators or monitors, promotion or advertising is even more difficult to measure or compare in terms of quality.

Service quality evaluation methods can be common with those of the products, such as cause-effect analysis, also called Ishikawa diagram or Pareto analysis, but may be specific methods. Such product quality assessment is based on a system of product quality indicators that measure the characteristics of each part, the groups of features, and the product that their synthesis. An important role in this system occupies quality synthetic indicator which is quantitative expression characteristics, established according to the conditions of creation, use or consumption.[3]

In assessing service quality, service companies using five complementary

methods, namely critical incident method, complaints management, mystery shopper, list of comments; satisfaction survey.

Another aspect that should be noted about the quality of services is related to factors that directly or indirectly affect their quality, as follows:

- Correctness, or ability to provide an accurate and attentive service to;
- Responsiveness, provider or desire to help the consumer and to provide prompt service;
- Safety, or ability of customers to inspire confidence in the quality of services
- Individualization (personalization), that concerns and efforts to treat each customer due in part;
- Tangible elements, namely the existence of material facilities, equipment, personnel and materials appropriate advertising service.

In recent years, the quality of services between undertakings providing tourism services increased a lot. Tourism market in Romania has clearly developed, which led to increased consumer demands and their selectivity in the choice of services. In this respect, providing businesses become more concerned to maintain customer loyalty through its long-term, focusing their efforts to the fullest satisfaction of customer expectations and requirements through continuous identification and analysis expressed wishes and requirements customers, turning them into ideas for products / services for the development and perpetuation of lasting relations with customers economically advantageous. When the client believes the travel company's ability to provide services of high quality, turn into repeat purchase, customer loyalty occurs. A loyal customer is a stable source of long term income for the company as it recommends providing the firm and other potential customers. However, consumer loyalty is not maintained by itself, it is considered as long as the consumer receives additional value embodied in the value for money compared to another company that offers same services.

Achieving customer loyalty is extremely complex and requires the tourism enterprise and involves the following steps: [7]

- developing a customer loyalty strategy, namely determining how loyalty (for

example customized service offerings, additional services, direct mail, customer clubs, telephone marketing, online orders etc.).

- building a database of customers, to be updated on a continuous basis from which to extract customer data to be used as a measure of loyalty;
- conducting analyzes on customer satisfaction, which involves conducting surveys, especially, customer satisfaction, repeat purchase intentions, referral to other services offer potential customers;
- establish performance standards refers to setting quality standards for customer satisfaction and periodic thereof;
- analyze customer buying behavior envisages determination and interpretation of indicators related to actual and observable behavior, such as rate of return for purchasing, service consumption intensity, the number migrating to other providers of services.

Customer loyalty has positive effects on cost reduction company providing travel services so there is this line:

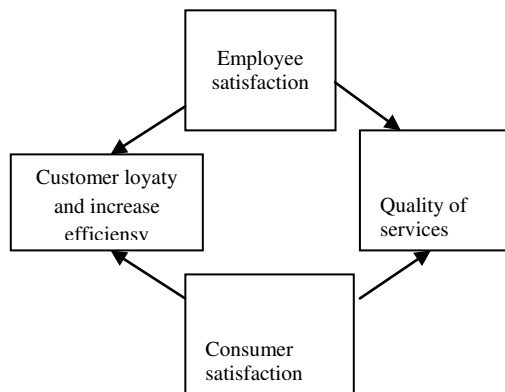
- reduce the cost of running relationships with customers by focusing actions mainly on loyal customers;
- reduce costs "non-quality" customer involvement in improving services;
- possibility of reducing transaction costs through new communication solutions (for example by making electronic controls services, the Internet etc.).

A systematic management of consumer loyalty is also a positive influence on the amount of benefits achieved and therefore the turnover. Thus, the loyal customers of hotel companies have a certain predisposition to accept higher prices than other customers, creating opportunity for that company practice of higher prices. Also, where loyal customers can see a higher frequency of purchases of services, resulting in positive effects on the amount of benefits made by hoteliers.

A very important condition for achieving consumer satisfaction and their loyalty is the company's employee satisfaction holidays. Provider staff is responsible for providing high quality services and providing customer satisfaction. Thus, it is clear that attitudes and behavior may increase or diminish the

reputation of a hotel service organizations.
[6]

Figura 1. The relationship between customer satisfaction and employee satisfaction services company



Source: Zeithaml, Valarie A., Bitner, Mary Jo ,
op. cit., p.306 .

Effective management objective provider staff - namely the process of performance - can be achieved by practicing successful internal marketing, which aims to develop motivation and stimulation provider personnel in an effort to provide high quality services.[2] By adopting the fundamental company internal marketing strategy aims to form loyal customers of their own employees. Satisfying the requirements of internal customers, the company increases its ability to service successfully meet the needs of external customers.

Relational marketing will not provide the hoped effectiveness hotel but if the quality of the hotel benefits will not satisfy consumer preferences and demands of customers, namely their consistency if the services do not meet consumer expectations.

Service quality can be assessed by the hospitality tourism service providers. Professional hospitality is defined as the process of ensuring psychological and physiological comfort and safety of the client, while consumer requested products inside the units, in exchange for money the customer is willing to cede provider of products and services as consideration received. [5]

Because no tourism service company can not survive long if they lose some of the clients, it is important to recognize the value

assigned to each consumer. Specifically for hotel, restaurant or other hospitality companies involved in operations, business success depends in large measure Guest loyalty than satisfied with the quality service every time attracting new categories of consumers, requiring sustained efforts promotion.

Consumer value can be interpreted in two ways: [4]

- the "present value of the customer" and through the sales of services provided guest who visited the first hotel unit (or restaurant or complex);
- by, the future value of that consumer, namely in terms of potential revenue opportunities that can be obtained in a future period.

Indifferent that is, the status of the social guest of a hotel, the criterion for assessing the expected benefit to the client is based on evaluating quality / price ratio (Value for Money) and the assessment of the value attributed to the quality of tourism services, compared with value assigned amounts of money spent to purchase travel services respectively.

Of course, client assessments may vary from one situation to another consumer, even during the same stay, and as such, the quality / price may take different values, the positive feedback to negative feedback. This once again argue the importance accorded to the hotel management business consistent quality standards compliance—without compromising advanced promises customers.

If waiting is rewarded satisfaction of product functionality hotel purchased by the customer, quality creates a stimulating effect, which enhances future consumer behavior, translated in intention if not the customer's desire to come back to the same resort. Instead, if the company is not concerned with maintaining hotel standards of service and will endeavor not to eliminate situations generating discontent will likely bear the cost of accumulated dissatisfaction among consumers unit.

3. Conclusions

In conclusion, the quality is relative, as a matter of balance, meaning that it requires a multi-layered approach and assessment is

quite difficult and quantified. Offering the best quality-price customers and employee satisfaction leads to customer loyalty that has positive effects on cost reduction company providing travel services.

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The Loyalty - Marketing Tool For Hotel Organizations

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Abstract

With the increasing demands of consumers and their selectivity for choosing the services, hotel organizations are becoming more and more concerned about maintaining the customer's loyalty through its term. In this respect, the organizations are dropping their efforts on meeting comprehensive expectations and requirements of customers, by identifying and analyzing continuous desires and requirements expressed by the customers, turning them into ideas for products / services for the development and perpetuation of sustainable relationships, economically advantageous for customers.

Once the customer is convinced about the company's ability of providing high quality services, and it turns into repeated purchase, there it will be the customer loyalty. A loyal customer is a stable source of long term income for the organization because this recommends it to other potential customers. However, consumer loyalty is not maintained by itself, it exists as long as consumers believe that getting additional value embodied in quality/price ratio, comparing to another organization offering similar services.

Keywords: hotel organizations, customer satisfaction, loyalty.

Clasificare J.E.L.: L83, M31

1. Introduction

The interactive nature of hospitality services materializes in the evaluation of the quality the customer makes immediately after its done. A strong influence on the level of satisfaction or dissatisfaction is generated by the memory of previous experiences arising from the provision of similar services. This fact can lead to changes in consumer's attitude towards future performance. This

increase in the level of (in)satisfaction can not be easily identified or controlled by the provider, as long as it is unique and personal to each user at a certain time. This fact places the consumer in a very strong position as long as he can create, sustain or destroy the reputation of the hotel through comments to other potential consumers or through media.

A systematic management of consumer loyalty is also a positive influence for the amount of benefits achieved and hence the turnover. Thus, clients attached to the hotel company have a certain predisposition to accept higher prices than other customers, creating opportunity to practice higher prices for that company. Also, for the loyal customers, one can notice a higher frequency of purchasing services, resulting in positive effects on the amount of benefits made by hotels.

Should be noted that a very important condition for achieving consumer's satisfaction and their loyalty is the organization's employee satisfaction. Provider's staff is responsible for providing high quality services consumer's satisfaction. Thus, it is clear that employee's attitudes and behavior can increase or diminish the reputation of a company providing hotel services.

Hotel companies are therefore interested to seek all possible ways to attract more clients in their units, to preserve and respectively to become permanent.

For maintaining and sustaining the loyal customer, according to analyst Philip Kotler, the best weapon is applying the concept of relational marketing, which involves creating, maintaining and strengthening relationships with customers and other business partners, especially with tour operator travel agencies and distributors of hotel services.

Relational marketing will not provide the efficiency expected by the hotel if the quality of hotel services will not satisfy consumer

preferences and demands of customers, if, through their consistency, the services do not meet consumer's expectations.

Any hotel organization has the same opportunities to perform and distribute quality services, regardless of their category. Each operates on a specific market segment characterized by certain consumer motivations of potential customers. Therefore, each providing unit has an equal chance to meet, to overcome or not to cover expectations of their own customers.

For hotel organization, business success depends to a greater degree of loyalty of satisfied guests than each time attracting new categories of consumers requiring sustained promotional efforts.

Consumer's value can be translated in two ways:

- through the "present value of the client" and through the sales of services provided to the guest who visited for the first time a hotel unit (or the restaurant complex respectively);
- through the "future value of the same client", and that is in terms of opportunities of the potential receivables that could be achieved in a future period.

Identifying expectations, meeting constantly or exceeding these expectations, but by doing such a way that the price to be acceptable to customers and to guarantee an acceptable profit for the organization represents the guarantee of success in hospitality. Therefore, if it will not be able to receive a sufficient number of customers, any hotel organization is likely to fall the business volume below the waterline and, therefore, likely to become bankrupt. In other words, if a customer has left a hotel unit with impressions of satisfaction, he becomes a potential spokesman of future undertaking receivables.

2. Customer's loyalty versus satisfaction

The degree of satisfaction and perceived value resulting from customer experience reflects concept of quality [13]. This statement is supported by various studies whose results reflect the fact that the price and quality perceptions influence the overall customer perception. Also the quality directly affects the purchasing behavior, reflecting in the same time the intentions of customers for making new purchases in the future. The degree of satisfaction depends directly on quality.

Therefore, the satisfaction is determined directly by the level of quality [13]. Specialized studies emphasize the importance of service quality at the expense of price, especially for hospitality organizations and especially the hotels. It is very important to properly promote a concept of hospitality, in order to increase customer loyalty [10]. There is a big difference between satisfaction and quality, this difference must be clearly defined to achieve the objectives.

Quality in hospitality measures the level of the provider's performance, while satisfaction measures the guest's satisfaction from the experience taken [13]. Quality is not included in the values observed, however, it is an important factor and can be regarded as a prediction device for perceived value. However the forms of satisfaction, value and quality are unique, with strong relationships between them. The case studies showed that monitoring the quality concept leads to showing the level of satisfaction and perceived value. Generally customers will be satisfied with products and services whose quality level is very high. Most of the studies on the relationship between value and satisfaction didn't have convincing results, so it is important for hotel organizations to understand how customers perceive and recognize the concept of quality.

As noted by Dube and Renaghan [8], "managing customer value by providing quality services is considered a critical component of corporate marketing strategies. Value is what builds customer loyalty. The orientation towards customer retention, the continuous contact with customers and the commitment to raise customer's expectations are the new strategic rules of the management of the customer relationships that are based on other factors than economic evaluation and product attributes [2].

Consumers have become more willing than ever to transfer their loyalty to those suppliers perceived as offering quality. Customer satisfaction and loyalty, provided by a high quality of products and services that offer value for money, are essential for long-term survival, let alone the long-term success [19].

Satisfaction and loyalty should be analyzed because in most cases, even satisfied customers tend to deviate. According to a research on customer satisfaction [13] it was found that satisfaction provides less than 25%

repeated purchase. Reichhel [14], states that the 65-85% of the customers of a services providing company are actually leaving as satisfied or very satisfied customers. He concludes that there are other factors, excluding the power of satisfaction, that affects the loyalty.

Loyalty involves usually satisfaction, but satisfaction is not loyalty. In a hotel, a guest can be satisfied by his stay, as purchased services amounted to his expectations, but this does not mean that he will repeat the experience or recommend it to his friends and relatives [2] - [22]. Apart from travelers in transit who do not return, generally in the area where the property is located, some people choose different hotels depending on the purpose of travel (for example, they travel for business or with their family), others are seeking for novelty and are willing to try different properties in the same area, others are more sober about the price and are looking for the best deal. Finally, some visitors can not develop loyalty simply because they are not encouraged to return.

While maintaining satisfied customers is important, loyal customers bring more satisfaction than the satisfied ones. They generally show lower sensitivity about the price over the time, they tend to resist in front of the change of the service providers, they identify themselves with the brand and they maintain a strong preference for the service purchased against the competitors [3]. This allows the hotel to reduce the marketing costs and significantly increase occupancy and profitability. According to research conducted in a hotel chain, a 5% increase in customer retention can lead to a 25-125% increase of profits [15].

In order to stimulate loyalty, hotel managers must have a clear understanding of the value represented by the customers and to be aware of how their business contributes or fails to contribute to create such a value [7]. These guidelines may be different, depending on the purpose of travel (for example, leisure vs. business), the type of group travel (single tourist vs. family), culture (for example, a Japanese vs. an European guest), socio-demographic characteristics, income, etc.

3. Customer database - basic component of the loyalty policy

Getting accurate information about the client is crucial to define the attributes of a hotel, to promote innovative services and constantly adapted to customer needs and to develop customer-oriented marketing strategy, the ultimate goal being to acquire and retain valuable customers. Each interaction with the customer can increase or decrease the value of the relationship, but the impact of future contacts can be easily predicted based on the information and the behavior of hotel employees earned over the time. For example, improving interpersonal aspects and services (for example, personalization, personal recognition, fastness, efficient check-in and check-out, etc.) is among the first attributes that make the greatest contribution of the value which is represented by clients in two key phases : at the point of purchase and during guest's stay [7].

Customers provide to the hotel staff general information on the requirements and preferences since the buying decision until their arrival and during their stay also. At their turn, hotel managers and staff provides information on the services provided and communicate their requests to various departments / functions within the hotel (for example, room service, food and beverage, etc.).

Better to centralize information, there must be made a distinction between customers of a hotel [17]:

- **Buyers:** Those who buy services from a hotel for their activities, but may not use them directly. Here there is a buying decision directly, but indirectly a hospitality experience and evaluation. Buyers are generally intermediate distributors (travel agencies, tour operators, professional congress organizers, the organizers of meetings, etc..) and the organizations who book rooms for managers and their staff traveling on business.

- **Guests:** those who use the services of a hotel, but have not bought directly (for example, tourists who purchase packages). In the latter case, the experience is direct, but product selection can be made by other people.

- **Individual customers** - independent tourists, transit travelers or business travelers that are customers and guests at the same time.

This distinction is important in order to maximize hotel capacity to store data, since buyers are the only source of information about their customers until the check-in. Passing data regarding allocation agreements, tariffs and economic outcomes with hotel customer database helps managers to identify the most profitable market segments. In addition, given that tourism agencies and companies often generate most of its turnover in a hotel, the information collected from their customers, segmented by reservation channels, allows the hotel organization to plan specific actions of promotion for buyers.

The main profile of the customer must contain three important parts:

1. Personal information, such as those related to name, gender, contact details, nationality, language, if the person has special physical needs, business office address (if tourist on business), means of payment, etc.. These include primary data (for example date of birth) and secondary (for example allergies, special diet).

2. Information on all aspects of the period of stay in hotel such as those accompanying person, reservation type (eg individual, group, etc.), room type (eg double, matrimonial etc.), length of stay, type of room requested services, food services and beverage and other hotel facilities, etc.. This information includes compulsory data, and also kindly and behavioral data.

3. Complaints and guest opinions on quality standards of hotel services and hotel staff performance that can be collected during the stay or even before departure (customer satisfaction) through online forms or questionnaires that are printed on an interactive TV.

All information collected may be stored and processed in the hotel database, to identify each client registered and recognized online based on details of the prior visit [18].

To be successful, hotels need to take first a customer-centered cultural mentality, which implies a shift in cultural norms, organizational structures, and how employee performance is measured and rewarded. Second, they must develop a cross-functional integration between different functions and information systems (booking, marketing, sales, administration, etc.) to accelerate the process and to facilitate the exchange of information for customers. Finally, they

should have a strategic investment in IT, properly managed and to adopt a broad approach to the hotel on the use and integration of IT systems [20].

Convergence of IT, telecommunications, media and use of data stored or data searching facilitates techniques hotel organizations and customer relationship management and supports the collection and consolidation of data from each point of interaction - before customers arrive at the hotel and during stay [6] - [12]. Call center, e-mail, Web site, central reservation system (CRS), point of sale (POS), and so on, are just a few examples of these applications. Through specific electronic devices (eg pay-per-view system, interactive TV, etc.), hotels can also store huge amounts of information about customer satisfaction at the end of their stay, even before check-out procedure, that are useful whenever the customer returns to the same hotel or another hotel of the same chain and, in general, to help plan marketing actions (frequency of residence programs, special discounts, etc.) for different key market segments.

IT creates valuable knowledge spread, promotes a high level of connectivity between the hotel and clients in hotel departments, eliminates inefficiencies and increases the number of distribution channels available. However, while hotel managers claim to address a customer-oriented strategic focus, their technological initiatives does not support this action [13]. Poor IT system and inability to communicate a shared vision and coherent hospitality technology to the providers are the main causes of it.

However, hotels and restaurants of international chains with computerized information systems have special programs designed to identify consumer's repeated visits to their units, recording behavioral events in a nominal sheet "Customer Profile." Information extracted from file "Customer Profile" allows the provider to come more prepared to meet the applicant's services and to anticipate customer's needs, who repeat the visits as consumers, in this way increasing guest's confidence toward quality services.

By anticipating consumer preferences and habits of nominated customers, providers follow the challenge of an "active psychological shock" that enhances the benefits of professional hospitality reception, just before rendering the services. Therefore,

nominal sheet "Customer Profile" can be considered as a useful operational tool for assessing potential consumer valence, reducing the prospect of losing future business. The potential valence of the consumer demonstrates that when a guest leaves a unit providing feelings of dissatisfaction, he takes with him a considerable body of lost opportunities for future business.

4. Conclusions

The hotel industry is enjoying high profits when led with more intelligence by creative, original managers, direct to consumer and customer needs that have to do with it.

Customer loyalty is one of the major challenges for hotels and other tourism service providers. To achieve this objective one may use tools such as personalized service, discounts for loyalty programs and loyalty cards available in partner networks. But simple repetitive behavior of customers is not enough for them to be considered loyal to the company, repeated purchases are required to be accompanied by a favorable attitude towards the company. Therefore, an adequate conceptualization of the term in question must consider customer loyalty as a complex construction, incorporating both psychological component (attitude) and behavior.

Customer loyalty is a new marketing trend that hotel organizations must follow in order to ensure long-term success. A loyal customer is a very valuable form of capital for the development of an organization. Customer retention and loyalty have many advantages which, on the long term, ensure the company's success: the least expensive method of promotion, the least risky, most consistent with consumer behavior and last but not least, this marketing strategy puts to work personal communicational energy of dozens of people who speak for the organization and provide other clients.

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The Role of Maritime University in Specialized Training in Maritime and Port Marketing

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Abstract

Important implications because of the competitive conditions and the international business environment, has become a necessity, as the companies in the field of navigation, and port operators, maritime insurance and banking companies to establish specialized departments or increased divisions in maritime or port marketing. Need to train specialized personnel is subject to the problems that arise in maritime market, like the fluctuations and crises, the decrease or increase the amount of freight transported. But there is a question about which institutions can prepare specialized personnel in this field. In Constanta Maritime University has started and runs this preparation for several years. The paper is an analysis of the need for staff training and the state of the Maritime University.

Key words: university, shipping, marketing, manager, training.

JEL Classifications: I 21, M 31, O 15.

1. Introduction

Specialized training in Maritime and Port Marketing must take into account the following aspects, [1]:

A). Appropriate personnel selection:

- Higher education graduates by Marina, economic or transport.

- Intelligent, with outstanding invention or innovation, always adaptable to market conditions, available to travel within the country or abroad.

- Proper motivation to achieve high efficiency, high efficient work.

B). Continue training at work, [2]. Particular attention should be given by the business leaders for ongoing collaboration with them.

C). Providing outstanding technical infrastructure so, [3]:

- With modern communication facilities such as telephone, fax, internet.

- Operating advanced equipment and data recorders.

- Subscriptions to various publications, economic, legal and specialized in country and abroad.

- Unlimited access issues management, orientation, optics and overall vision of the company.

D). Ensuring participation in symposia, conferences, meetings of owners, producers, [4].

Maritime or Port Marketing specialist role is determined by the following aspects:

- Influencing management decisions of the shipping company or the port operator in the following ways.

- Transportation contracts or services, [5].

- Price services (of freight).

- Promote the company services.

- Connections with partners.

- Creating and maintaining relationships with public authorities, port agents, banks, manufacturers, [6].

- Design variants of action, [7]: immediate, medium-term, long-term.

- Knowledge permanently: external-political factor, economic environment,

- Structure, strengths and weaknesses of competitors,

- Maritime market trends, anticipate them, [8].

Some firms, multinational companies and large port operators have reached the stage of establishment of the office of director (manager) for the marketing department. This is having a major role in management. Need to establish such a function is given by the fact that he and his department are designed to model the decisions controllable marketing variables, [9]. These are in relations to maritime market variables that can not be

controlled. Structure of a marketing department, maritime and port can be organized as shown in Figure 1.

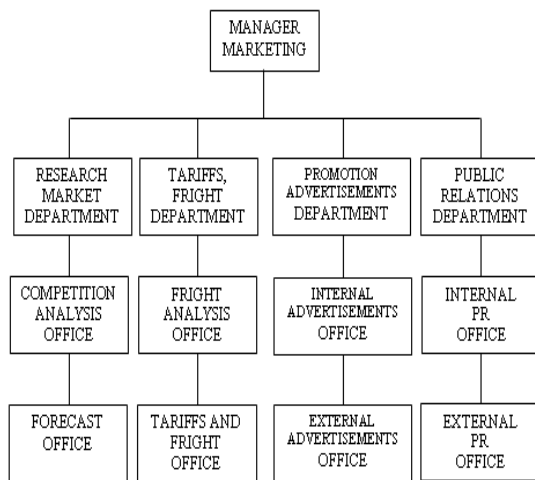


Figure 1. Structure of the Marketing Department.

Source: author, original.

Marketing department is divided into the following sections:

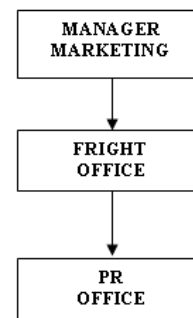
- Maritime market research office.
- Analysis and calculation-part tariffs or comparable rate office.
- Promotion and advertisements office.
- Public relations office.

This scheme can be simplified or expanded depending on business needs, the activities it carries out, the number of ships, etc. Some of the activities may be integrated with other offices or departments, and in other situations when the number of persons is reduced a person may fulfill multiple tasks, [10]. Simplified structure of marketing department is shown in Figure 2, and can have two models.

2.Tasks related to marketing specialists

Staff of the shipping company or port operator working in the field of marketing and they must know their duties very well, but the company's general policy, maritime market developments, to be attentive to all the problems in the field for to learn from everything that occurs at a time to find optimal solutions to concrete problems. Marketing specialist, called "marketer", [10], may perform work in a function so, [1]:

MODEL 1



MODEL 2

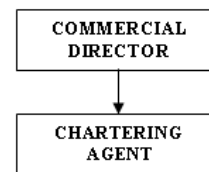


Figure 2. Simplified structure.

Source: author, original.

- Director of marketing.
- Chief of maritime market research office.
- Chief of analysis and calculation of transport costs office.
- Chief of promotion and advertising office.
- PR chief office.

1). Director of Marketing shall:

-Manages department according to the strategy, tactics and the company's general policy, plans and programs based on annual, quarterly or monthly fixed.

-Shall keep the company management about [11]: maritime market situation and its trends; the political situation in the area of navigation; competition situation; emerging opportunities, etc.

-Sets out proposals to assist in decision making by company management navigation in the following ways:

- transportation contracts,
- price services (of freight),
- promote the company services,
- connections with partners,
- creating and maintaining relations with public port agencies, banks, and manufacturers.

-Adopt the most effective measures for the job, getting the best results in all the activities they carry out marketing department.

2). Chief of maritime market research. It is responsible for the following aspects:

- Creation, selection and validation tools for collecting and processing data.

- Writing and testing of survey questionnaires.

- The choice of recording equipment and playback of images.

- Choosing appropriate software study.

- Sizing and training samples used for investigation.

- Composition experimental groups.

- Maritime market research, recording and managing information and data.

3). Chief of analysis and calculation of tariffs or comparable rate has a number of tasks and obligations upon which the success or failure of marketing. Among these are the following:

- Customer-company identification or port operator.

- Obtaining information about their performance.

- Identification of service providers for the company and ships.

- Comparative analysis of quality of services provided by competitors.

- Analysis of tariffs (prices) for services offered by competitors.

- Analysis of port performance through indicators such as: berth occupancy, traffic each berth in hand, residence time in the port.

- Analysis of freight traffic daily, weekly, monthly, quarterly and yearly.

- Analyzing the changes of an economic, commercial, technical and policy in the country and abroad.

- Analysis of global economic trends.

- Analysis of the foreign ports and make comparisons with the port of Constanta.

- Calculating transport tariffs, tariffs for port services and pricing alternatives, with margins and bargaining limits that can be used in negotiating shipping contracts or those of port services.

- Participate in the preparation and drafting of the questionnaire survey or marketing.

Staff of the two departments needs to work together as a team to get the correct data and to analyze, synthesize and process so that the results be used for the intended purpose, to increase the efficiency of the company.

4). Chief of promotion and advertising is primarily responsible for:

- System communication that are put into circulation information, ideas and attitudes of

the company to potential clients, customers, partners and suppliers.

- Planning, promotion, publicity or advertising.

- Calculating costs of the promotion, advertising or advertisements.

- Choosing the most effective means of promotion or advertising.

- Following-up effects used by promotions or advertising company.

- Correction of form, content or changing the mode of transmission.

- Quality promotional, messages, information and data.

5). Chief of Public Relations shall:

- Maintaining the best relations with all audiences inside or outside the company.

- Investigation and analysis of permanent-attitudes, opinions and behavior of the public to be able to provide it with information, data and images may encourage attitudes and behaviors favorable to the company.

- Build, protects and preserves public image of the company.

- Public relations is a form of communication complex organization that involves strategic compromises and controlled by the company, between respecting the need for transparency in communication, discretion and confidentiality shares.

The main audiences are the following: shareholders or members; banks; media; state institutions; political organizations and civil; according to public (external audiences); employees (internal audience). It is known that a number of companies in maritime and port on proper marketing policies have achieved outstanding results, were able to increase the turnover of firms, grow venues from basic and auxiliary. With relatively low budgets for market research, promotion and advertising, results were well above initial projections.

3. The Maritime University role in training of specialized staff in maritime and port marketing

From 2001 to Constanta Maritime University introduced a master on maritime economics called „Maritime and Port Management”, the only of its kind in Romania, [12]. In this master introduced a course on „Naval and port Marketing”.

Initially this course was more intended to inform students on issues of marketing, master of the ship and port than to form marketing specialists who work as market-officers from shipping companies and port operators. Organization of the course was 28 hours per semester courses only read 2 hours each, without hours of seminar or lab and complete an examination. The first set of students enrolled in the Master in this specialization were graduates of the Faculty of Navigation, marine deck officers, who were more interested in management positions at corporate headquarters or navigation related, such as the broker, crewing or chartering i.e. the functions of agent ship crewing operator or broker less than that represented by the marketing companies. Admission consists of determining the order of entry based on the average of the license exam at graduation. Syllabus of the course initially was simple, according to Table 1, aiming at informing graduate students of Navigation specialization, not tied to any economic studies. Upon completion of graduate studies able to choose and prepare dissertation on a topic of Maritime and port Marketing, but their knowledge was very limited and faces difficulties in completion of works. The author of this paper is the one who organized and supported this process from the beginning until now, [3].

TABLE 1. INITIAL COURSE SYLLABUS

OBJECTIVES	Seeks discipline for understanding the formation of theoretical marketing peculiarities of naval transport, the shipping companies, boats and port operators.
COURSE CONTENT	Fundamentals introductory in marketing marine transport. Maritime market. Shipping service. Price of transport and waterways. Promoting the marketing of marine transport. Relationships in maritime and waterways marketing. Peculiarities of the maritime and waterways marketing. Concepts introductory in port marketing. Port services. Tariffs, taxes port. Port investment decisions.
TIME	28 hours (14 courses).
COURSE COMPLETION	Exam.

Source: Constanta Maritime University (2001).

After 2005, when the university education in Romania began restructuring under the "Bologna Process", in Constanta Maritime University has started changing and adapting educational programs, redirecting it to the new demands of university education, but adapted to maritime market demands. On this Master following changes occurred:

-Master studies was introduced in profile "Naval Engineering and Navigation", specialty "Engineering and management in maritime and port field" form of education for day and the course was called "Maritime and Port Marketing". This master is accredited by the Romanian Agency for Quality Assurance in Higher Education.

-Number of hours of discipline "Maritime and Port Marketing" increased from 28 to 56 hours, by introducing laboratory hours.

-Completion of the course is made through written examination for the first note and prepares a draft class and its support for the second note.

-Objectives are changed from the previous information specialist to specialist training in this area.

-Was allowed admission to the Master of graduates of other colleges or universities from the country. In this way they came to this Master from graduates of economics, engineering and law. This allows graduates of other majors to work in this field.

-Admission was based on the exam, multiple choice of material taught in the "Commercial exploitation of marine vessel" specialized discipline studied in the third and fourth years at the Faculty of Navigation and Naval Transport, [12].

The current structure of the course is presented in Table 2. Besides syllabus amended, Maritime University has developed specialized laboratories that allow further education and information in this area, most notably virtual campus and laboratory informatics, e-learning, e-marketing and shipping.

TABLE 2. ACTUAL COURSE SYLLABUS

OBJECTIVES	Seeks discipline for understanding the formation of theoretical marketing peculiarities of naval transport, the shipping companies, boats and port operators. In the discipline will address specific issues that relate to the maritime market, the demand for shipping, international transportation situation, naval ship and port marketing peculiarities. Students will be trained to work as specialists in marketing and naval port.
COURSE CONTENT	Concepts introductory in marketing marine transport. Sea and river market. International conjuncture of the naval transport. Service of the maritime and waterways. The price of transport and waterways. Promoting the marketing of marine transport. Planning, organizing and managing maritime and waterways marketing. Marketing relationships in the maritime and waterways. Peculiarities of the maritime and waterways marketing. Port Marketing. Port services. Port tariffs and taxes. Port investment decisions. Promotion and relationships in the port marketing.
CONTENT LABORATORIES	Marketing questionnaire. Marketing analysis model to service organization. Study design and analysis of marketing at a port operator. Proposals for the reorganization of marketing. Restructuring activity, organizing functional links, people attributions. Marketing objectives and strategies of the company. Database marketing. Access to the database, the database organization of society. Port marketing plan. Strategic marketing plan. Annual general marketing plan. The organization of service of marketing. Weekly activity plan. Plan promotional activities, communication and public relations. Marketing budget. Maritime market research. Models of marketing strategies. Advertise on maritime and port marketing. Errors in marketing. Marketing Specialist "marketer". Present and future marketing.
TIME	56 hours (14 courses, 14 laboratories).
COURSE COMPLETION	Exam. Project.

Source: Constanta Maritime University (2012).

Virtual campus students find all specialty courses, and links to sites enter shipping companies, firms or crewing port operators. Laboratory for e-learning and e-shipping help students from Master studies to learn, to make a commercial site, such as "online shop", but also to create their own network business, maritime and port marketing.

An important aspect is the ongoing drafting of this discipline, students with the obligation to respect a number of criteria in order to carry out their projects. Students the criteria are:

1). Has been chosen a company operating in the field of maritime transport, inland water transport, port operation, logistics, agency, brokerage, consulting, marine insurance.

2). Contain the following information and basic data:

-Analysis of the company, the model presented in the seminar questionnaire.

-Analysis of Marketing at the company chosen.

-Presentation of conclusions about society and develop quality proposals to increase marketing activities.

-Preparation of annual marketing plan for the company.

-Developing a marketing budget.

-Preparation Plan "Public Relations".

-Presentation of conclusions and proposals.

3). Draft must be at least 15 pages, format A-4.

4). Draft is submitted in paper form and shall be supported by a Power-Point presentation at the end of semester in the exams session.

Another important aspect is the Dissertation Thesis that student's background and shows the final examination. Students can propose a topic to study and enter in the exam, but most students ask the teachers to propose topics for their study.

In recent years more and more students were taken issues in the maritime and port marketing. Topics considered were related to:

-Marketing-analysis in maritime shipping companies, the port companies or shipping related activities.

-Promotion freight shipping service, passengers, luxury cruise tourism and others.

This proves that marketing interest in this area is increased. It is realized that the role of

marketing is especially important in situations of economic crisis, when it is less and ship goods more waiting, which makes maritime market is dominated by brokers or charterers (cargo owners).

Thus the role of marketing specialist maritime, like maritime shipping company employee, becomes more important during economic downturns to find customers or cargo transport.

Conclusions

A shipping company which employs people, specializing in marketing, working in this area is considered to be one of “old” with management “classic” can not reach an important maritime market, hold significant precious market share. Large foreign maritime shipping companies have understood the role of marketing specialist and current situation shows that marketing specialist role is increasing in these companies. Thus it seeks solutions to find customers (brokers or charters) to direct advertising to them to specialize this advertisement depending on the specific vessels. But a real problem for shipping companies is that such highly qualified people are hard to find or are formed in a long period of time and with a high costs. Investment in staff training by Master studies is one of the solutions and is more efficient in several ways, including that the person attend classes, seminars and specialized laboratories of them dealing academics specializing in maritime and port domains. Even if a Master study takes more than time, however obtain results show that investment by staff in their preparation is justified for the company. In this context appears the significance of the Maritime University of Constanta, in training specialists in this field. Maritime University assumed this role in the current maritime market and further efforts are made to meet the training requirements of students at the highest quality settings.

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Maritime Market Crisis is the Lack of Charterers

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Abstract

The global crisis has different effects on the activities of companies. In different areas, the crisis is different, which means that it can be searched and found generally valid solution to address the negative effects of the crisis. Different forms of the crisis involves deep analysis of the causes of the crisis and based on these analyzes must seek solutions to overcome them. Shipping is directly affected by the financial crisis, the crisis of production and the sale. But these are general issues for a major shipping company which is in direct relationships with customers, relationships with brokers, those who are cargo transport. Analysis of corporate customers must be made separately by type of vessels, goods and services. This paper presents the general and particular aspects related to the maritime shipping companies' customers, some solutions for business problems

Key words: crisis, shipping, cargo, charterer.

JEL Classifications: F 44, L 91, M 31.

1. Introduction

Most international marketing professionals consider it particularly important the knowledge of the market and customers [1]. Basically customers are those who are the source of existing maritime and river shipping companies. But they are essentially a source of events, opportunities, threats and uncertainties [2]. Not owner does not enter in the maritime market without having at least one client or broker to help him for to find employment cargo ship [3]. Application of the "supply creates demand" principle [4], is particularly risky in maritime market because investments are very high, and with it the risks. It considers that the potential customers in a market as the sea

must be made based on the following aspects: identification of customers in foreign markets, knowledge and understanding of customers, analyze the relationship between company and customers [5].

A). During the first situation leads can be identified by maritime market segmentation.

B). To be able to know and understand these potential customers need to be researched on their behavior, policies that have them transport the requirements on transport ships, etc.

C). Analysis of customer relationships must be made in terms of the dynamics of these relationships, i.e. the changes that occur in the requirements to transport it self, the way of payment, etc.

Research and analyze potential customers can be oriented to such situations:

1). Maritime market segmentation by seeking answers to the following questions:

- What are the biggest companies that appeals to carriers in this market, area, route or line?
- What are the most profitable companies who are able to pay on time, according to contracts so as to avoid a situation of default?
- What are the risks for collaboration with these customers, these risks can be provided?
- How to share the market so the need for a single marketing strategy?

2). Knowledge of customer behavior by finding answers to the following questions:

- What is their general policy in shipping?
- What are the immediate objectives, medium term or long?
- What they expected from the services provided by shipping companies (port operators)?
- What kind of changes could occur in priorities and positions against shipping companies?

The answers to all the questions are strategic marketing objectives.

2. The charterers

Maritime transport literature deals charterers only in terms of the types of contracts used in hiring ships transport of the goods [6]. These contracts are very important and theoretically everything should take place under the terms of these contracts were standardized so much. But the reality is much tougher and situations experienced by owners and especially crews of ships require some reconsideration of collaboration with them. Ignorance of the customers is a serious error of Marketing and Management of the navigation company leaders'. Ignorance of the charterers, even in the "tramp" navigation where the goods reach at the ship through brokers, represent a great risk for the ship-owner. In this regard can mention many cases where maritime companies had big problems with the charterers who have not complied their contractual obligations. It is therefore essential knowledge, analysis of the situation and their position on the market, ability to pay, history, etc. I.e. not enter into business with anyone and anytime! But who are charterers? The answer of this question is give by the evolution of the world economy and national. Charterers classification can be performed as follows [7]:

A). Economic criteria:

- Producers of the raw materials and semi-finished products.
- Manufacturers of the finished products.
- Travel and tourism (cruise) agencies.
- Commerce companies and forwarding (wholesale).
- Individuals.

B). By the types of the goods transported they are owners of [8]:

Following these types of goods transported they are owners of [8]:

- General goods packed in: bags, bale, links, boxes, cartons, drums, cans, boxes, bales, rolls, coils, etc.
- Liquid and dry bulk goods: oil, ore, coal, grain, etc.
- Goods in the transport units: pallet, packed, container on wheels (cars, trucks and railway wagons), barges, etc.
- Frozen and chilled goods, such as meat, fish, vegetables and fruits, food, etc.
- Hazardous Goods such as: explosives, gases, oxides, etc.
- Livestock: sheep, cattle, etc.

-Goods oversized type: power plants, oil plants, tanks, beams, small boats, etc.
Hence, who are producers, exporters, importers and large trade houses that do business with the goods?

C). Following commercial quality charterers are: sellers or buyers.

D). Since legally they are [9]:

- Stock company: state, private and mixed.
- Limited-liability company.
- Associations and NGOs.
- State-Public Administration, central or local.

In terms of marketing, all can be actual or potential customers.

3. The brokers

Is a form of marine agent with multiple functions as a representative of a shipping company on behalf of employers engaged comparable rate and load goods, acts as an intermediary between charterer and ship-owner load at the end of charter contracts [10]. In shipping business owners and charterers are interested in obtaining information as accurate. Therefore they depend on: the sources of information, personal knowledge, maritime industry and industrial relations, quality and personality of the shipping brokers, ability and ease in negotiating of these brokers, etc. Ship-owners and charterers, as a rule lead negotiations with the help of the brokers. Thus the owner or charterer can to work through: one broker, two brokers, three brokers, many brokers [11].

Broker owner is called "Shipbroker" and broker of the charterer "Chartering agent". Maritime market uses generic term "ship-broker". In negotiations between ship-owner and charterer may be involved in one, two or more brokers depending on the situation. When the negotiations are involved three brokers is therefore considered: one is the owner broker, other is the charterer broker, and another one is called the "competitive broker". When there are more brokers is a category called "cable brokers". They are brokers which working in the major ports and centers of maritime information and dealing with the composition of the list of goods and ships available that they transmit to other brokers in other ports or international maritime center. Brokers perform multiple functions as follows:

- To inform the ship-owners or charterers on: maritime market developments, commodities, ships available.
- To initiate a series of measures and actions to goods and vessels engaging in the best conditions.
- To act in accordance with instructions from charterer or ship-owner.
- To work loyally for the company with which he has the contract.
- Do not hide information or to submit false information.
- To protect the information for his client.

Brokers must actively engage in negotiations, to make a series of recommendations on the establishment offers and counter-offers. In these situations the personality and temperament of the brokers have an important role, leading to a new division of brokers in "charter-party brokers", "freight brokers." The "Charter-party brokers" is broker which concluding negotiations after studying the market and especially negotiation of each clause of the charter contract. "Freight brokers" is the broker which concluding negotiations on a higher level compared to the market, but do not risk losing a commitment to a particular detail from a clause in the contract. Internationally it operates a large number of brokers, corporate, who seek permanent cargo or carrying vessel and are in the fierce competition. The most important global brokerage that operates a large number of brokers have the offices in Singapore, Hong Kong and New York. Centers in Europe with most brokers are in London, Copenhagen, Hamburg, Piraeus, Rotterdam [12].

Their activities are in small firms ranging from 3-10 people, such as limited liability, depending on the size of the business, competition, supply and demand of ships or cargo. In Romania there are plenty of companies that have in the business, among others intermediation services such as brokerage, but in reality the number of those who carry out this usually is much smaller [13]. But in Europe there are a large number of firms with the object of the type "Limited" for all maritime market. So are brokers who specialize in: search for cargo, ships, building new ships, ship sale and purchase "used-second hand" or that handles many types of activities. But the European market emerged and joint stock companies such as holding

companies, consortia or conglomerates that operate in the same way as companies such as "Limited", but have a much greater financial strength, international relations or business partners especially strong.

Some maritime shipping companies have set up their own brokerage houses as independent companies, but with the same owners. The activities of these new types of companies are employing vessels for his "mother" company. Brokerage firm of this type is known as "house broker", i.e. the broker of the main company. Advantages of establishing such firms "by home" are: reduce the number of tasks of the navigation company's top managers; reduced the scheme uses for the staff; can be established in a country "tax haven"; has the decisional independence in choosing solutions to be most profitable.

Another important aspect of maritime market brokers is that some of them have focused on certain types of goods, such as "freight broker" or even certain types of ships, in some way limiting its activity but this is justified by the fact that the activity is profitable, partners are serious and profits are considerable.

4. Price variation of transport, cause and effect

An analysis of corporate customers in the shipping industry is made separately for the two types of navigational: ad-hoc "tramp" and line. The analysis of transport following the price variation to understand the causes that produce these variations and their effects on shipping.

A). Prices (comparable rate) on the "tramp" market is fluctuating, they have evolved over time, often unpredictable. The most important factors which influencing its rate are supply and demand for the freight and tonnage. The following situations are considered to be [6]:

1).Least when there is cargo transport, it follows that:

-More ships are available in port or nearby.

-Freight-rate is small.

-Charterer position is strong and the market is called generically "the charterer".

2).Cargo transport when there is, but:

-Are fewer available ships in port or nearby.

-Freight-rate is high.

-Owner-position is strong, the market is called generically "the owner".

On the owner market are very large variations freight, its evolution is very sensitive to the occurrence of political, economic or military, such as a war (Gulf War), closure of canals (the Suez Canal), restricting the movement of large ships through the Straits (Bosporus Strait) [14]. In this market, owners usually do not publish comparable rate levels on destinations or quantities, sometimes only certain reports are published on this market, which presents the most representative comparable rate on certain routes. Variation freight in this market has a strong seasonal. For the International Trade in the northern terrestrial area the annual change in overall freight is the blue curve which is shown in Figure 1. Freight variation can actually be as shown in dotted red curve in the same figure.

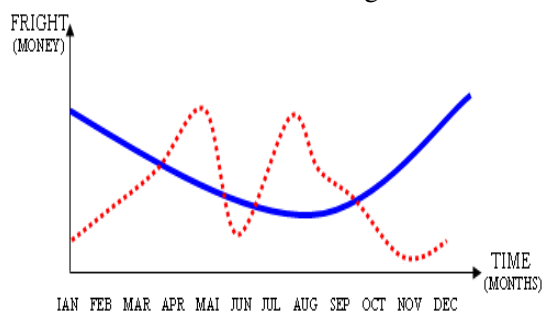


Figure 1. Variation of annual general freight in "tramp" navigation.
Source: Study author.

On the "tramp" market charterers and ship-owners are most exposed to the maritime market fluctuations often are large variations in the level of freight, which can result in large losses. But in periods of the economic booms the profits can be very high in this market. At the same time shippers may be exposed to uncertainty about the cost of transport. These fluctuations may be interesting to speculate market owners, who buy and sell ships at appropriate times, thus exploiting maximum periods where the comparable rate is high. These owners are speculators and traders and they use their skills, knowledge in an attempt to use market fluctuations for own purpose. The current economic crisis has seriously affected this type of navigation, due to lower quantities of goods transported, leading to lower transport prices and then navigating to the bankruptcy of many companies.

B). The Liner situation is different. In this type of transport prices (freight) are stabilized by the practice of charging the same price to all charterers, offering to transport the same type of goods, provided that the goods to be transported in the same vessel [9]. Prices may vary from one ship to another, but in such situations, this is known by the all shippers. Changing freight (charges) is announced with the long time before their entry into force. These rates are listed in the form of lists calculated values having different destinations and transport various quantities that are available to the charterer, the ship-owner initiative or upon request. When owners are members of a "Maritime Conference", constituted in order to stabilize fares and in this way to standardize maritime market competition, the prices used are changed periodically. Because a number of countries impose tariffs established rules tended by a "Conference" to be less volatile, than those on the market "tramp".

This type of navigation was as severely affected by the economic crisis, many companies taking ships to dock in the waiting shave or conservation. For this reason many contracts for to build the new ships were canceled, which led to a chain reaction and negative at the shipbuilders. But the number of bankruptcies among shipping companies of line was much lower, because many companies have made investments in other areas, such as operating the port, logistics and distribution centers, business centers, etc. In this way companies managed to stay afloat. Theoretical transmission tariff to ship of the Line navigation, is a constant line, as the blue line in Figure 2. In reality this type of navigation can occurs transport tariff changes as dotted red line and cut twice a year.

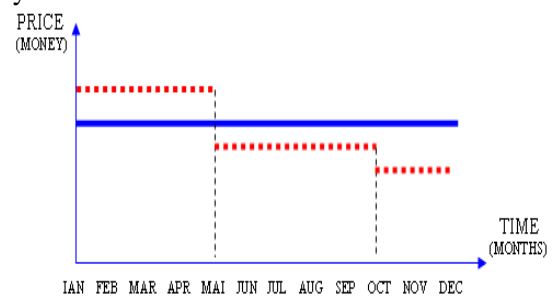


Figure 2. Liner ship tariffs.
Source: Author study.

A very important aspect of marketing analyzes and studies at the shipping companies is represent each ship freight study variation over a period of time, usually a year or a certain number of consecutive voyages. Freight variation analysis is relatively simple and is based on actual numbers of each trip individually, travel case are removed from the vessel. This analysis is a management tool that must be made available to managers of shipping companies to understand at all times what is happening in the market maritime shipping line and "tramp".

Conclusions

In the current global economic crisis maritime shipping companies have taken a number of measures that sought to solve problems and remain in business. Among the most commonly encountered measures are: reduce the price of transportation to a minimum; almost without profit [15]; reducing salaries [16]; reduction of staff at headquarters and in ships; replacing sailors and officers from European countries with high salaries with people from South-east Asia who agreed to work for lower wages [17]; dissolution of training programs for cadets on board [18], [19]; moving and changing corporate headquarters and the ships flags in countries called "tax haven" to not pay taxes; cancellation of contracts for the construction of new ships and other investments [20]; reducing consumption on board; reducing travel speed vessels to reduce consumption fuels and lubricants [17]; sale of vessels of greater age for scrap or "second-hand"; conservation were not what ships to transport; switching unemployed employees; renegotiated contracts with creditor banks for financing, reduction of interest rates; postponement of payments; outsourcing of services to third parties at the company, etc.

Many of these measures have contributed to saving sea shipping company, but others, despite cuts made, failed to resist and went bankrupt. The main reason being given the lower demand for all domestic and international markets, which actually resulted in lower quantities of goods transported by sea and thus the loss of customers (owners of goods, exporters, importers or brokers).

However, some maritime companies have resisted and resists further. The question arises: how they did it in the same maritime market, while others have failed? Following analyzes from several companies, the following aspects:

- Majors maritime shipping have large financial reserves, held in several banks in the countries of origin of ship-owners, but also abroad, usually banks were hit hard by the financial crisis, which allowed these companies to resist.

- Had more currency reserves, "no bet" on a single currency. The reason being that mitigate shocks of exchange rate between international currencies.

- They renegotiated contracts with charterers, asked them to accept delivery of freight at a certain level, allowing companies to cover transport costs.

- Made large investments in land, maritime related fields, but also in commerce, logistics and top industries (IT and communications).

- Have invested in scientific research to find innovative solutions to reduce costs and optimize transport bought modern ships with the low consumption and small number of crew members.

- Have sought to engage on board the best officers and sailors on lower wages than before the economic crisis started, because surplus labor in this market, resulting from the collapse of many companies and removal from service a large number of ships.

- Have increased the number of courses and hours of training and retraining of crew in order to reduce fines, damage and naval disasters. Thus aimed at reducing losses generated by checks of the naval and port authorities, and shipping to avoid rejection by charterers or operators charging port.

- Some companies have requested and received aid from governments that supported companies to avoid entry of default, but also issues of transport of goods and persons, excessive unemployment among seafarers.

- A number of companies have sold shares and investors sought and were associated with them, with bigger and stronger financially company, even in other areas, they offered to transport goods or money for supplies, repairs payment of wages, [21].

But still many unresolved issues remain, such as those generated by the price of fuel,

crew salaries, tolls and straits channels, piracy, strengthening labor laws and environmental protection, etc. For the next period expected new challenges for the maritime shipping companies, primarily amend the Convention "Marpol" in the sense it tighter, piracy, terrorism, illegal immigration, etc. But most will be fierce competition between companies.

To survive in this market, shipping companies need to focus the main activities of looking for new customers, reduce costs of all kinds, reducing profits, bringing money "home" for investment, association or holding groups representing chains strong supply, starting and ending with retailers manufacturers. The future will be safer for large companies and industrial groups, especially maritime, which will mean that the group is charterer and ship-owner at the same time. The "tramp" navigation can only revive momentum for economic, demand for ships, the rest will remain the most vulnerable, with more risk of bankruptcy.

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The Impact of Risk Indicators on Companies. Analysis on Economic Sectors

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Abstract

The paper presents the result of a risk analysis of some companies, which are grouped in three economic sectors: production, construction and tourism.

The main focus consists in the impact the three risk indicators have (risk of exploitation, financial risk, risk of bankruptcy) on the activities that underlie at each economic sector.

The applicative part of this paper is materialized in a scientific approach that includes a number of 27 companies, grouped by sector, from Timis County, Romania, which has in view the obtainment of useful and perspective information concerning the risks, based on the specific behavior of the activity they perform, aiming also the possibility of taking useful and correct decisions.

This approach represents our own vision about the differences of risks within each economic sector analyzed.

Keywords: risk, risk of exploitation, financial risk, risk of bankruptcy.

JEL classification: M, M2, M21.

1. Introduction

In the process of knowledge, analysis is an indispensable research method, through which is created not only the possibility of research things and phenomena, but is discovered the structure, are checked and established causal links, factors that generates them and so decisions can be made for future activities.

Financial analysis is a tool of financial management. It consists of the evaluation of the financial condition and operating performance of a business firm, an industry, or even the economy, and the forecasting of its future condition and performance. It is, in other words, a means for examining risk and expected return. Data for financial analysis may come from other areas within the firm, such as marketing and production departments, from the firm's own accounting data, or from financial information vendors.[3]

The skills of financial analysis are important to a wide range of people including investors, creditors, and regulators. But nowhere are they more important than within the company. Regardless of functional specialty or company size, managers who possess these skills are able to diagnose their firm's ills, prescribe useful remedies, and anticipate the financial consequences of their actions. [4]

There are taking place profound changes in all fields of activity and the implications are felt in the financial situation of each company. To mitigate the risks that can influence a company's activity, we must know what are the pressure factors that may arise from the company's external environment and also the weaknesses within the internal environment of the company.

Assuming a certain level of risk varies from one company to another, depending on the degree of endowment with resources, business objectives, its previous performance and also the performance of other similar companies.

Taking into account the current economic context, the present research is performed

based on risk indicators, in order to identify the weaknesses of these economic sectors and formulate the correct suggestions regarding their remedy.

2. Literature review

Specialized literature abounds in the term "risk" used in various theoretical and methodological purposes, which led, inevitably, the appearance of relative contradictions to the exact meaning of the term.

The term risk has its base word in Greek, „*rizikon*” which means root, later being used in Latin for the word rock. During the Middle Ages, the term „*riscium*” has been widely used in certain situations, primarily in sea trade cases where losses or damages appeared in the quality of goods.

Although the risk was one of the most interesting themes of investigation and research, the first consistent results in terms of understanding, assessment and management occurred only at the end of the seventeenth century.

The word risk is more and more used in various fields, especially in economics and also it is known that within the specialized literature are many definitions of risk. In essence, risk is the probability that an undesired event can happen.

In the economic practice, most frequently forms of risk encountered are: country risk, commercial risk, currency risk, risk of exploitation, financial risk, risk of bankruptcy. We will insist on the last three risk categories, these being the most common risks to which it is subjected the activity of an economic agent.

A. The risk of exploitation (also called economic risk) can be defined as the inability of a company to adapt on time and with the lowest cost to environmental variations. [5]

In order to determine the risk of exploitation which characterizes a particular activity, we will use the threshold of profitability method.

The threshold of profitability method represents the point where the turnover covers the operating expenses delineated in fixed and variable costs, calculated in physical or value units, for a product or for the entire activity. The relation for calculating the threshold of profitability is:

$$CAcr = CF / (1 - CV/CA)$$

Where:

CAcr - Turnover to achieve the threshold of profitability;

CF - Total fixed costs;

CV - Total variable costs;

CA - Total turnover;

CV/CA - Part of variable costs in turnover.

B. The financial risk reflects the resulting variability indicators due to the changed financial structure of the company. [2] The financial risk can be evaluated using the threshold of profitability.

The financial threshold of profitability calculation is similar with the calculation of the exploitation threshold of profitability, but adding interest costs. The relation for calculating the threshold of profitability is:

$$CAcr = (CF + Chd) / (1 - CV/CA)$$

Where:

CAcr - Turnover to achieve the threshold of profitability;

CF - Total fixed costs;

Chd - Interest costs;

CV - Total variable costs;

CA - Total turnover;

CV/CA - Part of variable costs in turnover.

C. The risk of bankruptcy is closely linked to the state of solvency, reflecting the possibility that a company can not fulfill its payment obligations. In this case we can say that the company is in a financial difficulty state.[1]

In the economic theory are elaborated several models based on the scoring method, such as: the Altman model, the Conan-Holder model, etc.. Within our case study we will use the Altman model (Version 3).

The last version of the Altman model, updated and revised, presents the advantage of applicability in case of non-industrial enterprises and those that operate in countries which are under development. [6] The Altman scoring function, in this last version, is as follows:

$$Z = 6.56X_1 + 3.26X_2 + 3.72X_3 + 1.05X_4$$

The model variables have the following meaning:

$$X_1 = FRN / AB$$

$$X_2 = PRI / AB$$

$$X_3 = \text{RBDIT} / \text{AB}$$

$$X_4 = \text{ANC} / \text{DT}$$

Where:

FRN - Working capital;

AB - Total assets;

PRI - Retained earnings;

RBDIT - Earnings before interest and taxes;

ANC - Book value of equity;

DT - Total liabilities.

The critical intervals for the Z function are as follows:

- Level I: safe zone, with very low probability of bankruptcy, practically negligible; creditworthy firms $Z > 2.6$;

- Level II: uncertain zone, firms with temporary financial difficulties, which can be remedied if the applicable strategy is suitable $1.1 < Z < 2.6$;

- Level III: risky zone, bankruptcy firms $Z < 1.1$.

3. Material and Methods

In the next case study, we will calculate the risk indicators and based on the results obtained we will facilitate making the correct decisions on the settlement of existing problems in order to improve this system, taking into account the current economic context.

The data to which we refer within the undertaken study are out of a sample of 27 companies from Timis County, Romania, and are grouped into three economic sectors (production, construction and tourism) to identify the particularities of each sector, on a reference period of four years (2008-2011), from the risk point of view.

Sector 1 - Production;

Sector 2 - Construction;

Sector 3 - Tourism.

4. Results and Discussion

Based on the data held and calculation of risk indicators, we have obtained the following results:

- For **sector 1 – Production**, situation is as follows:

- Risk of exploitation

Table 1 - Results of the risk of exploitation in the period 2008 - 2011 for enterprises in the production sector (RON)

Production enterprise	Time span			
	2008	2009	2010	2011
P1	362160	137507	295546	-948164
P2	-1017917	8388203	10075912	-32237806
P3	10453921	-105726482	3231776	6763553
P4	8272914	35931382	11654495	9211179
P5	-3029868	-4876272	6318768	26062716
P6	-1641212	-3103736	1500020	-476984
P7	-4340623	110370226	4139179	5042254
P8	112500369	6528159	3052369	8242949
P9	7121622	5700598	-4479974	-11025811

Source: own compilation

Based on the threshold of profitability and safety index deviation results from the enterprises that operate in the production sector, in the period 2008 – 2011, here are the following conclusions: P2, P3, P6 designates an unstable situation, respectively a high risk of exploitation. At the opposite side, P4 and P8 are enterprises that have a low risk of exploitation. Enterprises P1 and P9 registered in the first half of the analyzed period a low risk of exploitation, followed after that by an increase. For P5 and P7 the situation is similar, in the first two years the risk of exploitation is high, and in the last half of the analyzed period they benefited a reduced risk of exploitation.

➤ Financial risk

Table 2 - Results of financial risk in the period 2008 - 2011 for enterprises in the production sector (RON)

Production enterprise	Time span			
	2008	2009	2010	2011
P1	1458653	885743	819599	-1915753
P2	-1017917	8388203	10075912	-32863055
P3	12560854	-110566784	4291576	9645173
P4	10369444	46569295	13992583	11211545
P5	-6025927	-7361698	8986077	35820461
P6	-4385914	-10085298	5324157	-1378342
P7	-8416416	168430278	8405097	9283171
P8	114636811	7258550	3577061	9144532
P9	7710396	6974225	-5016448	-13784477

Source: own compilation

At the level of enterprises that operate in the production sector in the period 2008 - 2011 the situation is similar (in terms of

positive and negative values recorded oscillation) with the risk of exploitation, but with slightly higher values due to the inclusion in the calculation formula of interest costs. It is remarked that P2 recorded in 2008-2010 a financial risk value equal with the risk of exploitation, which proves a lack of interest costs.

➤ Risk of bankruptcy

Table 3 - Results of the risk of bankruptcy in the period 2008 - 2011 for enterprises in the production sector

Production enterprise	Time span			
	2008	2009	2010	2011
P1	1.45	4.94	5.09	1.46
P2	-9.91	-10.27	-7.45	-4.66
P3	-0.24	-1.41	1.21	1.53
P4	0.92	-1.27	-0.78	0.31
P5	1.65	2.12	1.95	1.76
P6	2.57	2.69	2.87	-2.02
P7	-0.69	0.42	2.61	4.28
P8	-0.59	0.59	3.57	1.90
P9	2.18	3.05	3.30	2.03

Source: own compilation

In the analyzed period 2008-2011 it is remarked that enterprises P2 and P4 are in a risky area, namely bankruptcy. The enterprises that are in a risky area in the first half of the range are P3, P7, P8 and later in the second half takes place an improvement of them, namely they go into a safe and uncertain area in terms of financial difficulty. According to the data in Table 3, creditworthy enterprises and those who have temporary difficulty that can be remedied if proper strategy is applied are P1, P5 and P9. Can be observed that in the first three years P6 is the only creditworthy enterprise whose values increases systematically from one of the other, but in 2011 is part of a strong downward evolution, which positions her in a risky area (of bankruptcy).

- For sector 2 – Construction, situation is as follows:

➤ Risk of exploitation

Table 4 - Results of the risk of exploitation in the period 2008 - 2011 for companies in the construction sector (RON)

Construction company	Time span			
	2008	2009	2010	2011
C1	8602287	6415368	3673893	9732541
C2	41336226	15135990	315494	-5815115
C3	741100	1325647	905550	-5290365
C4	2711323	5919970	7116697	16024308
C5	6024217	5152356	5232224	101823894
C6	-2056134	171380675	4985479	4126529
C7	1103390	905513	1653705	-8642934
C8	-12949796	1515354	669948	421524
C9	-7401514	2926231	2893335	4179151

Source: own compilation

Given the results mentioned above, it can be observed the situations of companies (C3, C4, C5 and C7) that activate in the construction sector, in the period 2008-2011, is presented in a similar way, namely in the first three years they register a low risk of exploitation, and in the last year the companies show an unstable situation, respectively a high risk of exploitation. In 2008 the risk of exploitation of companies C8 and C9 is high, and in the years 2009-2011 is registered a sharp drop due to safety index offense determined. The risk of exploitation in the first and last year of company C1 is high, in 2009 corresponds to a medium level (relatively a stable situation), and in 2010 this is reduced.

➤ Financial risk

Table 5 - Results of financial risk in the period 2008 - 2011 for companies in the construction sector (RON)

Construction company	Time span			
	2008	2009	2010	2011
C1	8602287	6415368	3673893	9732541
C2	46893272	18030116	-1685652	-7741448
C3	1518650	3608022	2002376	-9019918
C4	2763868	6040353	7200618	18267866
C5	6181627	5368445	5285598	104067660
C6	-241775	111237933	12180146	12916601
C7	1103390	905513	1670480	-8731821
C8	-23166423	4505509	2039047	1559364
C9	-12466393	5347094	5454399	6371394

Source: own compilation

Over the four years period analysis, the situation is similar (in terms of positive and

negative values recorded oscillation) with the risk of exploitation, but with slightly higher values due to the inclusion in the calculation formula of interest costs. Exception to the above mentioned is company C1 which recorded a similar evolution as with in the risk of exploitation, because the interest costs recorded a zero value the entire range.

➤ Risk of bankruptcy

Table 6 - Results of the risk of bankruptcy in the period 2008 - 2011 for companies in the construction sector

Construction company	Time span			
	2008	2009	2010	2011
C1	63.11	10.97	11.03	46.40
C2	-1.09	-1.15	-2.09	-1.15
C3	3.68	1.06	4.04	3.63
C4	4.84	5.78	1.82	1.55
C5	4.42	5.90	7.26	5.89
C6	1.08	0.90	0.57	1.13
C7	6.22	7.08	4.38	4.26
C8	-3.12	2.76	2.98	2.07
C9	3.14	1.89	1.84	1.67

Source: own compilation

Based on the available data, it is remarked that a number of three companies (C1, C5 and C7) in this economic sector, recorded a very low probability of bankruptcy, practically negligible, the entire period 2008 - 2011. We can not afford to overlook the values obtained in all four years by company C1, due to too high values recorded regarding book value of equity in comparison with total liabilities. According to the values obtained, C2 and C6 are the only companies in bankruptcy, but the latter records an improvement in the last year, placing it in an area with temporary financial difficulties. Based on the data in Table 6, the creditworthy companies and those who have temporary difficulty that can be remedied if proper strategy is applied are C4, C8 and C9.

- For **sector 3 – Tourism**, situation is as follows:

➤ Risk of exploitation

Table 7 - Results of the risk of exploitation in the period 2008 - 2011 for firms in the tourism sector (RON)

Tourism firms	Time span			
	2008	2009	2010	2011
T1	1854181	1615769	1718817	2154156
T2	1119822	2727022	1611987	2637963
T3	2844162	-8587784	-1876459	1152533
T4	944794	882239	-739681	2519998
T5	-2842524	-21195453	1957810	-9643907
T6	609347	-497880	436168	-535481
T7	1589114	-1416724	186066	194450
T8	-373153	2662175	-359528	2518869
T9	630699	487787	2168643	1500115

Source: own compilation

For the firms operating in the tourism sector in the period 2008-2011, can be observed highly oscillating values of the risk of exploitation. Firm T1, in the first and last year, then in the second and third year, shows a low risk of exploitation, respectively a medium one. T2 and T9 present a low risk of exploitation the entire analyzed period, compared to the other firms in the same economic sector.

➤ Financial risk

Table 8 - Results of financial risk in the period 2008 - 2011 for firms in the tourism sector (RON)

Tourism firms	Time span			
	2008	2009	2010	2011
T1	2234914	1933225	1908467	2258338
T2	1921940	3898153	2108358	3201478
T3	4598572	-16866966	-3384805	2124294
T4	1124533	902220	-878046	2541616
T5	-3789399	-25296544	2676076	-13109902
T6	609347	-958843	1258249	-1339846
T7	1779796	-1969906	1103057	726190
T8	-713207	4961867	-695014	10770272
T9	931320	653097	2543712	1676545

Source: own compilation

At the level of firms operating in the tourism sector during 2008-2011 the situation is similar (in terms of positive and negative values recorded oscillation) with the risk of exploitation, but with slightly higher values due to the inclusion in the calculation formula of interest costs. It is remarked that in the first and last year, respectively in the second and third year, the values obtained are

approximately equal, while the latter are a bit smaller.

➤ Risk of bankruptcy

Table 9 - Results of the risk of bankruptcy in the period 2008 - 2011 for firms in the tourism sector

Tourism firms	Time span			
	2008	2009	2010	2011
T1	208.47	38.41	38.35	123.78
T2	1.12	-0.34	-0.02	-0.08
T3	-1.49	-2.24	-6.99	-6.57
T4	10.84	12.81	2.24	6.25
T5	1.81	-0.17	0.44	0.42
T6	2.13	-3.07	-3.31	0.58
T7	0.46	-0.14	-0.35	0.99
T8	2.73	-5.17	-1.57	-5.95
T9	4.17	4.00	5.95	7.86

Source: own compilation

Over the whole period 2008-2011, we remarked that a number of three companies (T1, T4 and T9) in this economic sector, recorded a very low probability of bankruptcy. We can not afford to overlook the values obtained in all four years by firm T1, due to too small values recorded regarding earnings before interest and taxes in comparison with total assets. Since 2009 until the end of 2011, most firms (T2, T3, T5, T6, T7, and T8) are in bankruptcy. In 2008, some of them (T2, T5 and T6) have tried to remedy their financial difficulties through some strategies appropriate to the situation, but have not succeeded.

5. Conclusion

Based on the values obtained, by comparing the results between risk of exploitation, financial risk and risk of bankruptcy and as a result of poor management, of some internal dysfunctions and external factors, companies P2, C2, T3, T5, T6 and T8 are in a situation of bankruptcy. Given the direct analysis results of companies, from the economic sectors presented, based on the indicators system which express risk, we can say that the most favorable situation is found in the construction sector, than in the production sector and finally in the tourism sector.

The steps that have to be taken in order avoid critical situations are:

- Understanding risk and its integration into the company's strategy;
- A good knowledge of competitor strategies;
- Adoption of those decisions that can lead to risk avoidance.

Cost reduction is considered to be the most effective way through which can be achieved a competitive advantage, especially in those economic sectors where the market is so bidders.

Regardless of the activity profile, legal status, size and space in which it operates, the company is obliged permanently adapt to risky situations, that can occur in the current activity, as well as in the predicted one.

Nowadays the economic activity is dominated by risk, because of the lack of concern, of managers for knowing and understanding the elements that determine the risk which leads to the appearance of differences between companies in the same economic sector.

Risk approach from the perspective of organizations must be consistent with the type of their activity and with all the characteristics of markets and environments in which they act as economic and social agents.

The success of a company depends heavily on its ability to innovate, and innovation represents taking risks.

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Interdisciplinary Research Frameworks of Online Behaviors: Critical Review from a Marketing Perspective

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Abstract

The present paper sets out to outline the theoretical frameworks and the research methods that may be used in addressing general issues of web behaviors and in formulating new researchable marketing questions. In view of this, we provide a brief literature review in three major areas of web research (marketing, media management and communication studies) and reveal advantages and major shortcomings of each framework considered (the Flow Theory, the Multimedia Convergence Paradigm and the Uses and Gratifications conceptual framework). Drawing on the results of the literature review we finally formulate our future research directions concerning online informational, search and shopping behaviors. Drawing on the selective interdisciplinary literature review we are proposing several steps in designing a research study concerning consumers' online experiences during shopping activities and during product and product information search.

Key words: web behaviors, motivations and experiences, profile development, causal models

J.E.L. Classification: M15, D83, L82, L86

1. Introduction

Web behaviors have been examined under various contexts over the years. One of the most obvious characteristics of web behaviors research is its interdisciplinarity. Web usage studies cover a wide diversity of themes that result in a wide range of methodologies and intellectual approaches specific to the researchers' initial backgrounds (sociology, management,

marketing, media and communication or computer sciences).

Although researchers from all mentioned areas of research have made significant progress, the scope of their studies is rather broad and the research appears relatively fragmented and with contradictory results. We consider it therefore essential to distinguish between the wider issues and concerns related to web behaviors, that may provide the overarching context for a study, and the specific topics, investigation of which offers a real chance to add to what is known already.

2. Web consumption motivations research

One of the keys to the understanding of online consumer behaviors lies in an appreciation of the motivations that lie behind consumer web use. These motives of the consumers are more often assumed rather than investigated.

The uses and gratifications approach is one of the theoretical frameworks in the field of mass communication through which consumer motivations in regards to new media products and services have thoroughly been examined. U&G looks at the ways consumers use media and the utilities they receive from that use. In U&G studies, people are seen as purposive, goal directed, and motivated in their use of the media (and other communication activities) to satisfy their social and psychological needs and wants.

Traditional media researchers have identified some basic gratifications that people receive from consuming media products, among which Lacy and Simon [1] mention: surveillance of the environment, decision making, entertainment and diversion, socio cultural interaction, and self-

understanding. Each of these (and some others) represents underlying constructs of the U&G theoretical framework.

Although widely used to understand other aspects of media use behavior, U&G has been less frequently applied for understanding consumers' use of the world wide web [2] and some researchers even suggest that the theory has not been adequately adapted to the internet [3], [4].

Nevertheless, it has not escaped the attention of researchers [4] that the web is in many ways a unique medium. The time-honoured list of gratifications derived from early television studies [5] has been expanded to explore the unique facets of the internet medium. Among the new factors identified by internet studies we mention *search* [6], *interactive* and *economic control* [7], which together achieve an increase in the variance explained in web usage.

Uses and gratifications profile development in internet research is typically accomplished through a two-stage research design [6]. First, an exploratory list of terms that characterize typical uses and sought gratifications (for example: *information*, *search*, *browsing*, *entertainment*, etc.) is developed; this process allows for the sampling of the domain of the theoretical construct. The second stage of U&G development uses factor analysis to group descriptive terms into profiles representative of specific audience gratifications and intended uses for a medium.

Some U&G studies [8] measure the distinction between gratifications sought (GS) and gratifications obtained (GO) and extend research from description of gratifications to tests of explanatory power of these gratifications. These studies found that GO are stronger predictors of media exposure than GS.

The major shortcoming of the uses and gratifications approach is that it is more a conceptual framework than a theory, and generally it is used to describe and classify audience behavior rather than to predict it.

However, there is a research area that moved beyond the mere classification of motives to identifying complex instrumental and ritualistic user orientations. Studies in this area have required a clear conceptualization and operationalization of

motivation. Rubin [9] [10] was the forefront of this methodological development.

Based on the users' motivations, U&G literature on this topic identify two overarching media orientations (later extended to web orientations as well): *instrumental* and *ritualized* use [10], also seen by others as *active* or *passive* [11], or *utilitarian* and *diversionary* [12]. The media orientations classification in communication research is very similar to the marketing classifications of consumer *intrinsic* and *extrinsic motivations* [13] and their *situational* and *enduring involvement* [14].

3. Conceptualizing web generated market behaviors

Another key aspect in understanding online consumer behaviors is the study of online medium itself and its ever evolving characteristics.

According to the convergence paradigm, internet is, first of all, a convergent medium reuniting and transforming characteristics of computers, telecommunications and television.

Most conceptualizations of multimedia convergence include a technological, a strategic and a functional dimension. Technological convergence affecting access terminals consists of the integration into one device of a set of features performed by several devices. The essence of the functional dimension is that the converging digital technologies empower consumers to decide where, when and on what device they consume whatever media content they want (video fragments, audio tracks, maps, etc). On a strategic level, convergence means allowing business partners, customers and consumers more freedom to manage their own media and entertainment experiences.

The multimedia convergence paradigm is a theoretical approach in media management [15] primarily focused on the strategic issues in the communication industries, which also attempts to describe consumption patterns in multimedia environments (such as the world wide web). Jenkins [16], for example, suggests analyzing multimedia convergence from the standpoint of users' multitasking strategies for navigating the new information environment. The author considers that "convergence is taking place within the same

appliances within the same company ... within the brain of the consumer ... and within the same fandom." [17]

However, convergence-based research focused on consumer demand is a rather underdeveloped area of inquiry in media management. Scholars in this area focus less on consumer issues than on strategic issues at the industry level, trying to develop an understanding of the extent to which industries (media, IT and telecommunication) are coming together [18] and of the convergence strategies used by multimedia businesses [19].

The major shortcoming of the convergence paradigm is that convergence as a multidimensional theoretical construct hasn't been yet clearly defined, nor operationalized, so that researches are not able so far to measure its impact on other phenomena under study.

4. Causal models of optimal consumer experiences online

Flow theory [20], a very elaborate and consistent social sciences theory, that has been successfully adopted in online marketing [21], attempts to conceptualize and operationalize the process of total immersion (mental and emotional) in an online activity.

Flow models attempt to better explain the factors that make using the web a compelling experience for its users, and of the key consumer outcomes of this compelling experience.

The social sciences construct of *flow* describes a state of consciousness that is sometimes experienced by people who are deeply involved in an enjoyable activity. The experience is characterized by a balance between the challenges of an activity and the skills required to meet those challenges, clear goals and immediate feedback, concentration on the task at hand, a feeling of control, a blending of action and awareness, a loss of self-consciousness, a distorted sense of time and the autotelic experience. The term *autotelic* refers to an activity that is "done not with the expectation of some future benefit, but simply because the doing itself is the reward." [22]. In other words, while in a state of flow, people become completely immersed in the activity to the point of losing

awareness of time, their surroundings, and all other things except the activity itself.

In the marketing literature, Novak et al. [23] conceptualized online flow as a cognitive state experienced during navigation that is determined by (1) high levels of skill and control; (2) high levels of challenge and arousal; and (3) focused attention; and is enhanced by interactivity and telepresence (a psychological state in which individuals don't perceive the media existence between them and the real world). Studies confirm that many different kinds of web activities can facilitate flow:

- shopping [24], [25];
- searching information [26], [27];
- playing games [28], [29], etc.

The causal models of online flow, such as Hoffman and Novak's [21], Novak et al. [23], Koufaris's [30], Skadberg and Kimmel's [24] or Guo and Poole's [25] models have developed a modality to operationalize flow in different contexts by including antecedents, dimensions and consequences in its measurement. Among the antecedents of flow analyzed in the studies mentioned above there are: the *challenges* of an online activity, the level of *skills* of online users, the intensity of the *telepresence* state, the levels of *interactivity* and *complexity* of the online medium. The main dimensions identified when studying the online flow are: *concentration*, *pleasure*, *a sense of control* and *time distortion*.

Confirmatory factor analysis has been used to evaluate the validity of the measurement models and discriminant validity tests helped assessing latent factors as being separate and distinct constructs. Reliability of measurement scales has been tested using alpha Cronbach. However, taken together, studies involving flow assessment demonstrate that some potentially serious consequences of measurement model misspecification exist, and researchers need to think carefully about the direction of causality between constructs and about their measures.

5. Conclusions and future research agenda

As identified by the U&G literature, search, information and shopping are distinct

and major motivations of web usage and we are particularly interested in contributing to the conceptualization of online ritualized and instrumental shopping and information and product search, and to creating structural models that operationalize these in specific contexts.

Firstly, we are interested in developing operational measures of the three online consumer motives: product information search, product search and shopping, based on the existing U&G empirical studies.

Secondly, based on the online flow literature we intend to develop, test and compare flow models of online product information search, online product search and online shopping. Also based on the reviewed flow studies we are planning to elaborate and validate a measurement instrument for online flow experiences during all three types of online consumer activity.

Drawing on the literature review on flow theory and the multimedia convergence paradigm, and the above-mentioned structural models of online experiences already tested in different web usage contexts we are interested to address in our future empirical studies the influence of the convergent web medium and its interactive, intuitive applications on consumers' decision-making processes and their shopping experiences online.

Therefore we will also try to extend our theoretical research in the area of computer studies in order to identify measurable particularities of the web as a convergent information environment, both from the objective point of view of its technological features and from the experiential point of view of people's perception of these features as well as in the area of experiential marketing in order to identify operational dimensions of online consumer experiences.

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The Nature of Relationships between Intelligent Enterprise Stakeholders within a Competitive Pole: A New Perspective

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Abstract

As a key agent in a competitive pole, intelligent enterprise includes, as well as other organizations that provide goods and services, the various categories of stakeholders. Due to the large number of stakeholders, relationship management of them at intelligent enterprise level presents a high degree of complexity. This involves precisely identifying of relevant stakeholder groups and how relationships with them can be effectively managed in the business model. This paper aims to provide a new perspective of the complex system of relationships that exist between the main stakeholders of an intelligent enterprise within a competitive pole structures and also intends to propose a framework that can support managers of such organization in assessing and estimating the models reactions and actions required to manage dynamic relationships with its stakeholders.

Key words: intelligence, intelligent enterprise, stakeholder relationship, competitive pole, stakeholder relationship management

J.E.L. classification: D80, L50, M10, O10, O30, P40

1. Introduction

The intelligent enterprise success is not determined only by the quality of intelligent infrastructure (technological, structural and human resources), by knowledge management or intelligent behavior, by indicators of competitiveness and overall performance of it, but increasingly depends on how managers succeeds to direct

interactions between the various stakeholders to common goals set by the organization's integrated mission. Thus, the concept of stakeholders has become a key term within an intelligent enterprise strategy.

Intelligent enterprise includes, as well as other organizations that provide goods and services, the various categories of stakeholders. This involves precisely identifying of relevant stakeholder groups and how relationships with them can be effectively managed in the business model.

The intelligent enterprise managers need a better understanding of the dynamic relationships between and among different stakeholder groups as well as the knowledge of divergences or convergences objectives and views of them. In most organizations this exercise is not completed in an explicit way. Although business managers consider different stakeholder behavior and objectives, they rarely have a good overview to emphasize the dynamics that shape relationships between stakeholders. As a result, in this case stakeholder relationship management is ad-hoc in nature and is not based on a frame structure that could help in assessing and estimating models of reactions and actions necessary for managing relationships with stakeholders.

This paper is based on review and analysis of existing research literature, of relevant documents certifying the work of various professional bodies and on personal vision about the results identified in managerial practice. The purpose of this study is to propose a new perspective on the complex system of relationships that exist between the main stakeholders of an intelligent enterprise within a competitive pole, by providing a framework structure that can support managers of such organization in

assessing and estimating the models reactions and actions required to manage dynamic relationships with its stakeholder.

2. Theoretical framework: Conceptual approaches of the relationships nature between stakeholders

In the literature there are several approaches of the relationships nature within and between stakeholder groups. Also, Henesey et. al. (2003) proposed three approaches about these relationships. The first approach refers to the costs and benefits distribution among stakeholders, to the "trade-offs" situations (between economic, social and environmental aspects of the organization) and to the creating of "win-win" situations. A second approach examines the efficiency aspects, such as maximizing results by minimizing inputs, and the latter approach aims to analyze the behavioral aspects such as those relating to deceptive behavior, opportunism and limited rationality. In view of the same authors, the interaction which characterizes the inter-organizational relationships stakeholders can take a physical or tangible form that refers to the physical transfer of goods or intangible asset form aimed at exchanging information and knowledge based on contracts and control. All these aspects can be applied both within formal stakeholders relationships and less formal situations of interaction between them.

Other researchers in the field (Mitchell et. al., 1997, Ulhoi, 1997, Cummings and Doh, 2000, Eden and Ackermann, 2004; Bryson, 2004; Bryson et al., 2007; Boonstra, 2008) developed several methods of stakeholder analysis aims to identify and to categorize the main stakeholders of an organization. These approaches often refers to the specific aspects of stakeholder management, such as identifying stakeholders (Vos and Achterkamp, 2006), assessing their relative importance (Mitchell et al., 1997) or ways of involving stakeholders in organization strategy (Bryson, 2004). A first step in the analysis is to identify the major groups of stakeholders that may be directly or indirectly affected, or which may affect the formulation and execution of the organization strategy. These groups can be identified by classification into one of four

major categories: organizational stakeholders (senior managers, front-line employees), capital market stakeholders which can affect the availability and cost of capital (shareholders, banks and other financial intermediaries), industry or product market stakeholders (suppliers, customers), social stakeholders represented by these groups and external organizations that may affect or influence the strategy and performance of the organization (unions, government). All these stakeholders groups can be divided also in terms of demographic and geographic criteria according to the government level or by other relevant criteria.

Based on the general stakeholder approaches and on the intelligence researches, Waltz (2003) identified in the Intelligent Community of United States of America (considered also an intelligent organization) following structure of relationships between key stakeholders of this community as well as metrics by which these actors value the organization:

- The owners (beneficiaries): the public and its elected officials. These stakeholders aimed at identifying threats to national security interests and they measures intelligence value by the degree to which it is maintained.
- Intelligence consumers (customers or users): those civilian, military or national users within intelligence agencies that measure intelligence value according to its contribution to the organization's mission by assessing impact mission effectiveness.
- Intelligence producers (direct users of raw information): intelligence collectors (human and technical), information processing agents and analysts, whose intelligence assessment metrics are based on performance, and refers to information complexity, level of confidence, accuracy, opportunity, and coverage depth.

Based on the above approaches, we may consider that at intelligent enterprise level, a stakeholder is any individual or group who has an interest or which may be affected by the organization decisions and strategies. In

such context, intelligent enterprise can be approached as a contacts and contracts network under which each stakeholder is driven by their own interests and priorities. Thus, in the enterprise intelligent the process of value creation depends on the support of various groups of stakeholders, situation in which each stakeholder group deserve receives due consideration according to the degree of importance given within the existing relationships.

3. Issue: A new perspective on intelligent enterprise stakeholder relationships system

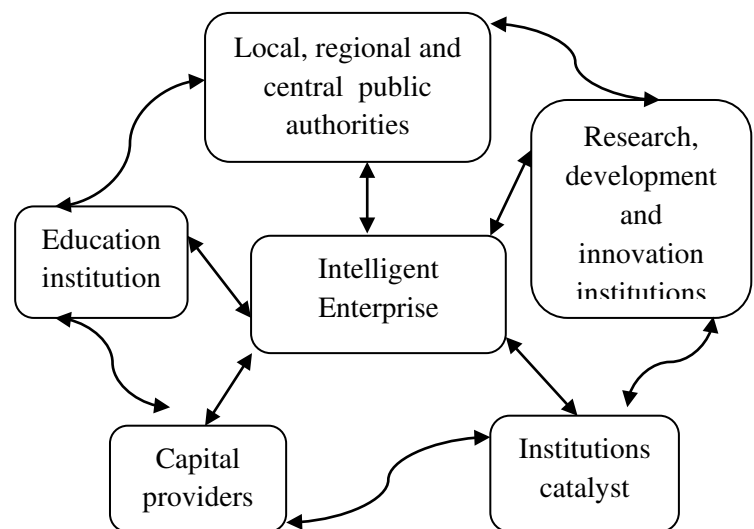
As a key player in a competitive pole, intelligent enterprise includes in addition to traditional stakeholders (creditors, customers, managers, employees, government, governmental and non-governmental agencies, policy makers, owners/ shareholders, suppliers, unions and civil communities) which provides organization with necessary resources to achieve strategic goals, and other key stakeholder groups including: universities and research & development institutions as providers of innovative products and technologies, local and regional authorities and institutions catalyst. Each of these stakeholders has a special interest in the mission of the organization, making it necessary to have a purpose and a value chain to guide specific operations of knowledge management.

Managerial practice has demonstrated over time that stakeholders do not have an equal position in the stakeholders system, can't have the same influence in determining the purpose of the organization and are not affected as much by the effects of its policy and strategy. In this context we can say that stakeholder relationship management (SRM) is an important input in formulating and implementing of intelligent enterprise business strategy, also emphasizing the role of certain categories of stakeholders to create interdependence between its formulation and implementation. Thus, the first challenge in managing relationships with stakeholders is to identify them, to determine how stakeholders can be affected by decisions of the organization and what influence they can have on the implementation of these decisions.

Based on European project CLUSNET researches during 2009-2011, authors Solvell and Lindqvist (2011) consider that at the cluster/ competitive pole level can be identified five major categories of actors: government, capital providers, educational institutions, research institutions and companies that have the central place in this system.

In our view, the major stakeholder categories of a competitive pole, whose interactions are focused on innovation and creating conditions for a superior adaptation to intelligent enterprise business needs, are shown in Figure 1.

Figure1. Categories of actors / stakeholders in a competitive pole



Source: Made by authors

As shown in Figure 1, intelligent enterprise have a central place in a competitive pole and is considered the most important actor of the pole and the economic side of it, because represent the innovation demand by bringing innovation to the market and by testing on it in competition.

In the enterprises relationships system, business interactions occur between small and medium enterprises with large

companies, but also between local and the multinational organizations, each of them having an alternative role as a buyer, supplier, technology partner, workforce space training, or source of new ideas and inspiration for setting and achieving ambitious goals.

Organizations or research, development and innovation institutions are producing and providing new knowledge and innovative solutions, representing offer products, processes, services and innovative technologies. Education institutions include schools and polytechnics, colleges and universities. The Universities role consist in establishing research groups to obtain knowledge leading in relevant areas and sending them to other actors in the pole, which often confers a dual role: the research institution or educational ones. Colleges provide specialized education programs and graduates with specialized knowledge training as requested in respective pole. Technological, human, knowledge, intelligence and financial capital providers (banks and venture capital organizations) are the ones who provide the necessary resources to exploit inventions and new business models. Capital providers analyze carefully the pole risks and opportunities and provide "smart money", having the role of "experts" in the competitive pole. The last stakeholder category is represented by public authorities at national, regional or local level, and also by public agencies and non-governmental organizations with innovative processes facilitating role. This competitive pole actor is responsible for investments decisions in public infrastructure, regulations and other factors relevant to innovation in order to provide an adequate framework for harmonious development. Both local and central authorities should understand the needs of businesses in order to make better decisions that promote competitive pole and to remove obstacles to its progress. Thus, the authorities are those that should provide business support mechanisms for obtaining and maintaining their competitiveness and growth. Catalyst institutions are entities specialized in technology transfer and innovation, consulting firms, chambers of commerce aimed at aligning the partners' joint vision and facilitating their interaction level by eliminating certain barriers in

communication and cooperation process. Between these main categories of actors is a complex relationship, thereby creating numerous ways in which a stakeholder can interact with each other. For example, a set of paths can be created between research, development and innovation institutions and enterprises, another between the central authorities and businesses.

Thus, a competitive pole, as showed in the figure above, can be characterized through a complex interactions system that contribute to its dynamics, through an increased speed of sharing knowledge, through adequate collaboration that allows most effectively uses of resources and through a coordination that aligning the interests and actions of different stakeholders.

In a competitive pole, the intelligent enterprise stakeholders may have different perceptions and interpretations on the relationships system which makes their perceived interests differing from one stakeholder to another, and also the degree of interest ranging from low to high. In a low interest case, stakeholders may be inclined to believe that relationship system will increase efficiency and lower operating costs due to internal and external technologies can often be inconsistent and may provide insufficient support for basic process control. On the other hand, a higher level of interest reflects the perception that the competitive pole specific relationships system may contribute on achievement of the intelligent enterprise overall objectives.

Stakeholders perceived (dis)interest normally include several elements and often are based on strategic organizational, financial, technological and behavioral issues (Porter, 2001; Chen, 2003; Bendoly et. al., 2004; Golden and Powell, 2004; Günther and Grote, 2006). All these aspects can't have the same relevance to all stakeholders, so that stakeholder perceptions may differ in terms of power and power relations. For example, a stakeholder with a high power and interest can constrain those actors with less power, in spite of their level of interest. In this paper, we define the concept of power as the ability to exercise the own will on others in order to achieve the desired benefits. Since our study concerns on the dynamic relationship of intelligent enterprise stakeholders we should consider two aspects of the concept of power:

the institutional and procedural one. In such context procedural power is based on the interest of social interactions and institutional structures is characterized by an unequal power representing the external components on the basis of which power is shared between organizations of competitive pole. Thus, we can appreciate that in the context of competitive pole, power is a relational projection having many sources in the sense that a pole actor may have more or less power in relation to the others relevant stakeholders.

4. Conclusions

At intelligent enterprise level, stakeholder relationship management present a high degree of complexity, due to the large number of actors which have many and different interests and perceptions. Intelligent enterprise managers must have an understanding and active monitoring of all stakeholder legitimacy aspects, considering different interests of certain categories of stakeholders in decision-making and operational processes. In the certain decisions and actions case, managers should take into account the interests of stakeholders primarily considered as the most important and those involved in decision-making processes.

Although the stakeholder common interest satisfaction is a survival condition for intelligent enterprise there are still many conflicts interest between different stakeholders leading to decrease of community interests. Because of potentials conflict between the stakeholder interests and the intelligent enterprise business objectives, achieving a balance of this in the competitive pole is often very difficult. The objectives of intelligent enterprise and also of other organizations in the same industry are usually related to microeconomic objectives as a mix of shareholder value, of maximizing profit, of growth, of market share and productivity. In such context, the Government may impose socio-economic goals for an active policy of enterprises, but also some restrictions and limitations.

The major contribution of this paper is to provide a new perspective of the complex system of relationships that exist between the main stakeholders of an intelligent enterprise

within a competitive pole structures by providing a framework structure that can support managers of such organization in assessing and estimating the models reactions and actions required to manage dynamic relationships with its stakeholder, having also the confidence that researching of this topic will be continued and developed.

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Marketing vs. Fashion Trend – Between Myth and Reality

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Abstract

This paper makes an analysis of the different methods that marketers use to attract the consumers towards their products. The main research purpose is to focus on fashion from the marketing perspective. Fashion represents the process of social spread which has as result the adoption of a new style by several consumer groups. Fashion or style represents a unique combination of attributes. The system of fashion is made of all the persons and organizations that take care of the creation of symbolic significations and transfer them upon the cultural goods.

Key words: consumer behavior, marketing, fashion trend, advertising

J.E.L. classification: M31, M37

1. Introduction

The field of marketing represents a continuous evolving process. [1] However, the marketing term represented one of the most exciting subjects of the business world within the last six decades. *Marketing 3.0* is the stage in which the companies pass from consumer focus to human values while, the profitability is put into equilibrium with corporate responsibility. The consumer defines the value of the product, but the consumers' needs and wants are different one from another and vary within large limits. The company earns from the creation of a superior value for its clients and partners. The company sees its clients as a strategic point, approaching them and taking into consideration all their aspects as human beings, with a special attention towards their needs and wants. Today's marketers try to reach the consumers' mind and heart. The marketing concept can be seen as a counterbalance to the macroeconomic

concept: each time the macroeconomic environment is changing, the consumer behavior will have the same trend, what leads to a change of marketing. [2]

2. Objectives

The main characteristic of the XXI century companies is not the lack of material goods and services, but the lack of clients. The client is the most important arbitrator of our actions on a short term. It doesn't matter if the client is or is not always right. The truth is more subtle, because not all the clients have knowledge on the technical markets and are always rational. The marketing's role is to lead the market, not to follow it. [3] The consumers from the post-industrial economies evolved in a culture with omnipresent brands in the market with companies continuously fighting to gain more visibility and attract the consumers towards them. [4]

3. Methodology

The marketing communications can have an influence to the consumer's level of self esteem. The exposure to advertising can lead to a process of social comparison. The individual tries to evaluate himself by making a comparison with the persons described in these artificial images. This way of comparison is inherent to the human nature and many marketers take advantage of this tendency, proposing ideal images with happy persons that buy and use their products. A study on the social comparison demonstrated that the student girls have the tendency to physically compare themselves with manikins from the advertisements. Moreover, those that look at advertisements with beautiful women declare themselves satisfied with their body, contrary to those that don't look to this kind of advertising. The advertising that makes reference to self

esteem tries to modify the expectations regarding the products, stimulating the positive feelings towards the "I". For most of the individuals, *the ideal I* is different from the real *I*, but, for some people, the difference is very high: they represent a perfect target for the marketing that appeals to imagination. The imagination represent a self-provoked derive of the consciousness, which often allows compensating the lack of external stimulation or a breakout from the real world problems.

Each one of us is, in fact, different. We have as many "I" as the social roles we play. We act differently depending on the situation, using different products and services and have a different opinion about ourselves, depending on the situation. A woman may need distinctive products depending on her role: a discrete perfume for work, a scented perfume for the nights as "fatal woman". The product that form the "I" is: "You are what you consume". Let's not forget that the "*reflected I*" leads to the creation of oneself. This means that the people look at each other in the way they imagine that others see them, with their cloths, jewels, car etc.

Two of the main significant moments from one's life, the marriage and the born of children, have a more important influence on the women acquisition behavior than on men's. The married women spend more and buy more expensive things – insurance, new cars, open a new account or buy property titles. Nowadays, the women make the most important acquisitions, even in fields addressed to men: 53% of the investment decisions; 55% of the personal electronics; 60% of the interior design articles; 80% of the decisions for the interior design; over 60% of the new cars; 66% of the computers. The unmarried women from USA are the only decision factors, which mean more than one house holding from four. The women are the ones that take care of the cheques and pay the bills in 85% of the American families. The woman controls the highest part of the house holding's expenses. The women are now more implied at the working place, are more educated than men and often gain the same or more than the men. Thus, the women earn and own more now, than in any historic period. The women control 51.3% of the private wealth on the USA territory; they

represent 40% of all the business travelers and influence 80% of the family and luxury travels. [5]

The sex identity is essential for the "concept of oneself". The Brand study's results show the fact that a percentage of 59% of the Gillette clients associate the "masculine" word to the Gillette brand. The kiss between the singer Madonna and Britney Spears during the MTV Video Music Awards 2003 gala was appreciated "the kiss of the decade" by the customers of the famous Selfridges shops from London. The sex appeals represent an advertising accessory since several decades, often used to sell jeans, cosmetics, perfumes, automobile, drinks, food etc. According to the specialists, nowadays we can see a considerable growth of the open sexual calls, compared to elderly advertisings, which were making only a slight reference to sex. Rio Mare pate has the message: „*Voulez vous Pâté avec moi?*“, a words' game, with reference to the song lyrics „*Voulez-vous coucher avec moi (Ce soir)?*“.

The gender identity (F or M) represents both a mental and body pattern state. The biological gender of a person does not completely determine the situation of having typical characteristics of gender. Masculinity and femininity are not biological patterns. A man can have a feminine behavior depending on the situation. For the women is the same - Ioana d'Arc. *Condé Nast Traveler* magazine deliberated that Singapore Airlines is the best airlines company. The candidates for the stewardess position had to be at least 26 years old, more than 1.60 meters tall, very thin, seductive and have a perfect skin. The selection included a test in swimming suit to verify the lack of scars. At the end of the year 1990, a new flavor named Stefan Floridian Waters was introduced as a part of the flight experience. The flavor patented by Singapore Airlines could be found in the perfume of the stewardess and the hot towels given to the passengers before taking off, having the potential to create recreating memories. [6] The company has the logo „*Singapore Girl, you're a great way to fly*“. [7]

An ideal of beauty is a particular model of a physical appearance. The ideals of beauty for men and women can include physical characteristics, fashion style, make-up, hair-style, skin tone and the body shape.

Eventhough beauty is only an appearance, the women put much energy for a touch. They spend much time for artificial tanning and sweat doing fitness. Jane Fonda is present on the market of morning gymnastics videos, beginning with 1980. Today the ideal of beauty for women is thin, soft, but with the aid of miracle products, esthetics surgery etc. As a result of this phenomenon and medical problems of "forced weight loss", the *Elle* magazine won't publish anymore anorexic manikins.

4. Analyses

A fashion designer affirmed: "The cloths have to be made by instinct, otherwise it won't last. Marketing is something collateral. Fashion means change and the people that adopt it have to be always ready for it. Every dress has a moment of its own and usually its future means vintage". [8] Nowadays, the price is less attached to the cost of the merchandise, but more to the value that the buyer attaches to the remember of the experience. However, the companies have to create reasonable responses to the following questions: What do we give back to the society?; What social investments do we make? What noble causes do we sustain? What charity organizations are enjoying our funds?; What social cause do we serve by our activity on the market?; What is our reputation among the clients and our collaborators?

In many countries, many movements against consumption are put into practice. In United States, the *Adbusters* association promised a day without shopping, a weekend without television and a parody of the advertising spots. Despite all the efforts made by the researchers, regulations and implied industries, *the worst enemy of the consumer is often himself*. He is usually described as a rational decision taker who calmly tries to choose products and services that are in favor of his health and personal wealth, on one side, and his family and society, on the other side. In reality, the wishes, choices and consumption actions have sometimes negative consequences on the fellow humans and the society they live in. Among the harmful behaviors, the excessive consumption of alcohol and cigarettes leads to social pressures, while the cultural value of

money encourages actions such as theft and insurance fraud. Dealing with inaccessible ideals of beauty can provoke frustrations of the "I".

The system of fashion is made of all the persons and organizations that take care of the creation of symbolic significations and transfer them on the cultural goods. We have the tendency to make confusions between fashion and cloths, but, in fact, the fashion processes affects all types of cultural phenomenon, especially music, art, architecture and even science. For instance, some research themes and scholars are on fashion trend at a time being. Even the commercial practices are subject to fashion. They evolve depending on the management techniques from that period, such as, *total quality management* or *just-in-time stocks control*. Fashion can be considered as a "code" or a language, which helps us descript these significances. Different from a language, the fashion depends on a context. Different consumers can interpret the same element, but in a different way.

Fashion represents the process of social spread that a new style is adopted by several consumer groups. Fashion or style represents a unique combination of attributes. To "be fashionable" means that a reference group positively evaluates this combination of attributes. *Fashion is a very complex process, which operates at several levels.* To an extremity, we speak about a society phenomenon which simultaneously affects several people. At the other extremity, fashion has a very personal effect on the individual behavior. The buying decisions of a consumer are often motivated by his desire to be fashionable. The fashion products are also esthetical objects, which have their roots in art and history. That's why, the points of view are very different regarding the origin and fashion spread. Some researchers suggest that the fashion of naked waist reflects the importance that our society gives to physical shape.

The model of collective selection represents an example for the sociological approach of fashion. This point of view focuses on the initial adoption of fashion (idea, style, etc.) by a subculture and on further spread of fashion for the whole society. Such a spread begins with the youngsters' subcultures, such as the hip-hop

segment. Another current example is represented by the integration of the gothic fashion within the dominant current. At the beginning, this fashion was a way for the pariah youngsters to express their rebellion, defying the classical styles with their black cloths, often matched with accessories such as Dracula's cape, trousers with fell down back, collar with buttons and lips with black lipstick. Other examples: *Emu* and *punk* music. Today the Virgin stores propose boxes with food for vampires, while the mall shops sell crosses and black lace mantilla.

The diffusion theory evoked by Georg Simmel (1904) was one of the most influent approaches for fashion understanding. She considers that there are two forces of conflict, which lead to fashion evolution. First of all, the inferior groups tend to adopt the statute symbols of the groups that preceded them, so as to enter into the social scale. The dominant styles have their origin in the superior classes and spread themselves within the downside part of the society. At the same time, the second force comes in; the persons from the superior groups look constantly to what happens in low level social groups, to be sure that they are not imitated. These persons react to the temptations of imitation from the part of inferior social classes by inventing more recent fashion. *These two processes generate a continuous cycle of change, being the engine that makes the fashion move.* The whole range of expressions used by youngsters that entered into our vocabulary shows how people that create models have a resistance to their adoption by the dominant trend. This fact is not so simple in our days. In the contemporary occidental society, this approach has to take into consideration the new mass culture evolution, which has to be changed. A new approach based on the class culture can not take into consideration the whole variety of existing styles at the same time within today's society. The modern consumers have an individual degree of choice superior to those from the past, due to the technology progresses. It is sufficient to watch TV to be instantly informed with the last tendencies of fashion. The elite fashion was replaced by a mass fashion, because the mass-media exposure allows the numerous groups to be informed by a style-line of fashion at the same time.

We must appreciate the fact that fashion has the tendency to develop following a predictable tendency. The life cycle of fashion is very similar to the product's life cycle. A product or an idea progresses in elementary phases, from the beginning to its end. To understand the functioning of this process, let's take the example of the acceptance of fashion in music industry so as to understand the functioning of this process. In the introduction phase, a song is listened by a small number of music innovators. It can be diffused in clubs or transmitted by several radio channels. Thus, "grunge rock" groups appeared, such as Nirvana and the MTV success of the singer, *Inna*. During the acceptance phase, the song has much social visibility and acceptance from vast segments of the population. A disk can be widely diffused on radio channels and constantly lift up into the Top 50 classification. In the decline phase, the song reaches the saturation point, because it has been too much listened and ends up by being forgotten. A title of success can be played every hour on a radio channel for several weeks or months (e.g. Kiss FM or Radio ZU). At a time being, the listeners get bored by the song and focus on new disks. The models are characterized by a slow acceptance at the moment of launch, which (only if fashion "sticks") rapidly accelerates, reaches the top and then calms down.

5. Conclusion

Many marketers have to confess that if they had to tell the truth, deep in their hearts, on the top of their priority list, the consumers are never present. It is possible that the applied marketing in their company may be guilty for this decline of consumer's trust, but there is still the marketing (as theory and practice) which has the best chance to solve this shortcoming. [2]

We, as human beings, have autonomous powers that we add value to the world and, at the same time, extract value from this world. Within this context, our moral, individual and collective mission is to cultivate the understanding, to have a job which helps us make a better world than the one we have found, taking into consideration the limits of our creativity and capacities. That's why the moral initiative through business needs

equilibrium between the practical and moral considerations. [9]

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Possibilities for improving the performance of organizations using the Balanced Scorecard

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Abstract

Current economic context in which organizations act has changed a lot, the current environment is characterized by globalization, increased competition, rapid changes, market segmentation, changes in technology, demand volatility, important information. Economic environment influences the organization in various ways, affecting strategy, structure, and control system performance. If for any company is performance, then management tools should pay attention how it is built by the interaction of environment - strategy - structure. In this context, an important system that supports decision-making within organizations is the technique Balanced Scorecard.

Keywords: performance, value, strategy, balanced scorecard.

Classification J.E.L.: D63, L26, M10.

1. Introduction

As a result of changes occurring in the economy, both globally and nationally, process management organizations appears to be the very complex at all levels. In this context it becomes strictly necessary to seek the most appropriate methods to conduct business activity in terms of competitiveness and profitability. This involves carrying out organizational activities suitable to enable the most efficient use of modern management methods and techniques. Such an enterprise management approach can be achieved but only under a suitable information support whereas decision making involves a lot of information to be developed, provided, interpreted and rigorously controlled.

Modern society relations shows that with the development of market economy and its

increasing complexity has to develop appropriate that area, content and efficiency and economic information so that it can provide the necessary decisions, can reflect accurately achieve objectives of financial entities and economic results. Economic information helps us to see the use of human and material resources, to grasp and to critically examine the positive aspects and weaknesses in order to take necessary measures.

In this respect, support decision making, wine tools of performance management. They reflect the organization's understanding of the relationship between the strategic, operational and financial performance skills, serve as communication, implementation and strategy development organization. The most famous system of measurement and performance management represents mainly Balanced Scorecard (BSC).

2. Conceptual Approach to Balanced Scorecard

Balanced Scorecard (BSC) first appeared in the U.S. in the early 90s, the bases being established by Robert S. Kaplan and David P. Norton, who were concerned about finding a performance evaluation tool based and non-financial indicators. This was due mainly to insufficient information provided by financial indicators, on the one hand the historical nature - are oriented entities' past actions, on the other hand provide little information about the future - are useless in cases the financial consequences of a chain of actions underway appear long after the reporting period. For example, managers behavioral consequences resulting from the use of financial indicators can in improving short-term performance but not long term.

Thus, in the early 90s, the concept of Balanced Scorecard approach was the sense

of generating a performance report by grouping of performance indicators by business prospects, of which the most common are: Financial, Customer, Internal Processes, Learning and Growth.

Starting from the fact that the implementation strategy of the organization hangs often when implementing the action plan, the authors proposed to remove this blockage by measuring and monitoring strategic objectives consistent with a scoring tables ("Scorecard") and the implementation of concrete policy initiatives, for each strategic objective, elements are grouped into perspectives that reflect aspects considered key to the success of the organization.

Consequently, the Balanced Scorecard has been constantly evolving from a simple performance measurement tool to a strategic performance management system organizational performance using strategic and operational plans as the basis for individual communication, monitoring and improving organizational performance become one of the most used management tools worldwide.

Currently "Balanced Scorecard is a strategic planning and management system that is widely used in business, government and nonprofit organizations worldwide to align business activities to the vision and strategy to improve communication internal and external and monitor organization performance against strategic goals "(Balanced Scorecard Institute, 2010).

3. Balanced Scorecard - support the organization's performance

BSC was designed as a set of indicators, financial and non-financial, showing building and inter-enterprise performance by balancing the four forces, using a cut-based organization processes and activities. At the BSC are two *principles*:

- The strategy must be known, followed and applied at all levels of the organization.
- Modern organization is a network of relationships between the company and interested partners. They are interested in business performance and act on it.

Thus, Balanced Scorecard considers the entity's ability to adapt to environmental resources and depending on which strategy is defined as a set of interrelated activities and

processes. Are envisaged:

a) connection BSC to strategic intention - is considering in turn the following points:

- *financial perspective* - increasing the value of shares held by:
 - *Increasing revenue* (penetration of new markets, new products, attracting new customers, increasing sales to existing customers);
 - *Increased productivity* (reducing direct and indirect costs, more efficient use of assets by reducing working capital requirements);

The two strategies are explained by the fact that the purpose of any business is profit, thus leading to a focus on revenue and expenditure. The two strategies are merely detailing the potential for increased revenue and reduced costs in order to maximize results.

- *customers perspective* - expresses the target customers and consists of "indicators showing the results of a strategy well formulated and implemented" (Kaplan & Norton, 1996), such as customer satisfaction, attract new customers, retaining customers, their profitability and the target market segments. The target customers are "attributes offered through the company products and services to create loyalty and satisfaction in target customer segments." Made by many implementations of BSC, Kaplan and Norton have identified the following sets of attributes for the target: the attributes of the product/service (uniqueness, functionality, quality, price, time), customer (service, reliable), and image and reputation. Subsequently,, the authors distinguish between value proposition through operational excellence, near customers (customer intimacy) and product superiority (product leadership), companies choosing to excel in one of the three, keeping the others constant. Operational excellence involves low prices, quality, reduced time delivery, customer proximity means quality relationships with clients (excellent service) and product superiority focuses on functionality and features.
- *internal processes perspective* -

identifying processes that entity must excel (creating new products and customers, increase the value provided to the customer, operational perfection and create a social environment free of stress) show processes that an organization must excel to deliver the proposed value to customers and shareholders to meet expectations. This perspective takes the concept of "value chain" from Porter that divides the innovation cycle, operations cycle and after-sales services cycle. The difference between BSC and traditional approaches focus on processes consist of strategic importance, not only improving existing processes. Identified four important processes to be followed in this perspective: developing new products and attracting new customers through innovation, customer value by improving relationships with existing customers, obtain operational excellence and transformation in an organization-good citizen by developing appropriate relationships with external partners.

▪ *development and learning perspective* - expresses the changes and improvements entity must use long term to ensure the achievement of its vision. This perspective identifies the infrastructure you need to build the organization to sustain long-term growth and improvement. Competition and environment features require companies "to constantly improve skills to provide value to customers and shareholders" (Kaplan & Norton, 1996). Learning and development comes from three sources: people (watch for satisfaction, rotation, training, skills) systems (availability) and organizational procedures. This perspective is "the foundation of any strategy" (Kaplan & Norton, 2001), and managers define here competences and skills, technology and climate necessary to support strategy. At the same time, the focus on intangible assets, which are divided into human capital (relevant informational capital (information system) and organizational capital (the firm's ability to mobilize and sustain the change process required by the strategy). The four perspectives provide a balance between short term goals and long term

between desired outcomes and the factors that lead to those outcomes, and between tangible objectives and intangible effects.

b) cause-effect relationship can be explained using constructions like "if - then". These relationships help using concrete terms and strategic mapping (strategy maps). The role of strategic maps is to develop performance targets and indicators related to strategy. Kaplan and Norton (1996) define strategy as "a set of assumptions about cause and effect." Highlighted in "strategy maps" cause-effect relationship requires consideration of the following type of causal relationship:

- Indicators of growth and development;
- Indicators of internal processes;
- Indicators of customer perspective;
- Indicators of the financial perspective.

Be drawn up "strategy map" - complete logical structure that describes an entity's strategy and involves the destination (goals) and trace all routes (actual strategy) that could lead to the destination set.

Cause-effect relationships are built realizing ways that can influence the final results and identifying tools by which they can evaluate the action. Occurs analyze business activities in view, on the one hand, chaining them and, on the other hand, seeking the way of value creation. Identifying cause-effect relationships "translate" strategy and facilitate internal dialogue. Causal relations must include all perspectives and be linked to financial objectives.

c) BSC ability to be used as an instrument to measure strategic management and organizational change involves:

- Transposition vision - gives managers the opportunity to reach a consensus on the vision and strategy;
- Communicating and linking strategy to strategy - allows managers to communicate to all departments in the executive management strategy;
- Integration planning ("business planning") - allows managers to adapt to the chosen strategy plans and budgets;
- Feedback and learning - strategic learning.

To ensure performance measurement function, BSC uses two types of indicators:

- ♦ execution indicators (or outcome, lag indicators) - are measures of the outcome of past actions;
- ♦ indicators flight (or driving, leads indicators) - are financial and non-financial measures that signal (indicating) the result of future operations.

These indicators help identify opportunities and prevent mistakes being called strategic indicators.

To be a strategic management system, indicators should be linked to strategy and, moreover, to provide notification. Indicators provide a balance between financial and non-financial performance and between efficiency and effectiveness for its size.

BSC implementation involves the following *principles*:

- Translated this strategy into operational terms;
- Align the whole organization to the strategy;
- Strategy is the responsibility of all members;
- The strategy is an ongoing process;
- Mobilization executive management to promote change.

Recent studies conducted worldwide by Bain & Company (2009) places Balanced Scorecard in 6th place in a top of the most commonly used management tools globally. According to the same study, 53% of surveyed companies use Balanced Scorecard, with an average satisfaction of 3.85 out of 5.

4. Advantages of Balanced Scorecard in an organization

Balanced Scorecard (BSC) was developed as a tool for strategic management of a company. The biggest benefit offered by the organization that is implementing higher efficiency through consistent pursuit of the objectives set. Consistently advance the organization's goals are achieved by performing step strategy content. BSC can be successfully used for communication strategy and public employees and management team by presenting actual values of performance indicators than planned. BSC can play an important role in motivating employees to implement strategic initiatives as the contribution of each initiative to

achieve targets is clearly defined and transparent. Motivation can be improved by an appropriate system of incentives associated system objectives. It is recommended that this motivational system is introduced after 1-2 years of BSC implementation or after acceptance by employees of the new instrument. Another advantage is that view strategic objectives and relationships of cause - effect relationship between objective supports communication strategy as strategic objectives can be better understood and coherence of the organization is more easily secured, verified and proven. In addition, transparent representation of BSC strategic content strategy fosters acceptance and increase motivation in achieving it. When an organization implements a management tool to control the balance of cost/benefit is vital. The decision to implement a system based on the Balanced Scorecard requires a similar analysis. Costs of implementing a new tool is relatively easy to measure, but often there is a lack of reliable information on the potential benefits. Some of the major benefits that come with a successful implementation of a strategic performance management system based on the Balanced Scorecard are:

- focus on organizational strategy and translate into concrete actions that can be executed;
- improves organizational management by reducing costs and improving productivity;
- helps to align all activities and resources of the organization's strategy;
- improves internal and external communication - communicate at all levels of the institution's strategy and vision and strategy become more clearly delineated for all members of the organization, enabling efficient ownership of the strategy at all levels;
- demonstrate responsibility and generate results;
- help monitor strategy execution and allow - often first real implementation and enforcement strategy continuously.
- visibility provided by the Balanced Scorecard supports better decisions and faster on a budget and control processes in the organization;
- produce information does not produce

- data;
- allow and encourage change;
- provide recognition of individual merit and team learning by facilitating the link between performance and reward and trust.

5. Conclusions

BSC has evolved from a tool for performance measurement to strategic management system and then the tool change. BSC contains a description of what the organization is trying to achieve strategic objectives (medium to reach your destination in time), seen as a model of strategic ties (strategic linkage model) encourages systemic thinking. BSC analyzing characteristics and stages of evolution of the tool, looks like:

- Establishing indicators in perspective is subject to the performance measurement;
- Transformation strategy objectives, declining the organization, strategic allocation of resources and strategic learning management system is a strategic strengths;
- Knowledge management makes it a communication tool.

BSC focuses on how to create value. This guidance is based on a definition of performance to the value. BSC help manage internal and external environment of the organization, ensuring:

- Internal environmental management through continuous improvement through support to implement complex strategies to control an organization with a degree of decentralization by supporting learning and organizational change.
- Managing the external environment by observing demand, competition, the supply chain analysis and relationships with partners.

In this respect, the BSC can be implemented in an organization in one of the following purposes:

- To improve system performance - involves improving performance by managing current processes;
- As a strategic management system - is more than superior results because it provides a better strategy by refining its
- The external accountability tracking system - complete internal orientation of

the first two approaches with attention to the external environment. This system allows better incorporation expectations of external partners and discovery learning.

Given that performance is seen today not only economic, but also social and environmental, BSC can be used in pursuing sustainability, looking surprised by the Sustainability Balanced Scorecard concept. Linking Strategy sustainability principles through BSC determines the traceability performance of four social and environmental dimensions: environmental, health and safety, employment practices and investment in the community.

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The Background of the SME - SMP Relationship

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Abstract

In understanding the role of Small and Medium Practices (SMP-s) in providing business consultancy to the Small and Medium Enterprises (SME-s), it is important to establish the general background against which this important role is played. The SME-s have nowadays a critical importance for most of the developed and developing economies. For instance, in the European Union, the SME-s contribute over 99% of the overall number of enterprises and 100 millions of working places, representing 67.1% of the working places in the private sector. The existing theories and evidence demonstrate that the SME- owners and managers outsource the consultancy and support services, mainly due to lacks in their corporate resources. The prerequisite that the SME-s have certain competencies in order to survive in a permanently changing environment and purchase resources for consultancy and support is the main approach for their surviving and development. This shortage of resources and the ever-changing environment the SME-s must cope with create the role of SMP-s as main business consultancy. The type, nature and future of this role are an issue still open to debate.

Key-words : professional accountants, accounting market, consultancy services, conformity services, accounting regulations.

J.E.L. classification : E 62

1. Introduction– The SME – SMP relationship, defining features

From the perspective of the demand for consultancy and support, it is generally known that the SME-s resort to professional accountants' services in order to conform to the provisions of statutory audit and taxing (IFAC, 2008; Council for Professional

Supervision, 2009). The researches also point to the fact that the SME-s and the dynamic nature of this market (Gooderham et al., 2004). In truth, the evidence shows that the professional accountants are, invariably, the most frequently used source of consultancy among all the consultancy services providers in the public and private sector, even if not necessarily the first choice of SME-s. Although the conformity dispositions vary among various jurisdictions, it is often supposed that the importance of the accountants in the external relationships of SME-s is universal. How universal these outsourcing behavior patterns, remains an open issue. Unavoidably, there will be certain variations among the SME-s. For instance, among the larger SME-s, there often rises the argument that their resources are not so very limited and they do not resort to outsource accountancy very often as they are able to hire their own accountant, for the management remaining only to address other strategic and operational issues.

However, the SME-s market is, also, very dynamic. The market conditions and the regulation environment in which the SME-s operate are perpetually changing and, as a corollary, the demand for business consultancy services as well is to register a development. The modifications of governmental regulations in dispositions of statutory audit are, probably, the main problem, but the demand for consultancy and support services is also influenced by other factors, such as the requirement of observing other provisions, as well as the need to cope with threats and market opportunities. These are new challenges and opportunities for the service and consultancy providers. The accountants have a strong hold of their place in meeting the SME-s needs, however it is important that the consultancy services fulfill their aim, be relevant, opportune and of high quality.

The SME-s form a heterogenic group, with various sizes, ages, sectors, places and

growing tendencies, as well as owners-managers with various skill and motivation. Such characteristics inevitably influence the type of outsourced services they are to resort to. Also, the statutory dispositions and the regulation regimes in which the SME-s operate have changed in time. For instance, in certain jurisdictions, although there have been a relaxing of the provisions on statutory audit, there were modifications of the regulations on the environment. In spite of the actions for relieving the "burden" of regulation on SME-s, the consultancy and support market is substantial. In UK, for instance, it is estimated that the enterprises spend at least GBP 1.5 billions for support on the purpose of conformity with the regulations (Department for Business, Enterprise and Regulatory Reform -BERR, 2007).

The accountants, and mainly the SMP-s, attempt to provide consultancy to the enterprises in this environment and on this dynamic market. Consequently, the consultancy market, derived from the regulations affecting the SME-s, is perpetually changing. Considering the modification of the market conditions for consultancy, many professional accountants have undertaken to provide a larger scope of services for SME-s. This has had major implications for those accounting practices attempting to offer services for SME-s. In time, the scope and type of consultancy provided by the accountants has developed both towards meeting the needs of SME-s, and in accordance with the strategic intents of the accountants.

It is often supposed that an overwhelming majority of the accountants deployed by SME-s are small and medium accounting practices (SMP-s). The SME-s-SMP-s relationship is thus regarded as a necessary relationship, as the SME-s are supposed to produce the documentation required for conformation with the governmental regulations, for instance audited financial reports, and they will resort to SMP-s to have those records compiled. The researches have also proved that the relationship SME-s-SMP-s, established as a result of the conformity works, has as well the potential to generate the provision of other consultancy and support services than those related to conformity.

Although, it is widely admitted that a significant proportion of the clients of the large -"Big Four"- and medium accounting practices are SME-s. The extent of their involvement varies, however, depending on the nature of the accounting market and of other services for enterprises in various jurisdictions. There is a higher likeability that such practices avail of resources and benefit from scale savings for generating the services and products to satisfy the needs for accountancy and other forms of specialized support of their customers. On the contrary, the SMP-s have few resources for supplying all the services and products required in order to satisfy their needs. The objective of this work is represented by SMP-s, as they have a far more restricted capability with regards to providing on their own the human resources required to satisfy the needs of their SME-customers.

Whether or not the SMP-s succeeded in answering the changing demand for consultancy, this remains to be seen. For instance, the SME-s may resort to SMP-s for consultancy in other issues than those regarding the conformity, including aspects related to planning and succession. Also, they may resort to their accountant to help them in other aspects as well, as regulations in the field of health care, of safety or of environment. This may be cost-related as well as relying on an already-formed relationship.

However, the SME-s-SMP-s relations may be underdeveloped, rather the result of a strategy change than a strategy of SMP-s in itself. Thus, there may be room for the SMP-s to develop, in order to expand and deepen their relationship with their SME-s customers, beyond the conformity related services. In other words, as we have previously highlighted, the market for counseling and support is perpetually at change as a result of the market dynamics and the regulation dynamics. The fact that the SMP-s are or are not able to fulfill those new requirements and to turn from supplying the conventional audit and fiscal services towards becoming multilaterally developed business counselors may be a challenge. This strategy turn may be rather an issue of necessity than one of option for the SMP-s, as the market of basic services becomes more and more competitive in some jurisdictions.

The accounting industry has undergone dramatic change in supplying statutory conformity activities. For instance, in U.K., gradually, the number of audit companies registered is in decline. The overall number of audit companies registered in 2008 (8.179) is by 25.7% smaller than in 2003 (11.006). Consequently, in terms of income from fees for many accounting practices, the image has also changed. Again in the U.K., in the last five years, the "Big Four" have registered a constant increase from activities other than auditing for non-audit customers. By contrast, the income from the fees originated in other activities than the audit for the audit customers decreased.

The background of this work is, consequently, the changing environment and the implications for the accounting practices, mainly the small and medium size practices, as being the main sources of counseling and support for the SME-s. Against this larger background, the following section will establish the specific objectives of the work and then provide a detailed analysis of the literature and evidence regarding the relationship between the SME-s and the SMP-s.

2 – Definition of small and medium enterprise (SME)

World-wide, there are several definitions of what is a SME, having the tendency to use the same estimation regarding the working places, turnover and basis of assets. For instance, the European Union defines a SME as consisting of an enterprise which employs less than 250 persons (1-9 micro, 10-49 small, 50-249 medium) and which has a yearly turnover not exceeding EUR 50 millions and/or an annual balance not exceeding, overall, the amount of EUR 43 millions (UE, 2005). In USA, the threshold for the number of provided working places is of 500 persons, the small companies employing 100 persons (SBA, 2009). IFAC has chosen to define the small and medium enterprises (SME-s) as "entities regarded to be of small or medium size referring to quantitative features (e. g., the assets, turnover/employees) and / or qualitative features (e.g. the concentration of ownership and the management of a smaller number of persons). What an SME is, differs depending on the country." (IFAC, 2010)

2.1 – Definition of the small and medium practice (SMP)

SMP is a less known term than the SME, despite the fact that it is usual among the accounting bodies, especially at international level. Although to provide an accurate definition of a SMP at world level is difficult, IFAC has chosen to define the SMP-s as being those "accounting practices the customers of which are mostly SME-s, mostly outsourcing in order to supplement their internal technical resources and including a limited number of professional staff. What an SME is, this depends on the country." (IFAC, 2010)

A basic reason for defining the SMP-s is to provide a distinct character and an identity over the small entities and large accounting organizations (the "Big Four" included). The distinct nature of SMP-s ensure a basis for the associative-type organizations, such as IFAC, and the regional organizations, such as the Confederation of Asian and Pacific Accountants (CAPA), which provides resources by services and products for various groups of interest within their organizations and which, subsequently, may estimate the amount of resources supplied by such groups. Moreover, many organizations ensure an important lobby for the profession and counseling in the name of the SMP-s, make at the government and at the regulation bodies at national and international level. In the case of IFAC, the SMP board has been created by the IFAC Council in order to represent the interest of the professional accountants who work in SMP-s and of other accountant professionals who provide services for the SME-s. The board investigates the modalities by which IFAC may meet the needs of the small and medium practices, the customers of which are in their majority, SME-s.

3 – Methods of researching the literature and of collecting the primary information

This work is based on an extensive analysis of the literature, and following an initial identification of a clear basis of "lacks", on a series of interviews with accountants. Searching the literature which

constituted the main foundation for this informative work, involved the examination of the contents of a series of databases, additionally copies of books, monographs and pertinent reports for the targets of the analysis. The database includes: Google, Google Scholar and the Athens databases, which cover world-wide sources.

The research elements included a variety of term uses: SME-s, SMP-s, consultancy in the field of accounting, services. The researching process was conducted in the months August and September 2009 and involved a large number of iterations and checks in the research. However, using those search terms with regards to the SME-SMP relationship, the literature yielded relatively few items as compared to the large searches achieved for the SME-accountant relationship. As in other studies about the relationship SME-accountant (Samujh and Devi, 2008), the research established that the largest part of the literature was Anglo-Saxon and derived from sources in U.K., Europe and Australia.

The six audio interviews recorded with accountants from various countries were conducted between December 2009- January 2010. They have been conducted on the purpose of analyzing certain issues arising from the literature, to provide additional detailed evidence regarding the points of view of the SMP-s accountants on the changing nature of the relationships they have with SME-s in various jurisdictions. The interviewing practices were undertaken from Brazil, Italy, Malta, Romania, Sweden and USA. All the interviewed persons were partners within their organization and all but one were a small or medium size practice. The interviews took between 45 and 90 minutes. Obviously, the results in such a field should be regarded in a prudential light due to their limitations with regard to the capability to elaborate defined or cogent generalizations. Nevertheless, the interviews allowed for the collection of exploratory-type evidence which was presented in the section intended for study specific questions.

Collectively, the analysis of the literature and the original evidence presented represent the fundament for a summing-up indicating where we are in our knowledge basis, highlighting every hiatus, thus providing

information for a subsequent research agenda.

3.1 – Literature on the SME – accountant relationship

The literature on SME-accountant comprises fields such as academic, governmental and of the specialty. In essence, there is a vast collection of literature which took into consideration the various aspects of the SME-accountant relations. There is as well a large bulk of marketing information and literature from accountants and accounting professional bodies, an extensive part of which is available on the web free of charge. The examples include ACCA (2009) and links towards these websites may be found at the address: [http://www.ifac.org/PMM/relevant links.php](http://www.ifac.org/PMM/relevant%20links.php).

In the literature, the specific term of small and medium practice (PMM), as previously mentioned, is rarely used and only recently it spread among the professional bodies, and it almost entirely lacks in the academic literature. For instance, a search in Google Scholar generated only 267 results by the search term SME SMP accountant and the largest number of results in this search were irrelevant or tangential to the study. The search generated only 35 results for the period 2006-2009.

Notwithstanding, roundly there is a substantial amount of literature regarding the SME-accountant relationship, covering the devised and empirical analyses. In this analysis, we will classify the literature in the following categories:

- the category attempting to understand the demand for business consultancy offered for SME-s by the accountants;
- the category providing an examination of the consultancy supply from accountants and SMP-s.

Following this analysis, the hiatuses in the literature and the implications for future researches will be determined on the purpose of identifying the need to collect primary data and to develop subsequent research activities.

3.2 - The SME-s demand for business consultancy

In examining the demand for outsourced business consultancy and support for the SME-s from SMP-s, it is important to present the larger picture of the business consultancy which the SME-s look for. There is an increasingly comprehensive literature on consultancy motivations and activities looked for by the owners-managers. Basically, this literature points to the behavior of the owners-managers, which is reticent or circumspect, to the best, in the readiness to resort to consultancy. The causes for this have many valences, thus

Curran and Blackburn (1994) have found that the owners-managers have the tendency to wish to "deal with it themselves" rather than expose their issues to strangers, illustrating the mentality of "fortress enterprise". The reasons for this were based on the psychology of the owners-managers, a need to, stand on their own feet, and to avoid any display of weakness; the opportunity cost and the financial costs for resorting to business consultancy; and the often raised point of view on the quality of business consultancy, as being more often than not irrelevant or defective. Such findings are also supported by Shaw (2006).

However, as shown, "...the development of the business services was spectacular in most of the countries" (Bennett and Robson, 1999: 155), and the market for consultancy and business support is rich – drawing agents from the private and public sectors. It is arguable whether this helped subsequently encourage the demand for counseling. However, it is likely that the scope and quality of the available counseling services be the result of an increasing demand, derived from the need for information of the SME owners-managers on the purpose of fulfilling their day-by-day regulation obligations and their strategic challenges.

Previously, there had been a strong consideration that the SME-s required external support and counseling, following the lack of internal expertise. This is mainly the case when there are changes within the enterprise, such as the growing, the succession or taking-over, or an alteration in the external environment. The research revealed that a major incentive for external counseling of the SME-s was the increase in quantity of the governmental regulation and the demand of SME-s' customers for

monitoring and quality control. This is not only restricted to the financial conformity. A number of studies have identified an increase in the number of regulation (e.g., the Research Center for Small Businesses, 2005), and this has generated a secondary demand for external counseling and support, as with the regulations regarding the environment (Open University, 2009).

4.- Conclusions

By employing the qualitative approach and by conducting interviews with 16 company general managers and 14 accountants, Marriott et al. (2008), the conclusion has been attained that the SME-s would resort to their accountants for a series of financial management services. However, opposing opinions were revealed, issued by SME-s and accountants, on the usefulness of the financial consultancy for businesses. In this report, the managements of the SME-s would treat the professional qualifications as being less important than the personalities and the opportunity of the consultancy and support.

Burke and Jarratt (2004) have reached the conclusion that, usually, the accountants were employed for fiscal aspects, reporting practices and decisions regarding procurement, but there is the tendency that they be consulted on strategy only after the event had occurred. In other words, the accountants were not treated as credible consultants on strategies issued.

By contrast, Deakins, Logan and Steele (2001) have reached the conclusion that the decisions on financial management are often dynamic processes and are based on the relations with external consultants, accountants included. Such relations are considered to be essential during the initial stages of business development.

Obviously, it seems that there the evidence is mixed regarding the competence of the accountants related to the scope and type of providing conformity or non-conformity consultancy for SME-s. Attempting to reconcile this contrasting evidence basis, it is possible that a number of experiences exists, connected with the diversity of the SME-s needs and with their particular experience in the relationship with their accountants.

This analysis made us infer that, the farther from providing statutory financial services an accountant, the bigger the challenges the accountant faces. Even when there is a previous relationship, the accountants have to convince their customers of their experience and competence in the non-conformity services. Moreover, they will be in competition with other consultancy sources, public as well as private, in the circumstances when they are outside the "comfort zone" of audit and financial consultancy.

Finally, it seems that there are few evidences of the benefits and drawbacks of the SMP-s in point of technical competencies, beyond providing non-conformity services. However, it is likely that this internal capability of theirs to provide technical consultancy for a variety of business operations (for instance, the

management of human resources, planning of succession, marketing) be limited as compared to the larger practices.

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Tourism Competitiveness and Destination Branding - A Theoretical Approach

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Abstract

The present article was written in order to provide an overview of the theoretical approaches considering competitiveness and differentiation in tourism industry. Also, it emphasizes the importance of competitive advantages in destination branding, their connection and their influence on the size of tourist flows in different destinations.

Key words: competitive advantage, destination branding, competitiveness

J.E.L. classification: L83, M39

1. Introduction

Considering the present context, in which the globalized economy requires fierce competition both on national and international markets, obtaining economic benefits represents an essential factor for the economic development of a region/country. Relating to tourism industry and taking into account these conditions, it can be said that any differences can represent critical elements in achieving economic advantages over competing regions/countries. Because of this, destination branding should become the main target of local authorities, considering the fact that “[...] place branding is an integral part of contemporary place competition” [8] and, thus, of the regions/nations battle for success, development and economic advantages.

The concept of tourist destination competitiveness seems –at the first sight– easy to understand: it represents the qualitative and quantitative superiority of one destination when compared to the existing and potential competitors. Still, its complexity comes to light when trying to define or measure it.

The competitiveness of a destination represents one country’s ability to create more values, thus enhancing national revenues through asset, process and proximity management in a social and economic model, taking into account the destination’s natural capital and its preservation for future generations. [1]

Some authors define competitiveness as “a country’s ability to maintain their rank on the market and to improve it in time. It is a general concept, including price differences related to exchange rate modifications, the productivity of various tourist industry components and other qualitative factors which affect the appeal of a certain destination” [14].

2. Destination branding through the important factors of destination competitiveness

Understanding the sense of “tourist destination competitiveness” implies the inclusion of the entities participating in the tourist “product” creation [6]. Michael Porter states that “[...] success in international competition depends on economic power under the influence of different factors such as the overall demand, corporate strategies and competition itself”.

In order to create and develop a destination branding process, the local authority needs to:

- delimitate the interest of tourists for that particular geographic region;
- analyze the characteristics and functions of the destination that is going to be branded;
- compare the potential destination brand to other existing similar destination brands and emphasize the differences existing between them;

- understand and anticipate which and what represents the main attraction for the potential tourists, why and how can it be capitalized;
- which are the factors that can influence competitiveness in tourism field and how can their influence be measured.

In order to make an idea regarding the last requirement mentioned, it should be remembered that in their recent research, Enright et. all [6] divided influential factors into six categories: input, industrial demand and the demand for consumption, the cooperation and competition between enterprises, the industrial and regional crowding, the internal and strategic organization of companies, and the social institutions and structures.

On the other hand, other authors mentioned that there are four main factors which influence competitiveness when speaking of tourist attractions:

- *Basic resources and attractions* – the main element according to which tourists prefer one particular destination or another: physical factors (sights, climate), culture and history, connections within the market, special events and the structure of tourism (accommodation, meals, transport and main attractions);
- *Backup factors and resources* – infrastructure, accessibility;
- *Tourist destination management*;
- *Quality determinants* – factors that can negatively modify the influence of the other's three: location, total cost and security; all this are not controlled by the tourism industry, but play an important role in destination competitiveness.

What is easy to see is the fact that all the factors mentioned before lead to differentiation. This can be perceived as designing a particular offer that is unique in a specific domain. Emphasizing the competitive environment in which firms operate in tourism industry, it can be said that quality represents a vital mechanism in order to acquire competitive advantage.

It is important to note that –while products are consumed–, services are experienced. Because of this, taking into account tourist services, in order to differentiate from competitors, an enterprise must fulfill its customers' needs by offering

them high quality services, experiences and feelings. The greatness of tourist services providers is needed in order to brand a destination.

An existent model in the literature sustains that the quality of tourist services must be appreciated taking into account five different factors [2]:

- reliability – the ability to provide professionally and correctly the promised services;
- tangibility – the visibility of the facilities (physical equipment, human resources, practical means of communication);
- promptness – willingness to help customers and provide prompt services;
- safety – employees' professionalism and kindness, but also their ability to inspire trust and confidence;
- empathy – providing individual attention to customers.

Other factors influencing decision making are: the popularity of tourist offers, the increased incomes, and the development of infrastructure, faster airplanes and marketing efforts of new competitors.

In order to be competitive, a destination must utilize its resources, advantages and opportunities within the surrounding environment in order to provide *value*. For evaluating the emerging opportunities from the marketing environment, marketers may utilize the Marketing Opportunity Analysis (MOA) [5]:

- Can the advantages deriving from this opportunity convince the target segments?
- Can the target segments be traced and 'touched' through the use of communication and distribution means at low costs?
- Does a specific destination benefit from resources capable of offering benefits which are of interest for tourists?
- Can this destination provide tourists with benefits better than the existing or potential competition?
- Will the investment return through the number of tourist visits?

Threats can be classified according to the intensity of the potential negative impact and the possibility of apparition.

When analyzing the strengths of a destination, is important to consider the existent threats, in close connection with the

strengths of the competition. Moreover, weaknesses analyzed according to the competition underline the vulnerability presented by a specific destination.

2.1. The importance of determining tourist destination competitive factors

There is an abundance of factors which affect and measure competitiveness in tourism field. Although those factors can be grouped by taking into account various models and sets of values, similarities can be observed. To that extent, it can be stated that the studies and analyses from the literature focuses on the manner in which each individual factor influences competitiveness – and, thus, the appeal of a tourist destination.

Still, it is difficult to determine the importance of the considered factors, because each of them can be associated with a wide series of indicators that are difficult to express. As an example, understanding the relative importance of a destination when referring to “climate” compared to “tourist image” or “the value reflected through costs” still remains somehow unclear.

Even so, researchers have tried to measure the importance of individual factors related to the competitiveness of a particular country.

Gooroochurn and Sugiyarto’s study determined the creation of the *Competitiveness Monitor*. The two authors applied an analysis in order to determine each factor’s share/contribution within their model. The results stated that “social and technological indicators have the largest share, whereas human tourism and the indicators referring to the environment have the smallest shares” [7].

Enright and Newton have classified competitiveness factors related both to tourism and business environment, utilizing one specific case (Hong Kong); both sets of indicators were adapted to urban tourism. The results conferred by the study shows that some factors related to the business environment were perceived as being more important by the participants (practitioners from the tourist industry) than the factors concerning tourist attractiveness. All factors concerning tourist attractiveness were considered to be relevant, indicating the fact that tourist competitiveness models the

researchers embraced are truly consistent in the respondents’ view [6].

Considering their study report, after studying 36 features of competitiveness regarding tourist destinations, the ten most important turned out to be [6]: physical geography and climate; the market connections; culture and history; the tourist body (meaning public or private organizations whose activity is directly linked to the functioning of the tourist sector); safety and security; the cost/value ratio; accessibility; awareness/image; the location; infrastructure.

Six of these ten features formed the group known as *the Core Resources and Attractions*. *Physical geography and climate* proved to be the most important, whereas *culture and history* came in second. While geography and climate underline the “natural” qualities of a destination, culture and history are the primary tourist attractions. The third most important feature turned out to be *the tourist body* (accommodation and reconditioning facilities, transport, recreation, attractions such as theme parks, museums and art galleries).

Considering the current economic context and the advantages (obtained from tourism practices) that can contribute to the welfare of the entire nation, it is imperative for those destinations which do not currently own exploited competitive factors to use all necessary resources in order to develop themselves: to invest in infrastructure and landscape design, to better exploit and capitalize their heritage, to build accommodation facilities and to attract investment in order to develop a sustainable tourism that bring economic –and not only– benefits on the long term.

3. Leads competitive advantages of tourist products from a specific area to destination branding?

The segmentation process allows marketers to learn about the competition existent on touristic destination market, to understand the opportunities and threats of the environment, but also to find out the way to compete more effectively with the competitors.

The competitive advantage for tourism industry was elaborated by Porter in 1990 and was represented as in the Figure 1 [12].

Figure 1. The determinants of competitive advantages of destinations



Source: Vanhove, N., *Tourism policy in Bruges*, 2002

In order to achieve competitive advantage, marketing specialists (from a specific destination) must systematically communicate with the targeted segments of the market place; destination market management should identify, describe and illustrate photos of the touristic potential and facilities offered to tourist within the specific destination. By promoting a particular market product, a destination presents simultaneously its identity and brand.

Brands are important contributors to the construction of regional advantage. As Hall states, "place branding is the development of a place brand and its promotion in order to differentiate a place from other locations so as to gain advantage for its firms, organizations, people, products and services" [8].

Thus, competitive advantages are based on key-products/elements owned by a territory, making reference to the capitalization of natural resources –and not only- in order to attract tourists; also, they determine the differentiation of that particular territory from other similar destinations which address relatively the same target market and offer almost similar products, but use a different strategy.

These have been said, "[...] a destination uses its special features and emphasizes the advantages of its offer in order to attract tourists and to be competitive within the market" [10].

Like in any other crowded market, in tourism industry brand image is crucial: almost no one has the time, patience or

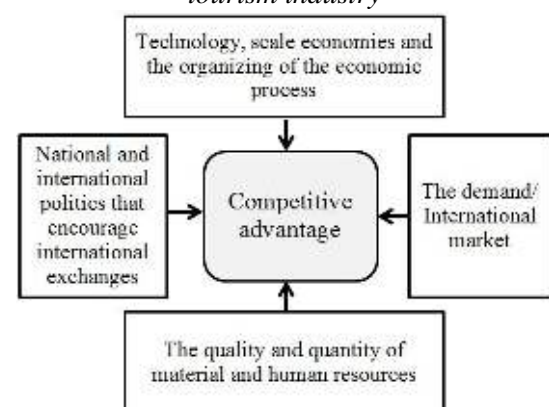
expertise to understand the differences between various offers regarding different destinations, so what really influence tourists' purchase decision are the beliefs and prejudices regarding a specific destination. Countries with the reputation of being poor, dangerous or corrupted are highly associated with lack of culture and encounter a great difficulty in shaping a positive image among tourists. Because of this, the reputation of a tourist destination plays a key-role in its economic, social, political and cultural progress.

What should also be mentioned is the fact that the economic development of a country influences the process of destination branding, on the assumption that developed countries can offer to tourist high quality services, while the developing countries usually offer medium quality services.

Because of this, what stands out in terms of economic advantages that influence the competitive advantages of tourist products (Figure 2) offered by a specific country is [3]:

- the total amount of human and material resources;
- the effective combination of these two through technology;
- the economic and legal framework;
- the existing market conditions.

Figure 2. The determinants of national competitive advantages that influence tourism industry



Source: adapted after Croitoru, M., "Indicele competitivitatii in turism – analiza empirica Romania vs. Bulgaria", 2011

Ritchie and Crouch suggested that "understanding the factors which determine success has a fundamental importance, being

classified in resources that represent either comparative advantages or competitive advantages” [9].

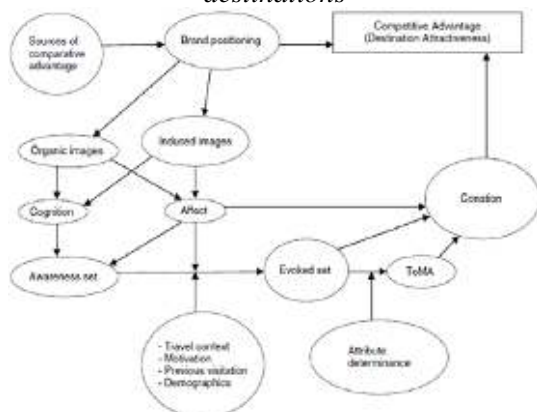
Natural resources of a destination -such as climate or landscape- fall into the category of comparative advantages, while resources created by the destination represent competitive advantages.

Pike also shows more detailed sources of the two types of advantages, as follows [9]:

- The sources of comparative advantages: natural resources, cultural resources, human resources and “goodwill resources”.
- The sources of competitive advantages: development of human, financial, legal and organizational resources; it also involves resources of various relationships existent between the parties and resources for implementing different programs.

Considering brand positioning as a source of competitive advantage in touristic destinations (Figure 3), is imperative to say that it depends on the induced and organic images, which are built considering the travel context, motivation, natural and cultural resources, heritage end overall experience. Because all these are different from destination to destination, brand positioning constitutes a strong competitive advantage in tourism.

Figure 3. Brand positioning as a source of competitive advantage in touristic destinations



Source: Destination Marketing. An Integrated Marketing Communication Approach, p. 220

When it comes to gaining competitive advantages, marketers from a specific destination need to take into account

partnerships with tourism organizations, in order to be united by knowledge, professional expertise and capital resources.

Because of this, what is also important is the information provided by tourist information centers, tourist agencies, specialized websites and journals or newspapers, which aim to promote from a specific area, both in terms of natural/anthropogenic potential and tourist infrastructure. Among their objectives should be included the fact that they:

- provide information needed to tourists that are visiting the area;
- submit the required information to those who are interested;
- transmit all necessary information to travel tour operators and travel agencies (for tourist information centers only);
- organize tourist promotional events in order to attract tourists, to arouse their curiosity and interest;
- keep in touch with similar centers for joint promotion of tourism regions;
- offer realistic information.

4. Conclusions

These have been said, it is imperative for tourist destinations to differentiate their offers through available competitive advantages. This process is overall influenced by:

- current competitors;
- existing threats;
- weaknesses of the destination;
- opportunities of the destination;
- the existence of suppliers and purchase power (through the influence of major hotel groups, airlines and tour operators on the diversity of quality, price and cost structures);
- the existence of complementary entities (like the existence of marketing agreements with other local and regional destinations, with other economic sectors and other providers may increase the magnitude and consistency of the tourism product);

In the context of perceiving destination branding as the process of developing and utilizing a unique identity and personality that distinguishes from competitors through a positive image, whose aim is to capture the essence of the

destination in order to promote its core values, it is impossible to separate a region's competitive advantages from place branding process. More than that it can be said that the fundamental elements on which destination branding is built are represented by competitive advantages and destination's competitive factors.

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Research Regarding the Access to Open Educational Resources in the Informational Society

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Abstract

The increasing involvement of different categories of people in education surpasses the traditional boundaries whereas the contents and the electronic instruments used to create, share and develop the information are more and more widespread and accepted. These realities provide opportunities for the development and spreading of a wide range of open educational resources, which implies significant challenges for the concept of intellectual property. As a consequence, increased online access to such resources generates individual study which, correlated with the development of the social networks and collaborative learning creates opportunities for pedagogical innovation.

The present paper aims at offering an introduction into the vast domain of open educational resources which becomes more and more accepted and used both at the individual level and especially at the level of some prestigious international institutions like UNESCO.

Keywords: open educational resources, communication, new media, e-learning, education technology.

J.E.L. classification: M31, I21

1. Introduction

In a global economy based on knowledge, the educational systems at university level play a major role in the social development and the economic competitiveness in each

country. A number of educational institutions associate the information and communication technologies at the level of their own management, in administration and in the educational programs in order to offer them to their students in a far more convenient variant from a financial point of view and in order to train them for the real world practice after they finish their studies.

Our intention is to prove that open resources have a major role in the progress of society, especially in the field of education. This paper comprises a number of ideas related to modern methods of education as well as their importance for all the people involved in the process: students, teachers, researchers, consultants etc.

2. Objectives

We are trying to explain and support the idea according to which the new means of education are used to make this process easier and faster. We rely upon concepts already applied in the field such as: e-learning platforms, new media, discussion forums, blogs etc. We consider that this paper is relevant for the general topic in our section because it provides substantial support for the development and improvement of learning and assessment at the level of higher education.

We will look for answers to the following questions: What kind of materials can be distributed through the system of open educational resources? Who will respond to these materials? Do they raise the efficiency of learning and the socializing process of students, teachers, researchers, consultants

etc.? How and where can we quickly find credible and up-to-date learning materials? How can we profit from the fact that they have been used during both curricular and extracurricular activities? Which are the trends in the field?

3. Aspects of the international expansion of the concept

Multimedia communication is interactive since the user receives the information actively. He can interfere, he can request something or he can change what he receives. Multimedia will remove neither text nor other traditional means of communication, it will only complete, enrich and use them at their real value [5]. As a consequence, pedagogical experiences and the materials for study should be adapted to this environment at the same time ensuring them a high quality.

The great advantage would be that the information and communication technology contributes to the increasing transfer of everything that is new in the field by means of the global transmission systems leading to a boom in the knowledge at the users' disposal.

On the other hand, the transformation of the information in the digital environment combined with its spreading in various domains represents important challenges for the concept of intellectual property [7]. Thus, the protection of copyrights has turned into a great problem hence the emergence of open licenses. This is the reason why open licenses have focused upon the effort of protecting copyrights in those environments where the content (especially the digital one) could be easily copied and shared without permission. Open licenses seek to ensure the fact that the copy and share operations do not need a structured legal framework relying on much more flexibility than the one provided by the "all rights reserved" of the copyright. These licenses allow for the clear transmission of the consent, but eliminate the restrictions of traditional copyright. Open Educational Resources (OER) are part of this process.

3.1. The concept of OER and its brief history

Open Educational Resources (OER) refers to the access to diverse data, studies or analysis in education facilitated by the information and communication technologies with non-

commercial consulting, usage and adaptation purposes of the users' community. The term OER is not synonymous with on-line learning, eLearning or mobile learning.

The open educational resources are the materials used to support education and they can be accessed freely, they can be reused, changed and shared. The purpose of these enterprises is to encourage the decision factors from governments and universities to invest in the systematic production, in the adaptation and usage of the OER in order to make them available on a large scale at the level of high education with the purpose of improving the quality of the programs and of the teaching methods and of cutting costs [9]. More concretely, open educational resources include:

- materials for teaching and learning: full courses/programs, course materials, modules, guides for students, course notes, books, research articles, video materials, assessment instruments, interactive materials such as simulations and role plays, database, software, applications (including mobile applications) and any other useful educational materials;
- open source software – for the development, usage, re-usage, search, organization and access to resources; the virtual learning environments (LMS - Learning Management Systems) and the learning communities are included too;
- licenses of intellectual property which promote the open publishing of materials, design principles and good practices as well as the localization of the content.

The informational technologies allow people in the educational system the online access and exchange of resources. Until a few years ago most of the materials were protected and they needed authentication of users. Nowadays, most of the resources are created and freely published on the Web making use of the Web 2.0. collaborative systems.

The studies reveal the importance of the open educational resources for the compulsory education as well as for lifelong education, for the acquisition of competences and skills which will allow teachers, pupils/students and adults to actively participate in the progress of a society and economy based on knowledge. The open

educational resources generate a fundamental change in an educational process centered on the pupil/student.

Open Education has started since 1972 in England at the first university of this kind - Open British University. Since then, more initiatives have broken new ground for the change of educational resources in a system of free access as it is perceived today [2]. Prestigious universities from the whole world have cooperated in the OpenCourseWare Consortium project allowing access to the text, audio or visual materials of the courses, to the discussion and exam topics. The movement was started by the Massachusetts Institute of Technology in 2001 by means of the MIT Open Courseware project. Being part of the OpenCourseWare Consortium, the Open University launched the Open Learning project in 2006 [6].

Since the number of the institutions which offer free and open courses has increased, in 2002 UNESCO organized the first OER Global Forum when the term OER was adopted. Moreover with the help of the Hewlett Foundation, UNESCO created a global wiki community in 2005 in order to share the information and to work in collaboration to the regulations regarding the production and use of the OER. The OER WSIS community has lately been supported by UNESCO in order to encourage practitioners, researchers, decision factors, teachers and students to bring their contribution to OER [1]. In partnership with important European institutions, UNESCO is a member of the Open Educational Quality Initiative which aims at developing the OER practices meant to improve the quality and innovation in education [10].

3.2. The potential of open educational resources. the certification of studies

It has become more and more important for the educational institutions to carefully and systematically support the following actions [7]:

- the development and improvement of both the curricula and the learning materials;
- the organization of interactive sessions with and among the students;
- the development of teaching and learning materials of high quality;

- the creation of effective instruments of assessment for various environments;
- the development of the relationships with the labor market.

Many of the internationally famous universities have understood that the model of free access can function from an economic point of view and can even bring them more and more students. Once the students take part to an online course they can decide to apply for the university where the course has been conceived. After the teachers at Stanford decided to offer a course upon artificial intelligence more than 100.000 students signed up online, 20.000 have taken all their exams and the first 1.000 students have been asked to send their CV with the promise of finding a job in top companies such as Google [2].

OER can significantly contribute to these processes. Nevertheless, OER do not automatically lead to quality, efficiency and the cost-efficiency relation because many of them depend upon the procedure adopted. The educational potential of OER depends upon [7]:

- the improvement of the quality of the learning materials by means of a peer-review process;
- the emphasis upon the open character and the improvement of quality;
- the need to acquire the ability to create and use OER as a part of the professional development of the academic personnel;
- the attendance to the interests of certain categories of students such as the ones with special needs;
- the attendance to the students' needs in local languages;
- the involvement of the students in the selection and adaptation of the OER in order to actively engage them in the learning process.

We can tell that at present the main objective in the OER is still limited to the facilitation of the access to digital contents under the form of collections without any assurance that technology will support the educational practices, the open education or the promotion of quality and innovation in the teaching and learning domain [3]. Therefore, in order to innovate and break new ground for other innovations in the OER one needs to identify those characteristics which can

support the successful spreading among institutions more than among persons [4].

The success of a kind of learning based on open educational resources is not complete if the certification problem is not solved, but this has not been possible yet. Nevertheless, there are also local initiatives such as, for example, in France where the professional competences are assessed by means of the VAE system (Validation d'acquis d'expérience) which allows residents to profit from every training or professional activity in ECTS credits (each credit means 30 hours of individual study).

In our country there is still not a well-established system but progress has been made through Order 6563/December 2011 for the approval of the Calendar for the activities stipulated in the Methodology regarding the ECTS/SECT validation of the short-term higher education under the form of a three-year college or a three-year pedagogical institute (leading to a Bachelor's degree after the first cycle of university studies) for the teachers in the pre-university educational system. This is not in the least sufficient to be able to extend the connections between the traditional educational system and the foreign environment, especially the business environment.

On the other hand, the open educational resources are better represented in the online environment where there are a number of specialized platforms such as: elearning.ro, <http://www.elearningeuropa.info>, <http://www.elearning-forum.ro>, <http://resurse-video-tice.wikispaces.com>, <http://www.elearningpapers.eu>.

4. Research regarding the use of the OER on a global scale

4.1. Methodological aspects

The main objective of this study was to enhance the way in which by means of well-conceived systems the open instruments of education allow educators and any other person willing to learn to have access to and to exchange online resources. Thus, by means of the qualitative research method one can resort to various sources of secondary information such as: reports of some international organizations, synthesis of certain events, analysis, case studies etc. The

research started from the analysis of the papers of the “World Open Educational Resources Congress” taking place in Paris in June 2012. To this analysis one could add the analysis and interpretations of certain studies regarding different open educational systems representative on a global scale.

4.2. The UNESCO and COL report regarding the OER

From the point of view of the participants to the UNESCO meetings, the free/open educational resources (OER) represent any kind of didactic material available and accessible to the public. Teachers are encouraged to use, copy and adapt the scientific resources to suit their own needs of knowledge as well as the needs of their students. UNESCO and The Commonwealth of Learning (COL) have written a global report regarding the use of the OER by means of a survey sent from the beginning of this year to all the governments and ministries of education of the member states of the OECD (The Organization for Economic Cooperation and Development) as well as to the permanent delegations of UNESCO from Paris and the National Commissions for UNESCO.

The report was presented during the World Open Educational Resources Congress taking place, as previously mentioned, in Paris in June 2012. Over 400 deputies including representatives of governments, teachers, ONGs and universities were present at the Congress which was organized in partnership with The Commonwealth of Learning (COL) and was supported by a generous donation from the part of William and Flora Hewlett Foundation (USA) [11].

According to the data held by the organizers until April only 82 countries responded to the survey [6]. The respondents either filled in the online survey and sent it electronically or sent it on paper to COL and UNESCO. The responses sent by mail or on paper have been introduced by the COL/UNESCO personnel in an application of the online survey type (SurveyMonkey). The results included in the online form have represented the starting point of this analysis.

In Europe, the OER are concentrated at the level of the secondary and higher education. In Austria, for example, the OER are

supported by many departments of the Federal Ministry of Education, Art and Culture. The institution supports a special platform for the creation and free access to mathematical knowledge of all Austrian schools by means of the GeoGebra application (interactive geometrical and algebra calculations). In Finland there are governmental initiatives which promote the public's free electronic access to learning materials by means of the national portal for education as well as other electronic archives and scientific and academic publications at the level of higher education. In Holland, the Ministry of Education has introduced Wikiwijs, an instrument of promoting the development and use of the OER. Although Slovenia does not officially participate to the OER movement, The Ministry of Education, Science, Culture and Sport promotes an electronic basis of pedagogical scientific materials for whose completion it made serious investments.

4.3. The Connexions experiences

Connexions represents a dynamic digital system with educational content and an optimized management system of offering this content. Connexions is among the most well-known sites of open education in the world. There we can find more than 17.000 learning objects and modules and over 1.000 collections (textbooks, articles etc.) which are used by over 2 million persons per month. Its content responds to the educational needs of people of all ages for almost any discipline from mathematics and science to history, psychology and sociology. The platform ensures Internet access to free content for schools, teachers, students and parents. The materials are easy to download on almost every mobile gadget with the purpose of using them anywhere and anytime. Schools can order printed sets of materials (including textbooks) for a low price [12].

The knowledge acquired on the platform could be shared by all users because it represents facilities from the following points of view:

- technological: all modules are saved in a simple and standardized format; the data are easily combined on the platform or with elements of content which belong to other platforms;

- legal: the Creative Commons open licenses allow their authors to share their works – allowing others to legally use and reuse them – whereas they are praised for their efforts;
- educational: Connexions encourages authors to write each module so that the others could easily use it in different collections and contexts;
- collaborative: the global community of authors continuously convert and adapt the information on the platform promoting the communication among the content creators and offering various means of collaboration through the feedback given to authors as well as the shared "Work zones".

5. Conclusions:

This study is important for all the people involved in education because it provides a set of information used to adapt their work to the actual needs of society. Moreover, the paper helps the educational system to raise the quality standard of the courses and the practical methodology. The conclusions concentrate on the idea that the instruments which ensure the open educational resources – world wide web, email, blogs and others – are included in the category based on free communication.

The digital revolution continues to extend in different ways which were hard to believe a few years ago. Therefore, we can say that we are living in a time when we can talk of „open source“, „open education“, „open science“, when worldwide collaboration and collective intelligence help in the process of taking the right decisions, when global strategies of action could be identified and applied to face the complexity of the present situations.

The individuals' desires regarding education will most likely be easily communicated to the other members of the community and they will react favorably proclaiming their support and help. Likewise, one will easier and easier identify the text, audio and video resources necessary for training as well as the persons willing to learn the same thing.

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Customers Service - Basic Logistic Activity

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Abstract

In a marketing approach, the first objective of the logistic system is to assure a high level of logistical services, in such a way as to increase the customers' satisfaction. Producers are concerned to assure more and more logistic utilities, on a smaller cost, and the clients want to obtain the products on the quantity, quality, the moment of time and the place when they need. From the producers' point of view, the logistic system involves the following elements: purchasing activities, activities of manufacturing support, physical distribution. For the economic organization, an efficient logistic system means a good correlation between all these components and a good integration with its environment, strong relationships with suppliers and customers' logistic operations and must be integrated and correlated on value chain. One of the most important activities that can increase the competitiveness and contribute to a strong differentiation of the organization's supply is providing a high level of customer service.

Key words: marketing, logistics, customer, service.

J.E.L. Classification: M31

1. Introduction

Considered a very important component of logistic mix, the customer service has a strong impact on sales and profit of any enterprise. The first issue for any competitive organization must be to deliver customer satisfaction. But is very difficult to measure or appreciate the level of customer satisfaction.

From the logistic specialists' point of

view, the logistic service is integrated in customer services and is an important way to increase customers' satisfaction.

2. Conceptual Elements on Physical Distribution, Logistics and Value Chain

In the last decades, marketing specialists used several terms to describe the physical flow of goods and materials from the origin point to the utilization point. In the beginning, physical distribution was understood as the movement of goods from the place of their production, to the place where are consumed or utilized [1].

Some marketing specialists considered that physical distribution involves planning, implementing and control of physical flow of raw materials and finished goods, from the place of origin to the place of utilization, in such way to assure satisfaction for customers and profit for enterprises. In the same opinion a distribution channel is created by many independent organizations which are involved in the process of goods or services deliverance to final consumers or other organization and, in this way, assures the product to pass from the place of production, to the place of consumption [2].

In the last decades, the concept of logistics was more and more used, being considered more complex than physical distribution. In the '90, The Council of Logistic Management from USA replaced the term of Physical Distribution Management with Logistics, considered as an efficient and effectiveness process of planning, implementation and control of the flows of materials, finished product, manufactures, services and information storage and flow, from the origin point to consumption point, corresponding with client's demand [3].

A logistic channel is a major system that

assures customers service because its main goal is to delivery on time and to manage the goods' flow [4].

According to integrated logistic philosophy, the specialists consider that the main objective of logistics existence is to offer the utilities of time, place and possession, on the lower possible level of costs, and today, logistics is a strategic resource of the organizations, an important source of competitive advantages [5].

On a producer's level, the logistic system involves three major elements [6]:

- Physical distribution. In marketing channel, the operations of physical distribution assure for customers the availability of products. The clients' expectation or the fundamental marketing goals for wholesaler or retailers are achieved by offering the utilities of time, place and possession. The physical distribution involves activities such as transportation, storage, inventory management, packaging, information management etc.
- Support manufacturing activities. Inside the enterprise, on the product process, logistics has the particularly task to assure with material flows, such as raw materials, finished or unfinished goods, components etc., in the quantity demanded by production programs.
- Purchasing. The purchasing or procurement activities with raw materials, goods, components etc., necessary to achieve the enterprise's objectives, have a logistical nature. The suppliers are the aim of this element of logistic system.

The logistic efficiency means a strong correlation between those three components.

The logistic operations are correlated with the value chain, an important tool used by organizations to identify new modalities of value creation for the customers. According to the vision of Michael Porter, the value chain includes two categories of activities [7]:

- Primary activities: inbound logistics, operations, outbound logistics, marketing and sales, service;
- Support activities: procurement, technology development, human resources management, firm infrastructure.

In this opinion, logistics is an important

element of value chain, and a major source of competitive advantage in terms of costs and performances. Fletcher, K.P. offers a value provision model, conceptually similar to Porter's illustration of the up-stream and downstream processes which shape a company's productive, satisfaction producing potential [8]. Going from he's point of view, many other marketing specialists consider the firm must be orientated towards the satisfaction of customers' needs and this orientation must embrace all corporate functions and entail management of the relationships among them. On theirs' opinion, in the value cycle model, the following activities are contributing to find and create value: market marketing research and product development; purchasing and production processes; logistics and distribution; marketing and sales [9].

3. Customer Services, Marketing and Logistics Relationships

Integrated component of marketing policy, the distribution policy involves not only the architectural process of marketing channels, but, also the important process of designing the logistic frame and strategy. The significant decisions on logistics can have deep implications on customers' satisfaction, marketing costs, and on the competitive enterprises.

As a constitutive element of marketing-mix, the distribution policy means not only distinctive activities that facilitates the materials or informational flows from producers to clients, but a very important element of marketing policy, integrated in general policy of the economic organizations.

The relationship between marketing and logistics can be understood considering some specific activities of interface: The existence of this interface is the result of the separation of organization's activities in several divisions, corresponding to the organization's functions [10].

An efficient management involves a strong cooperation between the organization's functions, because from this perspective, logistics and marketing can be considered as strategic resources.

From some specialists' point of view, on one hand, logistics must assure the effective satisfaction of the demand generated by

marketing, and on the other hand, the marketing activities that can create demand, could be product development, personal selling, advertising, sales promotion, merchandising, prices settlement. Logistics can contribute to satisfy the demand and to assure a high level of customer services through some specific activities such as storage, inventory management, transportation, unitization, communication and materials management [11].

Specialists consider that between the marketing activities that have a deep impact to logistic area can be specified [12]:

- Settlement of marketing objectives and goals (choosing the target market, sales volume, the level of customer services), operation that decides the dimension of the necessary logistical resources;
- Product designing (that influence the warehouse spaces and transportation);
- Prices' settlement, because the price is the fundamental way to recuperate the investments from logistic area and to assure a logistic infrastructure that can allow a high level of customer service;
- Designing the campaign of sales' promotion, because involves logistics' efforts;
- Selecting marketing channels (number and type of intermediaries).

In the same opinion, from logistics perspective, the interface activities that can be better managed through a good correlation with marketing activities, the following can be considered:

- Purchasing activity (because of its influence on the capacity of enterprise to assure satisfaction's demand from the level of quantity, quality and rhythm of deliverance);
- Warehouse localizing (the placement of distribution centers can influence the rapidity of logistic service);
- Inventory management (the dimension of stock must be correlated to purchasing operations);
- Honoring the customers' order (the medium space between taking order and delivering order);
- Protect packaging of products (a good protection contributes on costs' reducing);
- Transportation of goods (assures time and place utilities and maintains the quality of

products during the goods circulation between marketing channels).

These interface activities have deep impact for the level of customer service and for organizations' competitiveness.

From logistic point of view, the mission of satisfying the customers' needs and realizing benefits for the enterprise is carried out by some specific and necessary activities, which build the logistic mix. The logistic mix involves two categories of activities [13]:

- Basic activities: customer service, purchasing, transportation, inventory management and orders' processing;
- Support activities: storing, products' handling, packaging, activities concerning the logistic informational flows.

Customer service is critical for the organization because the level of performance depends on the costs generated by satisfying customers demand.

The organization must be permanently preoccupied to assure a high level of satisfaction of customer needs, and in this direction, must fit the level of logistic service with customers' demand.

Analyzing the distribution process system Kotler, Ph. considers that the first step that must be done is to know what are the really needs of potential consumer and this means to know [14]:

- Dimension of the lot of goods;
- Time for waiting;
- Territorial distribution network;
- Variety of goods;
- Supplementary services.

The improvement of customer service is a major goal of organizations and is usually specified as objective in the logistic plan, marketing plan or business plan.

4. Customer Services

Specialists consider that the major elements of customer service process are the following [15]:

- a. Availability of goods inventory (the probability of the existence of goods inventory, on the moments when is demanded by clients);
- b. Length of order cycle (from client's perspective is the duration of time from the moment of order to the moment when the goods are received);
- c. Goods' recall from the market (in some

cases is necessary to recall products, because of quality defects or malfunction, unsuitable package, inadequate condition of storage a.s.o.).

a. The existence of an available goods inventory is a major problem for the organizations.

The level of inventory depends on goods characteristics, estimative level of demand, the specificity of clients etc. and it's important to consider the contribution of stock to sales and profit.

Usually, the basic stock is completed with safety stock, which protects against the demand's fluctuation or uncertainty of suppliers' deliveries. The medium stock directly depends on the number of warehouses.

To measure the inventory availability, it can be used several ways, such as the frequency of breaking (reflects the probability of absence of a product from stock), index of execution (measure the dimension or the impact of stock breaking during the time and correlates the availability of goods with the customers demand), the number of complete orders (it's a way of measurement the availability of inventory, near by the frequency of stock breaking and index of execution and represents the number of situations when the enterprise is capable to deliver the integral order of client).

b. The length of order cycle can be approached from a double perspective: on one hand, for client means the duration of time from the moment of order, to the moment when the goods are received, and for the other hand, for supplier the order cycle begins from the moment when the order is received from client.

The most important steps for the cycle of order are the following:

- Order delivery (is the time period from the moment when the client delivery the order and the moment when is received by the supplier);
- Order processing, realized from the moment when is received the order of client until the moment of notification of store-house for goods delivery;
- Accepting and assembling the order (including all the activities realized from the moment of receiving the order, to the moment of loading goods in the transport facilities);

- Procuring the supplementary necessary stock (it's about the identification of other modalities to satisfy the client's order, in case that the store-house doesn't have the goods);

- Order delivery (the time period between the moment when goods is accepted by the transporter, until the moment when arrives to client).

c. The goods withdrawal (the products recall) it's an unpleasant situation, generated by several causes: unsuitable package or label, goods with vices, inappropriate ways of storage, that can contaminate or spoil the goods etc.

Considered as an important component of customer service, the products recall is a modality to maintain the image of the firm, its' prestige in the eyes of consumers.

The withdrawal of goods from the market is a laborious and expensive process. There are some requirements that must be accomplished, such as:

- Storage of goods (it's indicate to be isolated from the other products, in such a way to not disturb the flow of merchandise and to be not reintroduced by error in the normal circuit of goods);
- Inventory management (in any time and any place, the specialists must know the quantity of goods and the evidence of recall goods);
- Transportation of good (it's necessary to use the most appropriate mean of transport, considering the specificity of goods and the necessity to use the capacity of the transport facility);
- Handling (it's necessary to use adequate way of handling, considering the type and the state of goods).

The interaction between marketing and logistic operational decisions is amplified by the recall product process.

Managing goods recall is important to a company's bottom line.

Marketing specialists appreciate that, from an operational perspective, the enterprises can consider that a way to improve profitability in the face of product returns is to take the return rate as a given and try to minimize the cost of managing the returns process [16].

Because of the strong impact on costs and benefits, it's necessary to conceive a realistic

customer service strategy.

According to the opinion of marketing specialists, the customer service elaboration process for the organization involves several steps [17]:

- Determining the logistic customers' needs;
- Evaluating the own performance on customer service process;
- Evaluating the competitors' level on customer service performance;
- Designing the logistic customer service strategy.

Logistic customer service strategy must be periodically revised and modified to respond on customers' needs.

Conclusions

The customer service is important because has deep impact on sales, costs (such as costs generated by communication, documentation a.s.o.) and benefits of the enterprises.

To achieve the logistic and marketing goals, organizations must conceive an appropriate customer service strategy, which must be integrated in to the logistic strategy.

Logistic customer service strategy must accomplish the process of satisfying customers' needs and appropriating the benefits for the economic organizations.

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Interpersonal Disagreements and Contradictions - Implications on Work Efficiency in a Company

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Abstract

The study aims to point out the consequences that the malfunctions caused by the lack of professionalism of some managers could have.

The hypothesis that conducted to realising the study was that the appearance of different contradictions and disagreements influences the employees' capacity to accomplish quantitatively and qualitatively, in due time the tasks assigned to them. The study was conducted in two stages:

In the first stage, the existence of some disagreements and contradictions inside an enterprise was identified;

In the second stage, their influence over the employees' efficiency of the enterprise was identified.

Keywords: disagreements and contradictions, interpersonal relationships, work environment, labour efficiency.

J.E.L. Classification: M12, M14.

1. Introduction

The rational use of human resources represents a basic condition of the success of an organisation in accomplishing the tasks. This involves the management's concern regarding the personnel's assurance and selection, its judicious apportionment on jobs, the motivation to achieve goals and their integration in the general objectives of the organisation, Lazar I., shows [3].

The organisations bring together individuals with different personalities; specific needs, behaviour and visions, specifies McGregor D., [5] These specific individuals make that interpersonal relationships established between them have a special significance. Creating an

atmosphere of collaboration within the organisation, some adequate interpersonal relationships have a direct influence over the labour efficiency. Interpersonal relationships are those connections established between people occupying different jobs within an organisation, on one hand, and between these persons and the entire community, on the other hand, sustains Lazar I., [4]

Interpersonal relationships develop being based on work relationships; the problem of these relationships within the organisation must be looked through the light of the fact that they represent the basic cell of the economy. In each unit the social environment is defined by the fundamental coordinates of the system, being in the same time influenced by the fact that each person has a specific psychological structure, a certain personality, which determines the nature of interpersonal relationships that are forming, as Petrescu I. appreciates [8]. The existence of work relationships doesn't automatically involve the existence of some adequate interpersonal relationships, of some easily accepted discipline, of auto control, of a fully involvement.

The study of the role of interpersonal relationships in the organisation activity highlights the following system of interpersonal relationships:

- The relationships established between employees and social groups from the same hierarchic level (horizontal relationships, of cooperation);
- The relationships established between leaders and subordinated social groups or between leaders and subordinates.

The relationships leader-subordinate express the links that the leader promotes in front of his inferiors' personality through which he stimulates or hinders the possibility of individual arising within the groups he is part of.

These relationships established naturally within the functionality of the leading system of the organisation involve, as coming from the leader, specific qualities and knowledge, namely: knowing and understanding the human nature, observing the motivational elements of the subordinates, participatory approach of problems etc.

A healthy work environment requires the application of minimum demands in the relationships between leaders and subordinates:

differential treatment and establishing tasks for each person or compartment in relationship with the importance of the objectives, with the requirements of socio-economic environment, the peoples' qualities, knowledge, habits and skills;

stimulating the collaboration spirit, the reference, introducing a climate of mutual confidence in leading, which determines real and affective participation of the collaborators and the exploitation of their qualities and personalities;

utilising carefully the competences and the responsibilities, ensuring the enforcement in front of the subordinates through knowledge authority, and not through compulsion;

respecting the personality of each person, of his dignity.

When in labour environment the requirements that need to be applied in relationships between leaders and collaborators and inferiors are not respected, strained situations and a working environment less favourable to work appear. The appearance of inadequate interpersonal relationships determined by the developing of some activities that workers don't love, by malfunctions in the unity's activity, by leader's inappropriate behaviour, by the lack of a suitable communication and of a proficient reliance in difficult moments, creates mistrust relationships and contributes to forming some groups with different interests, having as consequence a certain disinterest towards the attributions and tasks assigned to the job that each component of the group occupies, with negative effects over the achievement of the objectives of the economic unity. This is exactly the goal of our paper, of identifying the conflict situations and of studying their influence over the labour efficiency.

The appearance of disagreements and

contradictions doesn't have to be looked only as a negative fact, as a consequence of defective application of management's principles and fundamental methods, but as a natural state, mostly inevitable. The disagreements' sources and causes are numerous and various, as Ursachi I. specifies [9]. From the point of view of their influence over the evolution of the organisation activity, they can be grouped in two categories:

functional – which stimulates the activity's improvement through better solutions for the problems that generated them;

malfunction – which are harmful and which have to be prevented or worked out as soon as possible.

The contradictions have a special influence in forming the individual attitudes and small groups. The emotional state linked to different disagreements and contradictions can be positive or negative as a certain decision causes satisfaction or dissatisfactions.

In their entire diversity, certain types of disagreements and contradictions have been contoured:

1. *Disagreements and contradictions related to the execution of work duties*, which appear in cases like:

- he need of accomplishing the task for whose utility or realising manner, the employee is not convinced;
- he overuse of some employees with work force and capable, surpassing their sphere of attribution and underusing others less capable professionally;
- he manager took the decision without the participation of the person or the group interested, even though they have a great practical experience;
- he lack of clarity in establishing the objectives, the attributions and the tasks, fact that leads to interferences and tendencies of widening the prerogatives of some persons or groups of persons at the expense of others.

2. *Contradictions generated by the manner of appreciating the employees' activity*. The lack of some clear criteria of some special skills of the manager to appreciate the employees' activity leads to dissatisfactions and contradictions among the employees. For most employees, evaluating the credits, attributing qualifiers and rewards have to be

done not basing on their professional qualities and on other general qualities or by comparing with other persons, but rather by comparing the individual results with the exigencies and tasks that are attributed to them on that specific job. The stimulants and the sanctions, as an effect of appreciating the employees' activity are extremely important. Any groundless, subjective or unjust appreciation will often cause rejection towards work and the organisation in which the employee works.

3. *Contradictions due to difficulties encountered in solving some personal problems and the displeasures of family life.* Bureaucratic solving of personal problems of employees, the absolute, rough form of discussions, the absence of necessary explanations, make that shy employees, who cannot clearly express their claiming, leave the management with unsolved problems, fact that reverberates upon their activity, as in the attitude towards the organisation and the manager. Also, a series of events from family life (divorce, disease, death, difficult children etc.) influence the work efficiency and quality of the employee. In such cases, the lack of comprehension from the manager can have as consequences, either the aggressive manifestation of the person in cause, or falling in depression.

Anyhow, no matter the nature of the contradictions and of the causes that generates them, in order to encourage people to express freely their fears, worries and feelings of injustice, the managers must be prepared that such subjects be discussed and listened with common sense and not ignored, sanctioned, bitten or rejected.

2. Materials and methods

The study was realised at a private enterprise (from confidentiality reasons, we won't mention its name), applied in all departments. The study encompassed two parts:

- the identification of contradictions and disagreements;
- their influence upon the labour efficiency, transposed through work productivity.

The hypothesis used in realising the study was that the appearance of different contradictions and disagreements influence the employees' capacity to realise

quantitatively and qualitatively, in due time, the tasks assigned.

In collecting the data, we used direct observation, which implies that the observer get in touch directly with the investigated phenomenon [6].

The methods utilised in the study were:

- **the statistical investigation** characterised by collecting some information through questionnaires. By processing the data collected through the investigation, we obtained some indicative information upon the study that we carried out.
- **the indirect observation** was realised on a documents basis by studying the evaluation sheets of the individual professional performances of each employee.

The research technique utilised was the interviewing. For collecting supplementary information, to which the respondents could not answer because of the limited character of the questionnaire, informal interview was utilised because this type of interview permits the operator to change the questions order, to explain their meaning, to add supplementary questions and even to adapt the questions wording to circumstances and to the person, in front of who, he stands, as Dăneşi-Pătrău D. sustains [2].

The research instruments utilised were the two questionnaires "*Questionnaire for identifying the contradictions and disagreements within the organisation*" was utilised in the first phase of the research in order to determine eventual malfunctions within the enterprise studied, respectively "*Questionnaire for identifying the negative influence of contradictions and disagreements over the employees' work efficiency*" managed in the second part of the study in order to determine if the employees' inefficiency in work caused by the malfunctions from the labour environment is present and how much it represents. The questionnaires have included closed questions, their variables being evaluated with different scales of Linkert type.

In order to establish if there is a connection between the satisfaction degree in work and the work productivity transposed through the score obtained at the evaluation, we used the method of "testing the statistical hypothesis", the test χ^2 which applies to the table of combined group. The study was

realised during 10-30 May 2012.

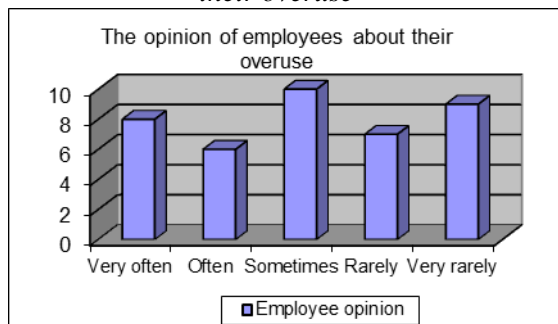
3. Results and discussions

The first questionnaire “*Questionnaire for identifying the contradictions and disagreements within the organisation*” was given to the 45 employees, among which 40 filled it out, during 10-20 May 2012. The questionnaire aimed the following objectives:

- Identifying the type of contradiction or disagreement within the enterprise;
- The manager’s attitude towards the employees.

The questionnaire contain 14 items, from which 6 factual questions, 2 motivational and 6 of opinion. For the question “Do you consider that there have been situations in which your boss insisted that you realise a certain job that normally somebody else should have realised?” the following answers were given:

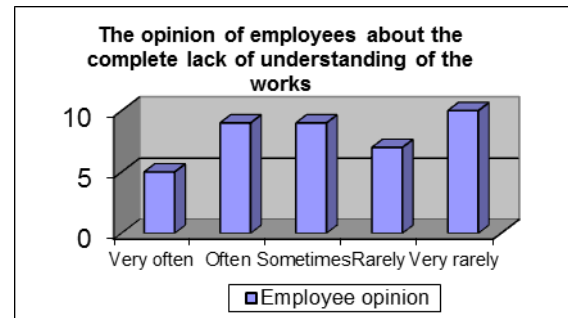
Figure 1 The opinion of employees about their overuse



Another question that we analysed was: “Did it happen that you were assigned with tasks that you didn’t fully understand or of which utility you weren’t convinced?”

The questionnaire highlighted malfunctions concerning rewards assignment, which have been awarded equally to all employees; there is a significant percentage (23%) among the employees who don’t fully know their job description; few employees (34%) presented their suspicions concerning the fears related to defective accomplishment of work tasks.

Figure 2 The opinion of employees about the complete lack of understanding of the works

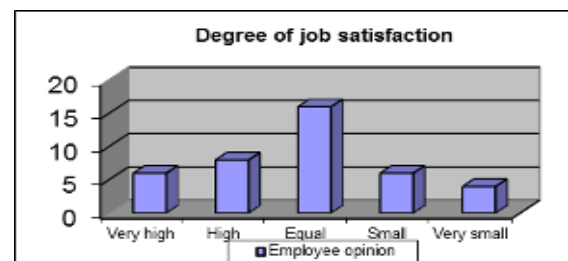


The second questionnaire “*Questionnaire for identifying the negative influence of contradictions and disagreements over the employees’ work efficiency*” was given to the 45 employees, among which 42 filled it out, during 21-30 May 2012. The questionnaire’s objectives were:

- The identification of a connection between the degree of labour satisfaction;
- The mathematical demonstration of the existence of a connection between the two variables.

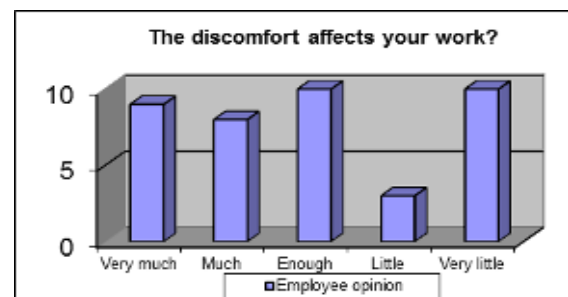
For the question: “On a scale from one to five the labour’s satisfaction degree would be”, the following answers were given:

Figure 3 Degree of job satisfaction



In what concerns the question “Do you consider that your mood at a certain moment affects your work?”, the answers have been:

Figure 4 The discomfort affects your work



The questionnaire highlighted that 41% of the employees work sometimes overtime, and

19% often. Overall, all those questioned appreciate that there is a good and very good relationships between co-workers. In what concerns the colleagues' proficiency, the opinions are divided: 27% believe sufficiently in their colleagues' proficiency, 32% a lot and 12% very little.

The structure of the community studied was the following: 63% men and 37% women; on ages: 25-34 years (21%), 35-44 years (68%), 45-54 years (10%) and 55-65 years (1%). Among those questioned, 42% are married and 56% not married.

The second part of the study referred to the influence of contradictions and disagreements over the work efficiency, transposed through the labour productivity. In order to answer to these requirements, two variables have been chosen:

The degree of work satisfaction – X variable;
The score obtained in evaluation sheets – Y variable. In establishing the evaluation scale of the employees' performances, “Graphic evaluation scale” [1] has been used, according to which the qualifiers are attributed as follows:

Excellent 45-50 points
Over average 35-44 points
Average 25-34 points
Under average 16-24 points
Unsatisfactory 10-15 points.

In order to establish the satisfaction degree of the employees:

Excellent 5 points
Over average 4 points
Average 3 points
Under average 2 points
Unsatisfactory 1 point.

In view of the validation or invalidation of Y variable chosen in order to study the correlation between the two variables, its degree of representativeness was determined. So, it was calculated:

Average $\bar{x} = 35.83 \approx 36$
Dispersal $\sigma^2 = 131.218$
Standard deviation $\sigma = 11.45$
Coefficient of variation $v = 31.8\%$

It results that the series is homogenous and the average representative, so that the study can take place, Y variable being validated.

The connection between two or more variables can be studied through methods for verifying the connection existence and analytical methods. The statistics through the

methods of “Testing the statistical hypothesis” offers the possibility of establishing with a chosen probability degree, the existence or the absence of the connection between phenomena, the analytical form and its intensity, as Neacșu G. shows [7].

Table 1. Correlation table

Score evaluation	Degree of job satisfaction					Total
	Excellent	Above average	Average	Below average	Unsatisfactory	
45-50 E	6	2	3	3	-	14
35-44 AA	3	3	2	1	1	10
25-34 A	2	1	3	1	1	8
16-24 BA	-	2	1	2	-	5
10-15 U	-	1	1	1	-	3
Total	11	9	10	8	2	40

The null H_0 hypothesis according to which, no matter the degree of the work satisfaction, the employees are divided in employees with score: E, AA, A, BA, and U.

If the hypothesis were real, then all groups of satisfaction degree would respect the following division:

35% - scoring 45 – 50
25% - - scoring 35 – 44
20% - - scoring 25 – 34
12.5% - scoring 16 – 24
7.5% - - scoring 10 – 15

On the basis of this determination, the hypothetical repartition H_1 is constituted, meaning that the division on each group in hypothetical unsatisfied employees is applied, according to table 2.

Table 2. Correlation table for hypothesis H_1

Score evaluation	Degree of job satisfaction					Total
	Excellent	Above average	Average	Below average	Unsatisfactory	
45-50 E	3.85	3.15	3.5	2.8	0.7	14
35-44 AA	2.75	2.25	2.5	2.0	0.5	10
25-34 A	2.20	1.80	2.0	1.6	0.4	8
16-24 BA	1.375	1.125	1.25	1.0	0.25	5
10-15 U	0.825	0.675	0.75	0.6	0.15	3
Total	11	9	10	8	2	40

Applying the calculation relation:

$$\chi^2 = \sum_{i=1}^m \sum_{j=1}^n \left[\frac{(n_{ij} - \theta_{ij})^2}{\theta_{ij}} \right] = 10.6107$$

If the value χ^2 calculated is inferior to

spread sheet size χ^2 for (m-1)(n-1) liberty degrees, and a probability P chosen, we can appreciate that between X and Y there is no connection.

$$\chi^2_{\text{calc.}} = 10.6107$$

$\chi^2_{\text{table}} = 7.96$ for (m-1)(n-1) liberty degrees =16 and a probability of error of 0.05.

It results that between the two variables there is a tight connection.

4. Conclusions

The subject treated in this study is up to date, a lot of employees end up working overtime, are often frustrated because their expectations are not the same with the objective reality and they are often put in embarrassing situations in front of their colleagues.

The study highlighted that the majority of the employees have superior studies and that they have a work experience of at least five years, fact that demonstrates the existence of a well prepared and professional personnel. Nevertheless, there are situations which are created artificially, either because of the manager, or by not knowing the employees' rights.

The most often contradictions that we met, were in reliance with the overuse of some employees to the detriment of others, the fact that some employees don't fully know their job description or the fact that the manager is taking some decisions without consulting the employees directly involved in solving those problems.

All these malfunctions lead obligatorily to decreasing the employees' efficiency and so the work productivity, fact demonstrated by applying the “Testing of statistical hypothesis” whose value bigger than spread sheet value has indicated a tight and direct connection between the variables, the degree of labour satisfaction and the score obtained after evaluating the employees.

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Labeling in Food Industries – a Marketing Strategy

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Abstract

The objective of foodstuff labeling is to guarantee that consumers have access to complete information on the content and composition of products, in order to protect their health and their interests. Other information may provide details on a particular aspect of the product, such as its origin or production method.

Marketers use food labeling as a strategy to attract customers and promote products. In this paper we present role of food labeling for consumers, but also in marketing.

Key words: food, labeling, marketing.

J.E.L. classification: I11, I12, M31.

1. Introduction

Labeling is any written, electronic, or graphic communications on the packaging or on a separate but associated label. Nutritional labeling is often ignored by people, because they don't really know what it is. [4] We don't have the necessary knowledge about proper nutrition, and how we should combine foods in order to take our daily doses of vitamins, proteins, carbohydrates, and so on.

We think we eat healthy, but in the end we die eating. We make this statement because lately so many diseases correlated with bad nutrition appeared. We think that it is not important to regularly calculate our nutrients intake, but we don't realize that the lack of energy is because we don't eat our daily dose of proteins, carbohydrates, etc.

Calories are generating energy, but it is wrong to believe that the quantity of calories is equal with the quantity of energy. For example, we often think that if we eat more than 400 calories (400 calories is the normal quantity for a meal) we would have more energy than if we eat less than 400 calories, but it is wrong. After eating a consistent meal

you always feel tired. This means that a high intake of calories doesn't give you a lot of energy.

In this paper we want to show the importance of nutritional labeling, and the role of it in our lives and wealth.

We will try to define nutritional labeling in a simple way, in order to be understood by everyone.

We will also try to show the effects of nutritional labeling on consumers, the importance of daily doses, and in which countries nutritional labeling is mandatory. [3]

2. Food labeling

By definition, a food label is a list that contains information about the nutritional value of a certain product.

The food label has to have:

- **Product name or description:** It's illegal for food labels to have false or misleading names or descriptions. For example, the flavor of a peach yogurt must come completely, or mostly, from peaches.
- **Net weight (e):** When this symbol appears after a weight or volume, it means that the weight or volume of each pack might vary slightly, but the figure shown will be an accurate average. [6]
- **Ingredients listing:** Ingredients are listed in descending order of their weight, with the biggest ingredient first (except in the case of yogurt where the biggest ingredient, milk, doesn't have to be listed)
- **Allergy advice box:** Food labels have to list all the ingredients and ingredients derived from allergenic foods have to be clearly identified in the ingredients list. For example, on a milk chocolate label, it is highlighted that it may contain traces of nuts. [5]
- **Nutrition Information:** This information tells you about how much energy, proteins, carbohydrates, and fat is in the

food. You may also see information on sugar, saturates, fiber, sodium and vitamins and minerals. You will see this information if a nutrition claim - such as 'low fat' or 'low calorie' - is made.

- Conditions for storing or using the food: Storage information or instructions on how to use the food (for example microwave information, if it has to be stored in a refrigerator or at what temperatures the food must be kept). [6]
- Country of origin: The true place of origin. (For example if the chocolate is imported from Germany, it has to be specified on the label).
- Contact details: The name and address of the producer, the phone number and e-mail address. These are necessary in the case in which a consumer is unsatisfied with the product.
- Expiration date: The lifetime of a product. On certain products there is other information, such as how to prepare the product, different recipes you can make with the product, etc.

3. The role of food labeling in marketing

The objective of foodstuff labeling is to guarantee that consumers have access to complete information on the content and composition of products, in order to protect their health and their interests. Other information may provide details on a particular aspect of the product, such as its origin or production method. Some foodstuffs, such as genetically modified organisms, allergenic foods, foods intended for infants or even various beverages, are also subject to specific regulations.

Labeling of certain non-food products must also contain particular information, in order to guarantee their safe use and allow consumers to exercise real choice. In addition, the packaging of foods must adhere to production criteria in order to avoid contaminating food products.

The main objectives of food labeling in marketing are:

- Brand Identification - Labeling helps in the identification and principal place of business of the person by or for whom the prepackaged product was manufactured, processed, produced or packaged for resale

- Description - Labels provide the information regarding the food product. It describes the contents, nutritional values, cost, product usage methods, shelf life etc. [1]
- Promotion - Finally labels helps in promoting the product through attractive and bright graphics replacing paper labels glued on cans and bottles. [2]

4. Analysis of nutritional labeling of food

Reading the nutritional label while we are out shopping is not something we are used to do. We find all sorts of excuses to skip that part (such as lack of patience, time, space), and we sometimes "forget" to look for the expiration date. We think we eat healthy until we take a look on the nutritional label. So, in the hopes of still believing in that fairytale, we just don't read it. And few know how many fats you are supposed to eat in a day. We often don't have enough time to calculate the intake of proteins, or other things written in there.

But being healthy takes time, and the first step in achieving this goal is reading the nutritional label on all the products we buy.

Lately, more and more people became preoccupied with what they really eat. This means that we have to know what types of food to combine in order to assure all the nutrients we need for a good health.

Nutritional labeling appeared in 1970 in USA, but only after 20 years became mandatory. It is optional on raw fruits and vegetables, however. Nutrition labeling is harmonized throughout the European Union. It is optional, but becomes compulsory if a nutrition claim appears on the label or in advertising. Such as light, natural, 100% fruit, etc. After its adherence to EU, Romania has to respect the same rules as the other countries in the European Union. In Canada the nutritional labeling became mandatory in 2007.

Imported products are required to respect the same rules as domestic products. In Asia, nutritional labeling is not compulsory, but many producers already have products with it. There is therefore increasing interest among authorities in countries in the region to start formulating regulations for nutrition labeling for a wider variety of foods. Australia, New Zealand and Malaysia have

proposed new regulations to make it mandatory to label a number of foodstuffs with a number of core nutrients. Other countries prefer to start with voluntary labeling by the manufacturers, but also spell out the requirements for voluntary labeling.

The Philippine Regulations have prescribed mandatory nutrition labeling for enriched or fortified foods. If foods are to be exported to the United States, they are required to follow the United States Nutrition Labeling and Education Act (US NLEA) requirements. In Singapore, mandatory nutrition labeling is only required for foods enriched or fortified with permitted vitamins, minerals, essential amino acids and fatty acids.

Nutritional labeling is any kind of information about energy value and nutrients (such as: proteins, carbohydrates, fat, fibers, sodium, vitamins, and minerals). [3]

The recommended daily nutritional intake varies from individual to individual, depending on age, physical activity, height, sex, health status, metabolic profile, etc.

The Recommended Daily Allowance (RDA) is the nutrients needed in a day in order to be healthy. Doses are calculated at an average energy intake (about 2000-2500 kcal / day).

In 2008 there was a huge scandal regarding the food sold near schools, kindergartens, or any other educational institution. The problem was that the products sold to children were high on salt, fats, and sugars. They prohibited selling chips, pretzels, sticks sites, snacks, salted nuts and salted seeds, because they contain more than 1.5 grams of salt per 100 grams of product. They also prohibited sweets (such as cookies, cakes, candies) and sodas containing high quantities of sugar.

An "essential nutrient" is a nutrient that your body does not make on its own and that is so important that you can't be healthy without it. [5] There are about 45 essential nutrients that are required for overall good health. If you get those nutrients from diet or supplementation then your body has the raw material it needs to function properly. Without them problems begin to occur.

5. Conclusions

In this paper we've talked about nutritional label and its importance for the human well-being in a period when the obesity became something common and the proper alimentation disappeared, thus, producing many types of diseases.

The nutritional labeling became mandatory since 1990, but still, the rate of obesity is in continuing growing. Some of us are very careful with what we eat and started to consult the nutritional label, which is present (or must be) on the package of each product.

The children and neither the adults don't have the proper education regarding health food lacking in information about how important are Vitamins and the other Nutrients that are important in our life, but not in the quantities we seek for. And maybe starting to read the Nutritional Label will be the beginning of a new life style.

For marketers label has become a way of promoting food products and brand identification.

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Marketing strategies for Tourism Development in Harghita County

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Abstract

In order to attract in the future a significant number of tourists, entrepreneurs from Harghita tourism should adopt strategies to develop tourism products which they should sell as they can meet the requirements of tourism market currently manifested.

Marketing strategies used should be aimed at creating viable tourism products to harness the best natural and spa tourism potential of the area.

Attracting and retaining good employees should be, for the entrepreneurs from Harghita County, as important as customer loyalty. In this respect, specific strategies should be adopted, strategies specific for personnel policies aimed at increasing the quality of employee benefits, their motivation and loyalty.

Key words: tourism, strategy, marketing, potential, development.

J.E.L.Classification: M31, L83

1. Introduction

Harghita County shall fail to become competitive as long as the area entrepreneurs apply marketing strategies aimed at creating sustainable quality tourism products that meet the requirements of tourists.

Marketing strategy is thus designed to generate demand in the future by specifying those market segments which must be reached, products to be created and which shall be focused on and associated with action programs to achieve the identified potential for these target products: market segments [1].

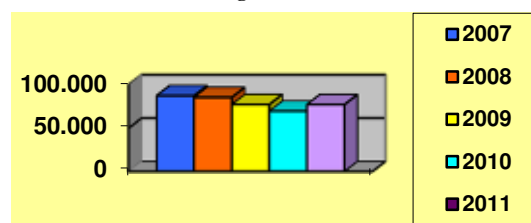
The challenge for tourism in Harghita is to organize and develop its natural resources

in a range of spa tourism products largely attractive to the public, and the transformation of these attractions in a flow of tourists and area benefits. Such an aspect requires the development of an integrated product and a strategic marketing approach.

2. Particularities of tourism from Harghita

During 2007 - 2011, the number of tourists arriving in this county has seen a slight decrease from one year to the other. Exception was the year 2011 when this indicator increased by 1, 10% compared to 2010.

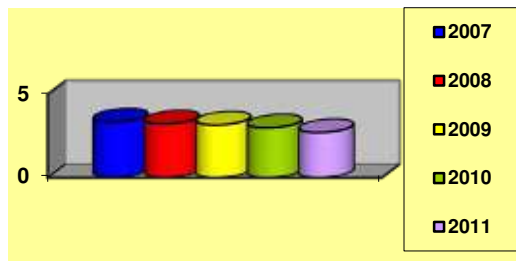
Graphic no. 1 Number of tourists arriving in Harghita county, during 2007 – 2011



Source: processing data from *Statistical Yearbook of Harghita county 2011, Monthly Statistical Bulletin, no.1 / 2012*, access <http://www.harghita.insse.ro>

The highest average stay was recorded in 2007 (3.33 days/ tourist). There followed a slight decrease of this indicator from one year to the other, so that in 2011, average stay decreased by 18,21% compared with the previous year.

Graphic no. 2 Average stay conducted on the tourists that arrived in Harghita county, during the period 2007 - 2011



Source: processing data from *Statistical Yearbook of Harghita county 2011, Monthly Statistical Bulletin, no.1 / 2012*, access <http://www.harghita.INSSE.ro>

To re-launch tourism in this country, tourism entrepreneurs should market original tourism products to harness the existing potential. The main strong points of tourism from Harghita concern[2]:

- existence of exceptional cultural and natural sights (Rosu Lake and Bicazului Gorge, Sfânta Ana Lake and Tinovul Mohos, Vârghisului Gorge, lucustrian complex from Sânpaul, Praid saline, Corund ceramic centre, fortified church from Dârjiu, UNESCO heritage, complex of religious monuments and Pentecost pilgrimage to Sumuleu-Ciuc ecc.)
- natural landscape and the relatively good quality of environment, close to nature, mostly mountainous area, temperate climate in summer, abundant vegetation;
- presence of favorable snow cover for winter sports;
- wealth of minerals and emanation pits;
- endemic and relict plant elements, specific ecosystems, many natural reserves;
- relatively rich cultural heritage, both in terms of tangible elements – built, as well as intangible – spiritual (authenticity of ethnographic heritage);
- majority presence of szekler population – attractive for the tourist market from Hungary, the importance of ethnic and multiple links between the communities from Harghita county and the Hungarian communities from Hungary as well as other neighboring countries (Slovakia, Ukraine, Serbia, Croatia and Austria), settlements and twinning countries;
- the presence of the Romanian cultural elements, to diversify the regional factor,

element of attractiveness for domestic market, but also for the Hungarian market with specific character;

- private investments in the accommodation structures, increase in the share structure of 3 stars, especially urban and rural pensions;
- appearance of wellness services in some hotel units;
- appearance of selected food units in some cities;
- increased interest in the rehabilitation of market walking mountain trails, initiatives of NGOs and local government (APL);
- existence of certain equestrian centers;
- planning new ski areas (slopes and cableway installations);
- initiative to set up tourist information centers or offices;
- participation in exhibitions and touristic fairs from the country and abroad (especially in Hungary);
- NGOs work to promote active forms of tourism (hiking, winter sports), cultural and ecotourism.

3. Market strategies

To identify new ways of increasing effective tourism demand, tourism entrepreneurs from Harghita should adopt stimulating and development strategies. These strategies are viable only if they are part of the coordinates for tourism development in the region.

Many of tourism agencies which carry out their activity in the area apply undifferentiated strategies, which in the present context, where the requirements of the tourists are more demanding and various, find an optimal application, the results being less effective[3]. For tourism products and services sold by the companies from the area to meet the requirements of different consumer segments, specific marketing programs, for each segment, should be made and the differentiation strategy should be adopted.

In order to increase sells in the already existing markets of tourism companies in Harghita, they should apply a reformulation strategy which has the effect of improving the quality of sold products and services:

An example of applying such a reformulation strategy is represented the new

base of climatological spa treatment from Borsec.

In recent years, products and tourism spa services in Harghita were slightly sought by tourists from Germany and those from the Scandinavian countries, who in the past were loyal consumers of such products. To regain these markets, companies should implement market development strategies. This approach involves marketing of quality tourism products to arise interest among tourists concerning these segments.

Also, this area currently requires the adoption of strategies of concentric, horizontal and lateral diversification [4]. The first type of strategy targets the process of launching on the market new tourism products and services (new itineraries, complex thematic trips, ecc.) in order to attract new segments of tourists.

The strategy of horizontal strategy is applied by the companies holding a good position on the tourism market from Harghita and which have been associated with other various companies providing services, managing in this way to develop new products but which serve the same segment of customers.

The strategy of lateral diversification is used by the companies developing new tourism products, different from the products which the company has previously sold and which serve other segments of consumers.

The purpose of market strategies applied in Harghita county should mainly aim at developing spa tourism which shall help increase employment and quality of life of local communities without affecting the sights and environmental status.

When creating tourism offer, it is necessary for development to be made based on local tourism resources with active participation of local people and to be assigned/included into an integrated program of regional development.

To that end, it is necessary to support tourism development of local cultural heritage attractions that are unique in Harghita county. The high-level presentation strategy analysis of regional tourism acquires particular importance, the analysis of training local people and businesses in tourism management and tourism impact analysis related to the society and the environment.

Main ideas of market intervention strategies aim at [2]:

- improving most of tourist routes (the most urgent ones: [Sighisoara] – Cristuru-Secuiesc – Odorheiu Secuiesc, Odorheiu Secuiesc – Bradesti – Zetea – Valea Strâmba), as well as improving the routes visited by tourists within the town and villages;

- creation of software packages and themed itineraries to achieve quality tourism;

- introduction of wellness tourism, by attracting internal or external capital;

- establishment of recreation and winter sports centers at Harghita-Băi, Gheorgheni and Harghita-Mădaraș.

- improving and developing the rural area targeting complex activities of vital importance for Harghita, both in rural dimension expressed by the area owned and the share of population employed in agriculture, social services and socio-cultural activities and tourism.

- exploitation of the rural area in Harghita county which provides optimal conditions for development of rural tourism and agro-tourism, arising from specific geographical location, in the area of the Eastern Carpathians, which includes a valuable scenery heritage, with forests, springs and significant monuments of nature. Natural resources are completed with the anthropic ones; archeological monuments, historical monuments, art and architecture monuments, museums, memorial houses, monuments of folk architecture, etc.;

- rebirth of popular customs and traditions, of crafts, of various holidays which can represent tourist attractions.

4. Specific strategies for personnel policy

In their efforts to achieve strategic and tactical objectives proposed, tourism companies from Harghita must effectively manage the resources at their disposal. They should give great importance to the human resource which is essential to the existence and progress of tourism business because it leverages other resources for the effective conduct of the company activities.

The personnel policy has a great importance on the market approach of tourism companies from Harghita. One of the most important challenges of tourism

companies represents the employee's team building, the best to support an efficient use of company resources in such a way as to achieve the objectives that they have proposed.

The personnel employed in tourism plays an import part in anticipating the needs of tourists, in customizing services and in creating new long term relations with consumers, thus contributing to their increase of loyalty. Personnel awareness of the role by tourism companies imposed the level of handling it from its marketing optics perspective, so that it was introduced in literature and professional practice of internal marketing concept.

Internal marketing represents "achieving, improving and maintaining the employees of the company in positions which ensure the maximum and efficient usage of their working capacity and also a system of incentives that allow satisfying material needs and aspirations of a professional personnel"[5].

The crucial role of personnel in providing tourism services requires paying special attention to the way of attraction, selection, retention and promotion of the personnel from the company.

Sustainable tourism development depends not only on the attractive landscape and tourist facilities but also on the competitiveness and quality of personnel. Being one of the most economic competitive activities in the world, tourism requires understanding, professionalism, commitment, organization and efficient strategies in developing human resources [6].

Competitive services can be assured by a highly trained and specialized personnel, with appropriate skills and performance. Creating a skilled workforce in tourism requires basic education, vocational training and continuing education at the workplace.

Tourism in Harghita currently registers a major shortage of qualified personnel. Most entrepreneurs do not hire qualified personnel and neither invests in their professional training. This aspect reflects in the quality of services, services provided by an insufficiently qualified personnel and very weakly motivated by low wages.

Also, the level of competence in tourism is low, due to the lack of performance

standards, labor standards and the standards of education and training.

Entrepreneurs from local tourism, that is from Harghita, should adopt, within their personnel policy, strategies to attract skilled workers in the field of personnel retention strategies, strategies for increasing the quality of services provided by them, by ensuring training qualified courses, personnel loyalty strategies, strategies to enhance the quality of services provided by them, by ensuring training courses and strategies to increase competitiveness by providing facilities to performing workers.

The success of entrepreneurs from Harghita County shall certainly depend on the investment in human resources and the strategies adopted to improve the quality benefits of tourism workers.

5. Specific strategies for the marketing mix

Analyzing the marketing strategies specific to the touristic product it can be observed that a considerable part of the entrepreneurs from the tourist market in Harghita, by their attractive offers have contributed to the increased use of the already existing tourism potential in the area of action.

On the touristic market from Harghita, there are tourism agencies which have understood, first the importance of differentiation strategies. Especially, differentiation strategies used by complementary services which are part of the tourism product.

The advantages provided by differentiated strategies of personnel begin to be taken into consideration by most tourism entrepreneurs. This strategy shall be but a long-term competitive advantage only if training becomes a reality.

Due to the fact the Harghita county has a varied tourism potential both for tourism potential, but also for natural and anthropogenic potential, touristic product and service providers can be identified as applying the differentiated strategy through image.

Diversification strategy and innovation supply strategy are now used by those entrepreneurs from Harghita market operating in areas that have a varied natural and anthropogenic potential such as, for

example, tourism service providers from Băile Tușnad that benefit from the investment made in order to exploit the potential of the mountain by arranging the ski slope which was inaugurated in 2009.

Harghita County has highly valuable natural and cultural values which unfortunately are not entirely valorized. The experience of other countries shows that an appropriate way of highlighting is represented by initiating major projects. Their achievement does not only depend on the activity of the already existing entrepreneurs, but also on the options of strategic marketing of organizations and central administration, where, of course, the political factor intervenes.

As far as marketing strategies of price policy are concerned, it has been noticed that the effects of the economic crisis had left its mark on the formulation of marketing strategies. Also, it has been noted that certain tourism service providers acting on tourism market in Harghita, have adapted to the existing economic conditions, offering tourism products and services at more attractive prices.

The negative effects of the economic crisis have been strongly felt by tourism companies from Harghita, first of all, due to the strong revenue reduction of the vast majority of consumers of tourism products. It is obvious that in this context, one cannot speak about a high level of capitalization of tourism potential in the county.

On the touristic market from Harghita county suppliers of tourism products and services do not pay enough attention to the distribution strategies. Certainly, the marketing of high quality tourism products,

by intermediaries known nationally and internationally, can contribute to the increased exploitation of tourism potential of this area. Marketing of poor quality tourism products even through internationally recognized tour operators, generates large disadvantages.

6. Conclusions

Long-term tourism in Harghita can become a competitive and sustainable tourism, contributing to meet the present and future needs through strong concern and care towards its resources, resources which must be employed in such a way as to allow their use in the decades to come.

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The Young Generation's Perspective on Ecological Behavior and Education

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Abstract

Based on theoretical aspects related to the role of education and environmental performance, continuing with market research and ending with conclusions, this paper aims to encourage stakeholders' concerns in the environmental field. The most valuable part of the paper is the market research among young people in Bucharest, seen as the core of future environmental concerns. It reveals that although young people are perceived as beginners in environmental issues, they are however very aware of their role, and they are ready to support the introduction of environmental subjects in school curricula as early as possible. Young people appreciate organic products, passing the ball into the producers and traders field, who are forced to consider appropriate policies for marketing, because now they know that their products are good, but too expensive. In the future, the authors intend to renew this research, towards new, evolutionary conclusions.

Keywords: behavioral ecology, environmental education, environment, youth research

J.E.L. Classification: Q01, Q56, Q57, M31

Introduction

Concerns for the environment, ecology, sustainable development are becoming increasingly prominent in all countries. Global warming, population demographic boom, lack of food are just some of the current problems economy faces. The new concept of eco-economics, promoted by Lester Brown [1] requires harmony between the economy and natural resources, which is not just a fad but a necessity. We are too many, compared to the amount of resources

available. We are not enough educated, while inattentive to the environment. Theoretically, we are on the wrong track. Consumption exceeding all limit can lead to conflicts over resources and even poverty for other people. In 2005, 1,345 million people in underdeveloped countries lived on less than \$ 1.25 per day [2]. It is hard to believe that this figure changed given the current economic crisis and global population estimated at 7 billion [3].

Thus, concepts which 30 years ago seemed to be only collateral concerns are now hard realities. However, humanity has made leaps through recent years, so one can say that we have the ability to create complex programs in order to stop or mitigate certain negative phenomena.

The ecological field plays an important part, being understood as an effective way to connect man with the environment. Its existence in itself is not sufficient. Steps have to be taken towards understanding these issues by all people, but especially the young generation. In this context, education becomes vital.

On one hand, a proper attitude of world governments towards the introduction and continuity of ecology subjects and topics in the school curricula is one way to reduce negative environmental impacts. On the other hand, based on an adequate education, the probability for a correct attitude and ecological behavior is greater. Thus, the road from the present to a green conscience becomes smoother. Man must regard future issues as recycling, separate collection of waste, consumption of organic products as natural facts. The change is directly linked to the desire for a better and more harmonious living, in a just, clean and peaceful world [4].

Environmental education is interdisciplinary and multidisciplinary. Understanding the processes and phenomena that determine the status of ecological

systems, i.e. understanding ecology provides, for the ones involved, both rights and responsibilities. A special responsibility is given to the mass media, which have access to scientific information. However, in addition to the scientific/eminently pragmatic part, environmental education has also philosophical issues related to ethics, morality, axiology, etc., all of which contribute to human individual position in society, in the frame of civilization and ecosphere.

Ecological behavior is a complex and complicated concept. It requires a constant and correct attitude towards what people generally call environment. In the 21st century, environmental behavior involves a number of actors that contribute directly or indirectly to training, maintaining and improving it. A basic element is the concept of responsibility. Thus, environmentally responsible people are those who are employed often in the category of environmental behavior (including consumption of organic products). Psychology studies have revealed that there are two types of responsibility: moral and conventional. The first is referred to the thinking and the feeling of guilt that one has, while the latter is connected to the social expectations that a person has and to the capacity of being able to meet them [5].

Research on the environmental performance took shape in the 80's [6,7] and was developed in the 90's [8,9]. Currently, the concerns on this matter are present in the work of many researchers, mentioning: Fraj, E., Martinez, E., [10,11].

Aiming to highlight the reality of education, environmental and consumer behavior, the article presents the results of a research on the 15-24 age group, in order to formulate conclusions on the issues mentioned, and a series of useful conclusions for several categories of actors involved in ecological activity.

1. Environmental education, a necessity in the 21st century

Ecology is the science of ecosystem interrelations between living organisms and the a-biotic environment, a science focused on understanding integrated synthetic processes in our environment, being based on

theories of organic evolution. Ecological thinking has motivated the emergence of a set of new disciplines, contained in a complex system of interconnections.

Education and learning begin at birth and continue throughout life. They are an interpersonal transfer of ideas, approaches and fundamental data considered relevant to a harmonious human life. If at the beginning the problem of continuous learning concerned only the developed countries, able to invest in adults' education also, while the knowledge-based society was formed, a series of states in transition understood its role and started encouraging the phenomenon [12].

Through experiments, learning should develop naturally from what the person knows to discovering the variety of forms and phenomena of nature. The essential purpose of environmental education is to enable everyone to express personal attitudes, responsibility towards the environment in which they live. This begins with the family which is an important and relevant example.

The ecological approach of education has certain methodological features. Since the ultimate goal of this educational approach is taking on an appropriate behavior and concrete actions for environmental protection, some ways to move from theoretical information, personal involvement, to concrete activities, depending on the cycle education, can be highlighted.

Since primary school to high school, youth are very receptive to what they are told and shown about the environment and willing to pursue actions in that direction. School's mission is to provide, gradually and according to age characteristics, scientific knowledge to motivate eco-civic norms and conducts, to create and organize educational activities on environmental protection, thus resulting in new knowledge [13].

In Romania, there were and are scheduled to be held activities in an environmentally friendly trend. One example is "Keep the city clean" program which took place during the school year 2010-2011 and is set to continue in the next years [14].

The "Eco-School program", on the other hand, is an international program that started from the idea of students' involvement in dealing with local environmental problems.

With an end to become an eco-school, education units must meet certain conditions, primarily related to the appearance of the school, but also the content of materials included in the school curricula, which should include elements of environmental protection, water and energy saving and selective waste collection. Schools must have a supplementary budget through the recovery of waste and use the money to endow educational means. Not only urban units are concerned, but also rural schools are interested in environmental and ecological education activities.

After obtaining this status, schools that successfully implement the program, following the evaluation procedure are awarded the Green Flag. It is a symbol of environmental education, a recognized eco-indicator for sustainable development education and a certificate of environmental performance of schools.

Through environmental education, there is a substantial contribution to higher understanding of the connection between individual and group activities, social and environmental changes of current and future life.

2. Ecological behavior, manifestation of concern for the environment

Ecological behavior is formed over time. It requires both respect for the environment and taking the according actions.

A category of studies that has great value in today's society is the transnational one. Thus, the Determinants of Environmental Behavior in Societies in Transition: Evidence from Five European Countries [15], brings into question the environmental aspects of behavior in five countries in Eastern Europe, including Romania. Several points have to be mentioned: the defined study, *inter alia*, responsible environmental behavior of active ecological behavior; the first group included questions related to avoiding the consumption of energy, water, the use of home-brought shopping bags, and the second group actions related to engaging in ecology (financial or non-financial), to the use of environmentally harmful products. Of the five states, Romania recorded the highest score in terms of environmentally responsible behavior and the lowest in terms of active

ecological behavior. Although the study was conducted in 2004, it has relevance now, as one can more easily relate to particular environmental behavior than to the common behavior, such as involvement in organized activities or financial contribution to specialized NGOs.

A good example is diverting 2% of income tax. However, a complex of factors consisting from the lack of education, information and even responsibility, conducted, in 2009, to the following situation: slightly over 50% of Romanian people exercised this right [16]. Environmental NGOs are not the most popular, as most people directed this income to church or religious foundations (29%), SMURD (10%), Save the Children (9%) children in difficulty (6%) and the Red Cross (about 6%).

It is easy to understand that Romania is taking its first steps in the ecology domain. However, joining the European Union provided a number of obligations and many of them were environmental issues, such as the requirement for the existence, by the year 2015, of local systems of waste separation by type: paper/cardboard, plastic, metal, glass. Thus, local authorities will have to implement specific measures to achieve this objective. By accessing European funds, the costs could be reduced.

Another issue concerns the environmental behavior of consumption. It is influenced by a series of internal and external factors. In the category of internal can be included: environmental attitudes, motivation and environmental experience or personality. All these contribute to the decisions every consumer makes when purchasing products and services. External factors which are mostly affecting ecological purchasing behavior in some countries, are the socio-cultural and economic type ones. For countries with experience in the field, the dominant influence comes from politics and law, but also from ecological marketing mixes.

The road to ecological behavior is difficult and needs to be paved with appropriate legislation, with strong sanctions, involving local community, school, media, researchers and all stakeholders. Finally, the reward would be a life in harmony with nature, which is also cleaner, healthier and

certainly more fulfilling.

3. Highlights of consumption and environmental performance in Bucharest

Any discussion about the future, sustainable development, trends, must be linked to reality from the perspective of young generation. In this regard, a research was undertaken among young people aged between 15 and 24, in Bucharest. Total collectivity is accounted for 265,000 people [17]. The methodology for determining the sample size led to a number of necessary queries of 384 people [18]. For safety reasons, 400 people were surveyed, yielding a total of 388 valid responses. The accepted error is 5%, and the questionnaire was applied during the period ranging from May 2nd to May 13th 2012, using direct interview operators (three subway stations, five colleges and four universities). A pre-test of this statistical tool was performed, by applying 10 questionnaires. Subsequently there have been some changes, leading to the final form of the statistical tool.

While drafting the questionnaire, several issues were taken into account regarding content, format and wording. Consistent with the typology of respondents (young, less patience) a questionnaire with 13 questions was developed, mostly of them closed type ones. The first question was part of the filter and was related to the respondent's age. If the person was not within the range desired, the interview ended.

The purpose of the investigation is assessing the degree to which young people in Bucharest resonate in consumer issues and ecological behavior, but also how they see the future on these issues. The objectives were:

- to measure the ecological interest – O1,
- to determine the awareness - environmental behavior relation – O2,
- to establish youth attitude towards ecological aspects, especially consumption and behavior – O3,
- to determine the role of media in environmental behavior – O4,
- to identify perceptions about the role of ecology in society and the trend in this area – O5.

After completing the steps related to data collection and analysis, a research report was

prepared; its results are presented below.

The ecological interest of young people reaches the proportion of 77% for much and very much. It's a promising idea for the future of ecology in Bucharest area. Over half of the respondents, 56%, apply what they consider to be environmentally friendly behavior (52% much and 4% very much). This is a positive aspect. However, it should be noted that a considerable percentage, 40%, only applies what they acknowledge in a small proportion.

In Bucharest, the waste management problem in the public space is very present and it seems complicated, as the authorities have no real solution for now. In this regard, questions were designed to identify youth behavior. Thus, 43% of the respondents does not ever throw away trash on the ground, 42% very rarely throws and 13% rarely. Regarding the selective collection of waste, half of the respondents do so occasionally, while 37% do so always. 13% admitted that they never selectively collect garbage.

Relating to waste collection for recycling, 65% of the young people have appreciated they do not undertake such activities. Of the over 130 that have concerns in this regard, 100 collect only paper. Higher frequencies of occurrence (but in very small percentage), registered batteries and plastic bottles. Oil and appliances are rarely collected.

Consumption of organic products among young people is still very low: only 17 percent said yes. They most frequently purchase eco-food: fruit, bread, milk, more rarely cosmetics and light bulbs. In most cases, the motivation for not-buying organic products is unique, but 40 respondents chose more reasons. From the classic 4Ps of marketing, two are cited by respondents: price and placement.

Thus, 37% correspond to variant a - „is expensive", while the variant c, "are distributed in fewer stores than common products" account for 34% of the options. 19% is relating to the improper labeling of products, that makes differentiation difficult. However, organic products are considered to have good quality by 72% of respondents. 15% of the people questioned consider these products to be of good quality and moderate price. Insignificant percentage (less than 2%) rated the products as of poor quality and expensive.

The information obtained by young people through the media determined their responses: 348 (90%) chose one option - 37% felt that they had become more environmentally responsible, 29% that have learned more about ecology, 17% have started to apply the knowledge acquired. Only 17% appreciated the information that was already known, to not have had any influence on their already eco-friendly behavior. Of the 10% who gave multiple answers, the elections were generally double combinations of variants a, b and c ("I learnt more about ecology," "I became more responsible in relation to the environment", "I began to apply the acquired knowledge").

In aspects of subjects' perception on issues related to ecology, 87% felt as beginners. Only 7% said they were convinced environmentalists, while the remaining 6% are either indifferent or opponents of the field. 69% said that ecology-related subjects should be introduced in the school curricula in school or kindergarden, while only 15% felt that they should appear in the programs of "long life learning" type. Only 5% indicated that environment should not be studied formally.

As for the tendency in ecological behavior, the majority of young people (83%) see it as increasing, 15% perceive it as unchanged and only 2% as decreasing.

The five objectives of the research are considered as achieved, and the research findings are extended to the entire community, as follows:

- young people's interest in ecology is greatly supported by the media, which provided useful information, causing them to behave responsibly in relation to the environment,
- although they do not throw garbage on the ground, its selection is of rather occasional nature, while the collection of waste for recycling is still in the pioneering phase,
- young people see themselves as environmentalists beginners and realize the role of ecology, saying that it should be studied as a subject since childhood.
- although they do not consume organic products, mainly for reasons of price and distribution, they appreciate the quality,
- respondents trust their peers, adding that

society will behave in a "greener" way in the future.

The study's results reveal the Bucharest reality and require certain steps in an EU country. First is the question of fair environmental education, by introducing appropriate subjects from the earliest years of life. Those must be included in learning programs, including those of life long learning type. Man-environment relationships highly degraded in recent years and need to be always in our attention. In the absence of repetitive information we tend to overlook the real dimensions of the negative impact we have in today's society. That's why those subjects are needed.

Another component of the society, extremely present, is the media, whose role should be a threefold: information - education - involvement. Programs should be based on correct information, should be continuous, creative, examples of good practice in Romania and other countries.

To increase consumption of organic products among young people, traders should be extremely creative in the promotion and product policy, so buyers are willing to pay the price, often considered too high.

Overall, the study results are encouraging, young people are interested in ecology, learning and adopting an environmentally correct behavior. Thus, if society through its institutions will collaborate in order to set the right objectives, Bucharest is likely to become a cleaner city, more careful with the surroundings, and why not, healthier, by people who will buy cleaner, fairer and more sustainable products and services.

Conclusions

The most valuable part of the paper "The young generation's perspective on ecological behavior and education" is the research undertaken in order to analyze a very important society group: young people. Questionnaires are meant to reveal a scan related to the situation of the environmental aspects, according to young people. The conclusions of the research are useful for different parts. Thus, environmental organizations have found that young people are interested in this area, schools that they might include in their curricula subjects in the field of ecology, producers and traders of

organic products that they can trust their products, but they must be careful with prices. Also, the media has the duty to provide programs that encourage responsible behavior and use of eco products. A good sign is given by the answer to the last question, related to the trend of the green consumption as rising.

Steps taken in this article should be continued, in order to make a comparison over time. Thus, successive application could set up an environmental profile of the young man who lives in Bucharest. Also, research could be extended to other regions and even in rural areas.

Optimism about the interest in ecology should be supported in every way possible, because young people need education, stability and a clean future.

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Implementation of Quality Management in the Internet Business Models

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Abstract

The evolution of quality concepts and their application increasingly higher administrative different industries and led to making quality a proven tool of good management. Evolution mood resulting from the awareness of people directions of action to enhance the role of education, the appointment of a management representative for quality, and so on, self-empowerment drives by all staff and continuous improvement of economic results.

It went so gradually from the simple concept of product quality control, quality assurance for products or services and, ultimately, quality management, which is part of an organization devoted to quality management in the spirit of ISO 9000 family of standards - currently with the reference standard version EN ISO 9001:2008.

Key words: quality management, Internet, management responsibility.

J.E.L. classification: M21, M42.

1. Introduction

International Standard ISO 9000 quality systems has been developed since 1987, due to international demand, especially in the initial defense industry and other production areas such as the nuclear industry, and as such standard was used only by companies in the sphere of production. Later, to make it applicable not only commercial sectors engaged in the production, the standard was revised and formally adopted in 1994 by the

International Organization for Standardization.

Currently, the ISO 9000 family of standards addresses a variety of issues in quality, reference being:

- ISO 9000:2005 - Quality Management Systems. Fundamentals and vocabulary;

- ISO 9001:2008 - Quality Management Systems requirements;

- ISO 9004:2009 - Management of an organization's sustainable performance. A quality management approach;

- ISO 19011:2002 - Guidelines for auditing Quality Management Systems and/or environmental.

Increasing competitiveness and capacity gain customer satisfaction can be best achieved through the design and implementation of quality management systems. Training programs in practice management quality management systems vary from country to country and from one organization to another and depends on market characteristics, professional culture, organizational culture and quality oriented.

Certification of quality management systems standards ISO 9000 series is a inevitable necessity for business support market entry and export. Even for businesses that have developed on the Internet certification of management systems is also entering the EU. Very European quality policy aims to promote an image of quality and European cultures to ensure free movement of goods, but also for the continued growth of competitive products and services. European Commission focuses its efforts to develop a legal framework and

procedures, along with training a conformity assessment system, efficient, competent, transparent, based on clearly defined principles.

2. Quality management in online companies from Romania

In terms of the structural components of an organization, creating and improving the quality can be addressed as a cycle, as shown in Figure 1 appears.

Figure 1. Quality cycle



Source: adaptation from Nicolescu, O., Plumb, I., Pricop, M., Vasilescu, I., Verboncu, I. - *Abordări moderne în managementul și economia organizației*, Vol. 2: *Managementul pe domenii de activitate*, Editura Economică Publishing, Bucharest, 2003, pp. 482

Thus, quality assurance and improvement involves better cooperation between departments of an organization, so, based on consumer needs, to define quality attributes, how to measure their quality standards, methods of testing standards, methods of correcting poor quality.

Quality management principles that express the basic ideas, the thesis is based on appropriate methodology, as defined by ISO 9001:2008 (ISO - Quality Management Principles, ISO Central Secretariat, Geneva, 2012), are:

{ Customer focus - meeting customers' explicit and implicit requirements are

fundamentally support the existence and further development of the company;

{ Leadership - enterprise performance goals can only be achieved through full involvement of leaders in training employees in the application of all the principles on which total quality management;

{ Involvement of people - creating and maintaining a functioning feedback mechanism between operational and managerial echelons amplifies a special way how to improve products and processes;

{ Process approach - the product is the result of activities or processes, the process is a set of interrelated resources and activities and added value that transforms input elements (process) the elements out;

{ Quality system approach to process management - identifying, understanding and managing interrelated processes as a system contributes to the effective and efficient business objectives;

{ Continuous improvement - continuous improvement should be a permanent objective of the company, which operates a quality management system functional and effective;

{ Approach based on facts to make decisions - quality management system uses data and information taken from documents that are implemented procedures for preparation;

{ Mutually beneficial supplier relationships - mutually beneficial relationships between all processes undertaken within the enterprise and between external partners and contribute to an osmosis between internal activities, on the one hand, and between the enterprise and its environment, on the other hand, the Thus, the entities involved increase their ability to create value added.

On the other hand, everything is quality management in a company that operates online can be translated and with a strong business ethics. The manner in which leaders choose to exercise this influence is a consequence of the way of being or may be the result of sustained learning. As in management, so in leadership can speak and native issues. Thus flair of management, the art of knowing how to act in a certain time, it can be in leadership charisma, his empathy. Some leaders, aided by these elements come

more easily to performance. Others get harder status, using various methods such as involving employees in decisions current and other assets. All existing businesses seeking excellence: it is recognition, market position, quality certification. To achieve this level it's requires a suitable leader, a true leader. (Tala, Madalina Lavinia - *Leader's ethics - a requirement for business success*, Amfiteatru Economic no. 23, A.S.E. Publishing, Bucharest, 2008, pp. 97-102).

3. Implementation of quality management in Internet business models in Romania

Implementation of ISO standards in an online business has become a necessity due to deficiencies in the management and execution processes, ineffective prosecution of the work and some negative feed-backs or lack of feedback from the customers.

Leaders establish unity of purpose and direction of the organization. They create and maintain the internal environment in which people can become fully involved in achieving the organization's objectives. The first step in establishing unity of purpose and direction of the organization is to assess each business ideas, regarded in its complexity.

Then it is considering delegating management responsibilities to lower hierarchical levels: for example, a dispatcher notifications (for an online business that deals with the distribution of electronic equipment) is required to track each complaint received from customers and to present at the meeting or whenever necessary, service engineers calculate their own times interventions or referrals service maintenance contracts and carry out their own hierarchy of these appointments and schedule their own sales representatives visits the customer's location or the potential customers, and call them at the office.

Implementation of quality management in Internet business models can be achieved using established methodology, adapting to the specific business model adopted, which generally requires a degree of formalization lower than traditional models - especially if sized organizations large. However, observing the stages and their rigorous approach is essential if the Internet business to adapt the entire structure with focus on quality. In this regard, the following steps are

considered (Oprean, C., Kifor, C. V. - *Managementul calității*, Capitolul 4: *Implementarea sistemelor de managementul calității*, Lucian Blaga University Publishing, Sibiu, 2002):

- Obtain commitment to change by organizing the management team;
- Develop vision and mission;
- Decomposition of the mission critical success factors;
 - Defining key performance indicators;
 - Identify core processes;
 - Basic decomposition into sub-processes, activities and tasks, as well as to improve team building;
- Integration of employees and processes by developing policy or the transformation of objectives.

Six Sigma vision of an organization that operates on the Internet contains a number of issues that can be applied for businesses operating on the Internet (Pande P., Neuman R., Cavanagh R. - *Six Sigma - Cum își îmbunătățesc performanțele GE, Motorola și alte companii de top*, All Publishing, Bucharest, 2000, pag. 93-94):

1. A real focus on customer attitude that puts customer needs first, while being supported systems and business strategies that serve the client's needs.

2. Management based on facts and data, effective measurement systems that track the results and outputs of the system and processes, and other system entries predictors.

3. The focus on process management and process improvement, as the engine of growth and achieve success. Six Sigma approach ensures that processes are documented, communicated, measured and refined on a regular basis. Also designed or redesigned processes from time to time to remain compatible with the customer and business needs.

4. Proactive management involving skills and practices that anticipate problems and changes, use facts and data, and always check assumptions about the organization's objectives.

5. Collaboration between internal groups and customers, suppliers and partners all logistics network.

6. An impulse to perfection offered the organization's Six Sigma freedom to try new

approaches even when risks are taken, the organization learning from mistakes.

Besides these aspects, taking into account the implementation of Six Sigma in an Internet business is justified especially in oriented approach to performance measurement that correlates with commensurate opportunities offered by the Internet environment in much more than in traditional business models.

The Six Sigma approach, the organization can achieve a number of important benefits, which attract companies to this method. These include:

1. Generate lasting success. Six Sigma method creates skills and culture necessary for continued revitalization of the company.

2. Establishes a performance objective for each. In a company of any size each service, business unit and individual goals and missions are different. However, what connects them all is the delivery of products, customer service information. Six Sigma uses this common framework for business process and client to create a constant goal: Six Sigma performance, for example - performance model so close to perfection.

3. Add value to customers. Focusing on the customer is where Six Sigma method, learning what is value to customers and to plan how products and services can be delivered profitably.

4. Rate of improvement accelerates. Information technologies establish a rate of doubling performance every 18 months over costs, improving customer expectations become even more demanding. Contestant who fails to progress in a rapidly become the best. Six Sigma helps a company to not only improve performance, but to improve their improvement.

5. Promote cross-learning and sharing of experiences. Six Sigma is an approach which can accelerate the development and sharing of new ideas within an organization.

6. Implement strategic change. Introducing new products, launching new businesses, entering new markets, acquiring organizations have become common events for most organizations.

4. Conclusions

Beyond the implementation of quality management and the context in which firms

operate, the profitability of a business requires not only the existence of a superior offer, many clients and a turnover above average, profitable companies operating on the Internet also involves (Baran, R., Zerres, C., Zerres, M. - *Customer relationship management*, Ventus Publishing Aps, Holstebro, 2011):

- A design of e-business and technology architecture;
- Internet Marketing Strategies;
- Online brand management (managing online own brand);
- Positioning Strategies of Internet markets products or prices;
- Online advertising, online promotion, web traffic growth tactics;
- Solutions for customer relationship management and technical support;
- Market research and analysis website its efficiency;
- Analysis of customer satisfaction and solutions for online communication;
- Services and strategies for choosing e-business partners;
- Online Payment Solutions and e-Commerce strategies.

It should be emphasized in particular that, compared to traditional businesses, in business on the Internet, the speed of adaptation to change that is required from firms can be considered as superior and often crucial in achieving profitability.

Profitability, the ultimate goal of a business reason for its existence implies a logical approach, integrated structure, if Internet businesses to focus or refocus the firm's activities, or to integrate within them. Thus, the managers need a strategic approach based strictly in accordance with established principles and steps of strategic management.

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The Importance of Social Media in Business Models on Internet

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Abstract

Social media is a term that reflects the rapid development of technology and the skills and knowledge users, a complex concept for which there is no universally accepted definition.

The term defines generic, a set of online communication channels, social networks and transmission of information, including social networks, groups, forums, blogs and various content platforms that facilitate transmission and instant communication (Safko, L., The Social Media Bible, John Wiley & Sons, New Jersey, 2010). Social media includes web tools easily accessible by people conversing, participating, creating, recommends exploit information and react to them online.

Social media refers to communication, interaction between people, free access to information of all kinds, creating content to Internet users.

Key words: Internet, social media, online business.

J.E.L. Classification: M21, L81

1. Introduction

Social media aimed at a specific target, because, as shown in the literature, some sociological and psychographic characteristics are crucial factors that determine users to engage in social media on the Internet. For example, studies show that users are rather young audience, and personality traits such as openness to new experiences, are positively correlated with

the use of social applications on the Internet. These features can be refined according to age and sex: thus, the correlation between extroversion and social media is especially important for young population, while open to new experiences is a key high especially among population segments mature, by sex showed that men with higher levels of emotional instability are regular users to a greater extent (Correa, T., Willard Hinsley, A., De Zuniga, H.G.).

The concept of social media is closely linked to the concept of Web 2.0, the revision of the technology that allowed the development of infrastructure and the concept of social media. Thus, the main features of social media are given by Web 2.0 features, respectively (Chaffey D., Smith PR – e-Marketing Excellence. Planning and Optimizing Your Digital Marketing, 3rd Edition, Elsevier, Oxford, 2008, p 112):

- ♣ Active participation: most applications are built based on active participation in their development of volunteers.

- ♣ Encourage the creation of web content to each user: blogs are a good example in this direction, and other examples are collaborative encyclopedia Wikipedia and YouTube.

- ♣ Ability grading and classification of online content: This service involves classification and grading of quality content.

- ♣ From millions of blogs available can easily find those in a given category and those that were considered useful by other users.

- ♣ Online advertising: some websites offers advertising in their pages. For example, YouTube provides five alternative ways to address the target audience: display

ads, channels dedicated to a particular firm, contests, advertising videos on YouTube or other video hosted by YouTube.

♣ Web services downloadable or interactive applications: such as Google Maps, Flickr or services like Blogger blogs. A number of interactive applications may involve downloading and installing software or plug-ins. For example, Last.fm is a service that allows publishing lists of your favorite songs or music recommendations to find people with common interests.

♣ Data exchange between sites in XML format: For example RSS - a program that automatically sends alerts when certain web sites provide news - is based on XML. These models promote exchange XML data between users of new services such as learning courses in a standardized format.

♣ Develop applications using technologies such as AJAX (Asynchronous JavaScript and XML) best known application of this is Google Maps which does not require refresh image to show maps.

Simplicity in style and design: many Web 2.0 applications are focused on a predominant activity such as social networking, mapping and sharing photos. To make this activity more enjoyable and appealing to an interface as simple as possible, using, for example, a harmonized color scheme, rounded corners on boxes, etc.

2. Web 2.0 concept

Web 2.0 concept incorporates two basic elements: on the one hand, the emergence, growth and popularity of social media, and on the other hand, changing the paradigm for the sharing of control between suppliers and users, in that users take a greater control over their interactions with the media, various organizations and mutual (Poynter, R. - the Handbook of Online and Social Media Research: Tools and Techniques for Market Researchers, John Wiley & Sons, Chichester, 2010, pp. 161).

Is currently circulating the Web 3.0 evolution, driven by technological advances that outlines a number of trends already visible, among which may include (Chaffey D., Smith PR, op. Cit., Page 113):

- Increased use of web applications and services (such as word processor and spreadsheet Google sites);

- Increased incorporation of content and services from other sites or on a network in a site (using tools like Yahoo! Pipes and XML exchanges between widgets);

- Increased use of video flows (as suggested offered by using YouTube and IPTV services such as Joost);

- Increased use of interactive virtual environments such as Second Life;

- Increased data sharing between social networks that satisfy different needs (as shown OpenSocial by Google);

- Increased use of semantic mark - or the sense of information - which leads to a semantic web. This would increase the number of web pages of interest to users by introducing metadata about them and their relationship, allowing access and achieve different tasks to automated agents. Thus, based on semantic mark will be able to develop applications equipped with artificial intelligence, which recommends web content and services to users without needing them to be actively involved in their search, and apply their own evaluation of the products and brands (for example, a service of automated comparison of tenders).

3. Social media types

Social media experience a wide variety of forms, each with its own particularities. An integrated taxonomic approach can be based on the main elements that characterize the concept of social media, which can be regarded as basic motivations that led to its emergence and development - self-presentation or self-exposure, respectively, in the presence of social complex environment more or less high.

↳ blogs - so-called primitive form of social media - composed of personal web pages, usually including articles in reverse chronological order. Text-based sites are still quite common form, respectively, a Web page, built on a free platform with a standardized (divided into header, footer, content and one or two the bullet on the right), the information is displayed (called stations) generally maintained and written by one person, you can find the widest range of information - from current news and general interest to the author's passions - and where visitors can interact by posting comments. Micro-blogging services enables companies

to conduct promotion and marketing. Examples: Blogger, LiveJournal, TypePad, WordPress, Webblog.ro.

↳ Collaborative projects - allowing assembly in a common and simultaneous creation of content by multiple users, thus allowing users to add, remove and change the content. Other sites let you add common content a user group: links and media collections. Wiki term designates and collaborative software used to create such a website, and among the best-known wikis include Wikipedia and Wikimedia, that offers detail product and company, thus expanding the scope of public knowledge about the product. Other examples are Pbwiki or Wetpaint.

↳ Social networking sites - which allow users to create personalized pages that can be viewed by a network of people with common interests (such as a network of students, friends and customers of the same product, fans of an artist). They also allow you to send e-mails and messages. Personalized pages often contain photos, videos, audio clips and blogs. Examples are: Facebook, Hi5, LinkedIn, MySpace, Afaceri.ro, etc.

↳ Content-based communities - have the common goal of providing users various forms of media: text (Bookcrossing), photos (Flickr), videos (YouTube) and PowerPoint presentations (Slide Share). Usually these sites do not require the creation of user profiles to be accessed, but a picture or movie that site must be approved by the moderator before it becomes visible.

↳ Virtual social worlds - allow users to choose their behavior in a more simplified and live in a virtual world, similar to the real one. An illustrative example is Second Life website, and other examples include: The Sims Online, There.

↳ Virtual worlds of games - are three-dimensional virtual platform where users appear as avatars and interact according to the rules of the games. These worlds have gained popularity with the introduction of Microsoft Xbox and Sony PlayStation consoles. Examples of virtual worlds include: City of Villains Travian, Lord of the Rings, World of Warcraft, etc.

4. Tools used in social media

Social media tools used are: social networks, photos, publications, audio, video, micro blogging, live casting, virtual worlds, games, RSS, search, mobile Internet. In recent years, social media has developed into a surprisingly fast pace and has a very large influence on the lives of individuals and at the same time on business. For example, Facebook attracts more than 200 million new active users per month, about 77% of active Internet users read blogs, 10 hours of video are posted on YouTube every minute, and the average age of a LinkedIn user is 31 years old.

Social media is known mainly through blog type platforms. Can be identified within a number of social media tools that are used both in personal and business level: blogs, wikis, multimedia sharing systems, tagging services, social bookmarking, news-feeds, post-casting services, websites social networking sites.

⇒ The blog is a Web page built on a free platform with a standardized (divided into header, footer, content and one or two the bullet on the right) that information (called channels) are displayed in reverse chronological order in generally maintained and written by one person, you can find the widest range of information (from current news and general interest to the author or gossip passions and views on various topics) and where visitors can interact very simply by commenting. Micro blogging services enables companies to launch a product to promote it, to achieve Customer who use buzz.

⇒ Wikis are a web application that allows users to add their own content and keep successive versions, like the Internet forum, but also allows anyone else to change the content. Wikis are part of the recent phenomenon called Web 2.0. The term Wiki (<http://www.wikipedia.ro>) calls and collaborative software used to create such a website. Between wikis are widespread popularity with Wikipedia or the Wikimedia allowing detailed product and company, thus expanding the scope of public knowledge about the product.

⇒ Internet forum site is an online discussion site where people can participate in conversations in the form of posted messages. This type of website is different from the messages in chats, because in this

case messages are temporarily archived. Also, depending on the access level of a user, a posted message might need to be approved by a moderator before it becomes visible.

⇒ Social networks are a network of people with common goals, such as a network of students, friends and customers of the same product, so fans of the artist. Social networks of the Internet are called "social networks".

In recent years, through a social network and an information network of Internet users often means, within site where they can register and communicate. In this way, they can create and transmit information accessible globally.

⇒ Video and photo sharing are sites where users can upload movies and photos on any field. As with forums, a photo or video that site must be approved by the moderator before it becomes visible.

The tools described above can be used in any type of business to facilitate communication and collaboration between customers and suppliers.

5. Conclusions

Success or failure due to build a presence in social media sites and how they will be assessed the presence, is a major issue to be considered by the management of a business. Most businesses, especially smaller ones, have traditionally taken ICT investments in terms of money. Thus, any investment in information and communication technology has been considered as an adjunct business that helps improve operational efficiency - without necessarily contribute directly to adding value to products or services.

According to a study by market research, analysis and market research Gartner (Bîrzo V. - Revenues from social media - 16.9 billion dollars in 2012, Business Cover, July 25, 2012), the revenue generated by social media can reach 16.9 billion dollars worldwide in 2012. Component of social media, advertising seems to have the largest share in achieving such income, estimated at a total of \$ 8.8 billion in 2012. It is also expected that the number of users of social media to grow at a moderate pace. New forms of media and entertainment will keep the users subscribe on social media sites, may be able to attract new subscribers. Increasing

competition in social media, each competitor looking to gain as much leisure users, this struggle leading to the formation of new social media entities (web based and especially mobile).

A company's marketing budget directed to building business presence on social networks can be typically up to 20% of the total budget. More companies explore social media to create online communities of customers or potential customers that can interact in various ways and to forward the message on the Internet. In Romania, the most popular Romanian 100 Facebook pages, 23 pages are a company or brand. Multinational companies have made their presence felt in online social environment but so far have gathered a huge number of fans having sustained interaction with them. Impact on sales is likely only to websites that offer discount coupons (<http://www.businessmagazin.ro/media-marketing/efectul-facebook-9012897>) social network where users are attracted mainly offers published, the rest is just the engine occasionally to stimulate sales. Four such deals are found in the top 100 most popular Facebook pages and FunDeal.ro is right first, if account is taken only companies or their products.

As the study by Regus, which included over 17,000 respondents from 80 countries among managers, is deemed necessary connection between the types of online promotion and traditional, to achieve maximum efficiency - 61% of respondents consider global, respectively, 57% in Romania. Among ways to promote online presence in social networks is considered essential - by 74% of respondents globally, respectively, 70% in Romania.

Since the main role of communication and information, social media is being used increasingly as a means of promoting the image of organizations and products and services. Social media provides openness and visibility of products and customers the opportunity to test some products. However, it happens that the products and services presented through blogs, social networks, forums to be ignored, pages are hard to read and aesthetically unattractive. Under these conditions, the impact on users can be negative.

For a product to be successful on the

Internet and therefore on social media, it needs to achieve optimum between function and form, in this case to serve the needs by providing information they need, while having a form as pleasant.

The number of users who use (and also pay for accounts on social networks) will increase, but revenue generated by this form of promotion decrease observed tendency of some social media companies like LinkedIn or Xing. It seems that there will be new opportunities to make money in social media, but reviving income sources by 2016 will be made through services. The highest weight and, in effect, the greatest impact in increasing social media will have intake advertising producers. On medium and long term, social media sites will have to implement "data analysis techniques, to interrogate social networks to provide marketing people a picture as close to reality in terms of preferences and consumer needs. "in other words, it will translate into practice through social media, traditional marketing concepts and principles in order to define a more accurate measurement, the average specific needs and preferences of Internet consumers.

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Romanian Political and Moral Crisis. Background of Business Strategic Development

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Abstract

This paper presents the political crisis that Romania is going through as a result of the derived and interconnected crises that the world economy is experiencing, the international financial crisis which started in 2007 in the USA and rapidly spread above the borders and the global economic crisis which has been developing before 2007 but started to be in the view of specialists as the financial one got more and more importance. In this respect, this paper has two major objectives: on one hand, to analyse and present the causes of the political and moral crisis in Romania and on the other hand, to identify the features of the Romanian mentality during a period of time of crisis.

Key words: crisis, political risk, country risk

J.E.L. Classification: D21, D81, H63, M21

1. Introduction

This paper aims at introducing within economic theory of crisis management the political crisis, the main objectives of this paper being defining and analysing the political and moral crisis that Romania is going through from the point of view of Romanian citizens' cultural characteristics, generically named with the concept of „mentality”. The paper is divided into three parts, the first part being dedicated to a literature review on the political crisis and the organizational culture which aims at defining Romanian mentality according to their features on Hofstede's cultural model, the second part makes a detailed analysis of nowadays Romania and the impact of the world crisis on our national state whereas the third part deals with Romanian citizens' behaviour during the crisis, our conclusions

in the end of the paper highlighting the particularities of the Romanian economic environment that businesses should consider.

2. Political crisis and organizational culture – the Romanian mentality

In this respect, we shall use Geert Hofstede's cultural model elaborated in 1980 as a result of his studies undertaken in IBM's subsidiaries within 50 different countries in the world. The main strength of this study was that it offered a widely accepted definition of the concept of “organizational culture” in a period of time highly dominated by psychologists and sociologists part of a strong cultural school that defined the organizational culture by the means of lists of characteristics; taking into account Hofstede's engineer background in the field of computers, his definition was synthetically stated as *the software of the mind*.

This process takes place within the individual's distinctive evolutionary stages, through his education in family, school and society. As a result of this software of the mind, we as individuals acquire specific thinking characteristics and attitudes, a mutual mentality which represents the resemblance to the other members of the group/region/nation we are part of and which, in the same time, differentiates us from the members of other groups/regions/nations.

Hofstede's studies were made before the fall of the communist regimes in the Central and Eastern Europe within the IBM subsidiaries; as the only ex-communist country where such a subsidiary operated was Yugoslavia, unfortunately Hofstede's model was not applied within any other country of the communist bloc! Hofstede, basing on his personal experience, made a series of appreciations, presenting them on

his personal web page www.geert-hofstede.com. In 2010, Hofstede published his last results of the research on a number of 76 countries in the world, but as regards Romania, the values are still estimated! In this paper, we are to positively appreciate the results of the research mentioned above, but they shall be partially contradicted by the reality in Romania, especially as regards the predominantly feminine character of our mentality (feminine cultures are those situated in the Northern Europe, in the Scandinavian Peninsula).

The studies undertaken by Gallup Romania in 2005 having as a starting point Hofstede's hypotheses persist in the same error, highlighted by the fact that such studies (two in number) were made on representative samples and not on samples consisting of specialists, as in Hofstede's studies! From our point of view, the Gallup Romania's studies shall be appreciated, but the representativeness of the sample as regards age, gender, origin environment or education have no connection with the capacity of people interviewed to make suppositions on the Romanian people's sociologic characteristics. Furthermore, Gallup Romania / Interact conclude that the low level of competitiveness of Romanians is due to their predominantly feminine cultural character! But the Scandinavian countries, predominantly feminine, are they low competitive too?

Table 1. Romania's national culture dimensions

Cultural dimension	Hofstede's research	Gallup Romania / Interact	Our research
Power Distance (PDI)	90	33	95
Individualism (IDV)	30	49	46
Masculinity (MAS)	42	39	80
Uncertainty Avoidance (UAI)	90	61	92

(source: www.geert-hofstede.com, Gallup Romania)

As follows, we will present the results of our own research, undertaken within the Department of Management of the Transilvania University of Braşov starting with 1995, our conclusions being from our point of view, more accurate than the reality

perceived by specialists and their conclusions revealed above, in Table 1.

a. *Power distance* – is associated to the means by which society operates, taking into consideration the differences in wealth and power that individuals inherit at birth. Romania falls within the country category with a high power distance level (PDI=95 points out of 120 = max.), as the other Latin countries in Europe or Latin America, leaders generally adopting authoritative styles of management, high organizational structures with many hierarchical levels, high bureaucracy especially in the field of public services whereas nepotism is a frequent way of promotion within organizations.

b. *Individualism/collectivism* – refers to individual's relations with the other members of the society. Romania features collectivism (74 points out of 120 = max., IDV=46) as well as the Latin, Balkan and Mediterranean countries where individuals develop highly cooperation relationships and when confronted with making decisions and auctioning, they take into consideration their membership to interest groups. Family is extended whereas relations among individuals are strong. Furthermore, motivation at the workplace aims both at the individual and at his group and different material and moral benefits and compensations are used. In general, individuals are able to provide a high level of loyalty towards their organization and they expect to be consulted in the decisional processes.

c. *Masculinity/femininity* – refers to the social division of roles between genders. Romanian population features a relatively high level of masculinity (MAS=80 points out of 120 = max.) this value being a closer value to Italy's (70 points). Within organizations, labour division is high and there is registered a continuous tendency of the desire to assert, Romanians being ambitious and combative. People with outstanding success consider image elements as very important, building sumptuous houses, buying luxury cars and starting political careers. Makers of success are to be appreciated whereas there are registered relatively low levels of social protection and environment conservation.

d. *Uncertainty avoidance* – refers to the way society responds to the fact that time evolves in only one direction, manifesting towards it

a higher or lower level of uncertainty generated by the future. According to the research, we determined a high level of uncertainty avoidance index (92 points out of 120 = max.). Individuals permanently struggle so as to influence and control their future; thus, they build systems of regulations and institutions and do not tolerate behaviours deviant from the societal rules. In order to create security, it operates *by technological means* - so as to protect itself from the risks imposed by natural disasters and wars, *by legal means* - using the law system so as to unify individual behaviours and *by religious means* - trying to make uncertainty tolerable by reference to more important realities than the personal one.

All these determining values of the four dimensions rank us near the Latin and Balkan countries; moreover, by repeating the studies in time, it has been demonstrated the special stability of the values characterising the organisational culture of a country, at the level of its generations. This is our motivation to state that there is no reason to take action so as to change mentality as a whole, which is relatively constant, but we should optimize actions on the basis of these cultural characteristics and by influencing some attitudes (towards work, property, civic consciousness etc.). In this regard, we shall re-read the literary work of Caragiale, who died just 100 years ago, to see how actual he is!

3. Romania and the world crisis

The autumn of 2008 is considered to be the very moment the world financial and economic crisis was brought to light through the bankruptcy of the large American investment banks as a result of the disastrous financial policy of George W. Bush's republican governance. He implied the USA in costly wars for the whole world and internally, he speculated the American obsession for properties by stimulating investment at an unprecedented level in the real estate field based on overdraft credits. In this respect, Kotz [1] states that the financial crisis of 2008 is a systemic crisis of a particular form of capitalism, namely neoliberal capitalism, featuring in the USA the following characteristics: deregulation of business and finance (the free market

achieved free mobility of capital), privatization of many state services, renunciation of discretionary fiscal policy, sharp reductions in state social spending, reduction of taxes on business and wealthy individuals, attacks by large businesses and state on trade unions, a shift in the labour process from reliance on long-term employees to increasing use of temporary and part-time workers, unrestrained cutthroat competition and the introduction of market principles inside large companies (a shift from choosing CEOs from among internal career employees to hiring from the outside).

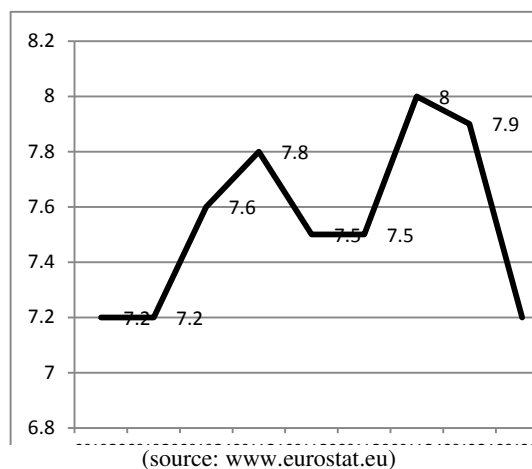
The crisis rapidly spread to all the other economies financially connected to the American one and gradually transformed itself into a global economic crisis highlighting all the flaws of the present economic system. This crisis as well as the Great Recession evidenced a number of troubling dynamics in contemporary capitalism, as Pinto, Macdonald and Marshall [2] present, the most obvious being the instability of national economies and the global economy as a whole, such features highlighting the rarity of the current crisis in magnitude and geographical scope, even if it came after several decades in which the frequency of serious crises that spill across national boundaries has risen to historically unprecedented levels (according to Kindleberger and Aliber, quoted in Pinto, Macdonald and Marshall [2]). Moreover, Zaman [3] considers that the phenomenon of globalization imposes nowadays the creation of a regulation framework of the international financial systems so that they become more sure and powerful, but this should be based on multilateral efforts of cooperation of the implied players and actors.

This crisis was predictable through different phenomena such as exaggerated consumption in all the developed economies and was anticipated as a cyclic event by numerous economists and by Pope Paul II as well, who named this phenomena "consumerism".

In Romania, this crisis started having no connection with the global financial crisis; at the end of 2008, Tăriceanu's government emptied the country's treasury and by the end of the first quarter of 2009, Romania was managed by Boc's government only from loans, blaming this situation on the world

crisis. Moreover, when Romania's president gave a public statement on crisis, he advised his citizens to save money, not to spend as difficult times were to come! And they came as Romania dramatically decreased consumption! Thus, it entered an uncontrollable spiral – not consuming, there is no money for production – unemployment increases (see Figure 1), consumption power decreases and so on so forth, at an unpredictable level. Furthermore, as regard unemployment, at a European level we must corroborate it to the workforce age average that is increasing, Europe facing nowadays the phenomenon of active population aging, phenomenon that influences the labour market both qualitatively and quantitatively and has impacts both on macroeconomic and microeconomic levels, as Backes-Gellner, Schneider and Veen [4] state, the average workforce age being negatively linked to quantitative organizational performance, but positively to qualitative organizational performance.

Figure 1. Unemployment rate in Romania in 2010-2012



Speciality literature offers studies on the types of crises – U, V, W, according to their evolution; the current crisis is under the form of “jigsaw teeth” and the moment it ends is difficult to predict– pessimistic forecast shows another 10 year period! As Ramesh [5] concludes, no society is immune from the need for social protection during the crisis, as while in a middle of a crisis, economic and eventually social conditions deteriorate rapidly before they improve, leaving behind lasting long-term effects. Public programmes are very important through the spending on

labour intensive projects, the offer of fiscal stimuli and the income necessary to support the poor. Such public programmes should not be launched only when a crisis strikes, no matter the type, scope or causes of the crisis, but affordable programmes should exist before crises. As Baba [6] states, the present economic situation determines companies to search for solutions to continue their activity in optimal conditions to avoid bankruptcy. In such a risky business environment, the strict control of all the economic operations and the adjustment of the strategies to the new market conditions are a must.

4. Romanian citizens' behaviour during the crisis

Romanians' behaviours during the crisis are strongly influenced by their mentality. Studies undertaken on disappeared civilisations, as for instance those on Ancient Greece and Ancient Rome, show suicidal tendencies at macro-social level; thus, cultures which entered their suicidal stage are featuring a negative natural increase - citizen don't reproduce, they migrate in mass, whereas their elected leaders are among those possessing low morality and precarious education! Such leaders are preoccupied only with their own wealth and development of clan relationships, having no connection with economic or political doctrines. To fulfil their goals, they make use of odious debts, Greece offering the best example nowadays, but as Nehru and Thomas [7] state, there are few examples where this concept has been evoked in law to justify the non-payment of sovereign debts (such cases being classified as war debts, subjugation debts or regime debts), even if odious debt has been a subject of debate for a long time.

An odious debt features three elements: it is accessed by government without its citizens' agreement, it is used according to its own interests and credit institutions managers seem not to know that! In order to develop and analyse the modern concept of odious debt, there have been identified three categories of odious debt, as Nehru and Thomas [7] highlight, criminal, unfair and ineffective debts. Criminal debts refers to loans involving corruption and kickbacks, the original loans to a country's government being stolen by officials and businessmen or

used to rescue an economy ravaged by corruption. Unfair debts is a wide concept used for numerous debts used in activities considered inappropriate or containing unacceptable conditions, such are usurious interest rates or debts contracted illegally. Ineffective debts refers to loans not meeting their developmental purpose or directly linked to capital light, even if there is no corruption and all the legal acts were respected.

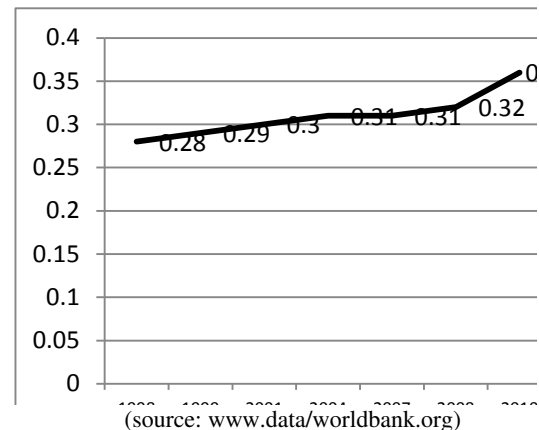
The long-term behaviours of different cultures are determined, as all the cultural dimensions, as Hofstede states, by the wealth level of the very country analysed (this statement is valid only for occidental cultures). Rich countries feature low power distance and individualism, the other cultural dimensions, uncertainty avoidance and masculinity being relatively independent of the national wealth, whereas poor countries feature high distance to power and collectivism.

In rich countries, wealth is distributed according to a normal curve, Gauss's, this showing the existence of three social classes – a small class of rich people, another class, relatively small, of poor people and the majority of people forming a middle class – this is a structure offering and ensuring the system with stability. In such a society, *global changes are achieved through evolution*. In poor countries, wealth is not uniformly distributed – a political-financial oligarchy leading by its rotation the large mass of poor population. In such a society, extremely instable, *changes are to be achieved by revolution!*

In such respect, Gini's coefficient has an outstanding importance in measuring the inequality of income distribution, more precisely as the Italian Corrado Gini developed it more than 100 years ago. Its values vary on one hand, from one country to another, on the other hand, in time for the same country. The latest data show a minimum values of 0.23 for Sweden and 0.70 for Namibia, considering the fact that 0 shows absolute equality of income (all the citizens should have exactly the same income) whereas 1 shows maximum inequality (wealth is concentrated with a single individual). A Gini coefficient of 0.50 means that a quarter of the total population possesses three quarters of the national

wealth, and the rest of three quarters of the total population possess only one quarter of the national wealth. Such type of estimation does depend neither on the population number nor on the social or political situation of the country. In Romania, following the year of 1989, the evolution was a descending one, from 0.28 by 1998 to 0.29 in 1999, 0.30 in 2001, 0.31 in 2004, 0.32 in 2008 and 0.36 in 2010, as presented in Figure 2.

Figure 2. Evolution of Gini coefficient in Romania



The crisis strongly accelerated social inequality. In the middle of 2010, Valentin Lazea, the economist-in-chief the Romanian National bank, underlined that we already reached a Gini coefficient of 0.36, located at the top limit of the European Union. He then stated that the vast majority of the population could live better, in a sustainable way, if there were an internal social contract according to which wealthy population was to accept offering a part of their income to poor population. Besides, the poor population should show that it really deserves such a sacrifice.

Such Gini values place Romania in the vicinity of dictatorship economies in Southern America, the situation becoming worse and worse as a result of the measures adopted by governments leading during crisis periods. The only strategy to save its economy is that of creating the necessary conditions for the middle class to develop and of ensuring system stability and its future progress. We are to achieve this by stimulating investment, especially by accessing non-refundable European funds intended for Romania and by stimulating consumption, but under no circumstance, by

increasing taxation. In this respect, Winston Churchill said: "We contend that for a nation to *try* to *tax* itself into prosperity is *like* a man standing in a bucket and *trying* to lift himself up by the handle".

By integrally accessing the European funds aimed at developing Romania, we could significantly have reduced the gap between our country and the other European countries getting through a real crisis. If this had been done, by 2015 we would have reached a productivity level of 45% of the European average. But, instead of accessing such funds by creating adequate mechanisms, Romanian government and power preferred having borrowed money from the International Monetary Fund and the World Bank that proved to be, in a great proportion, *odious debts!*

5. Conclusions

To sum up, this paper focussed on the analysis of the causes of the crisis that our country is getting through at present and unfortunately, there are no positive changes to be predicted in the future – the crisis in the shape of jigsaw teeth is getting more and more difficult in Romania, but not only, the Central and Eastern European member states do face successive crises, as Onaran [8] highlights, these twenty years following revolutions having to be divided into three periods: the transition crisis, post-transition growth and the crisis episode of 2008-9 which entered these countries in the global crisis leading to employment losses and real wage decreases.

By taking into account the political crisis, companies registered in Romania or entering the Romanian market should determine with high precision the influence of the political risk on their business. Bremmer [9] considers that there are two key elements companies should approach when entering an emerging market country: stability (defined as a government's ability to implement policy and enforce laws despite a shock to the system) and shock (of many kinds and usually unpredictable). By deeply analysing the vulnerabilities of a country, region or community, managers should implement strategies to face with such political risks.

As future development of political risk, we shall determine in our future research

whether political risk is a part of the large concept of country risk or a separate type of risk. Companies entering the Romanian market should take into account such risks when starting their business in a masculine country featuring collectivism, a high level of power distance and of uncertainty avoidance.

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Communication, Attraction and Fidelity in Tennis Using the Internet

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Abstract

In the past three years, the concept of customer relationship management (CRM) is the focus of worldwide business. If not long ago customer relationship management was not considered a priority within companies, organizations today's performance puts customers at the center of all activities and rethinks their marketing and sales strategies, depending on their needs and desires.

In this context, manufacturers of software for business have focused the attention on the development of specialized application programs dedicated to strategies for customer relationship management.

Keywords: Internet, Customer Relationship Management, tennis

JEL Classification: F50, F59

1. Introduction

Customer Relationship Management (CRM) has turned into a major element of the business strategy of many companies and is based on the creation and development of personalized relationships with customers to increase their market share. A CRM strategy allows a business to adapt rapidly to changing organizational behavior emerging market and thus the company can better meet the wishes and demands of its customers. Customer relationship management means establishing, maintaining, developing and improving relationships between an organization and its customers and focuses on understanding and meeting customers' wishes and requirements, elements that are at the heart of any company's business strategy performance.

The link between customer relationship management and new information technologies is not limited to create a simple custom website but extends to all business functions that are responsible for managing customer data.

Software packages and Web applications are addressed for sale force, promotional campaigns planners, to the operators responsible for managing customer issues. An e-CRM strategy offers many web solutions from simple e-mail personalized to "Web Call Centers". The most common Web solutions offered by e-CRM strategy can be summarized as follows:

- Personalized Email
- Window CHAT / interactive dialogue
- Forum / discussion group
- Videoconferencing
- Mailing List / postal addresses list
- Voice Applications Internet / VOIP
- Internet Applications Image
- Web Call Center

Even if companies intend through their commercial web sites to purchase as many email addresses of potential customers, the main goal in creating these sites is retaining existing customers largely determined by frequent return to those web addresses. This is quite natural given the fact that it is 5 to 10 times more expensive for a company to attract new customers than to loyalty the existing ones.

Given that number of Internet users in Romania is continuously increasing, companies are increasingly turning more and more to commercial websites, recognized as the most effective ways for business development as long as the target has access to the "network of networks".

Consumers now have many choices between different existing offerings and

facilities offered by the Internet to find and access a tremendous amount of information, making it increasingly more demanding and careful purchasing decisions. Consumers can easily migrate to competitors' products or services, when they become more favorable, in which case the companies are forced to closely manage customer relationships. It was found that customer loyalty via the Internet has different characteristics from loyalty through traditional marketing strategies, "off-line". Appealing to the Internet, any company must meet ethical code imposed by the web that no one has the right to send neither unsolicited commercial messages ("spam") nor a prospectus without prior agreement.

Another element of differentiation between customer loyalty "on-line" and customer loyalty "off-line", is the speed of integration marketing strategy firm. Traditional loyalty strategies focus on the most profitable customers to exploit their potential purchase. Fidelity over the Internet has a much wider scope of action, costs of loyalty campaigns with the Internet support is much lower.

Customer loyalty via the Internet begins with their confidence, followed by actions to develop all axes loyalty:

- presentation on the website of information on products or services as well as programs to support the use of certain products aimed at retaining relational;
- inserting on the website special offers aiming at strengthening loyalty functional set after first purchase;
- Web site presentation of information and promotional advantages that generates loyalty;
- developing a sense of belonging to a community in which all members share the same values.

Interest of companies for customer loyalty strategy via the Internet is determined by its high profitability potential. The results of research show that increased by 5% customer retention rate from web-marketing activities generate some profit sectors increases by 75% (Reicheld, "The Loyalty Effect").

In Romania, most companies focus most of their resources to exploration and web marketing to customer loyalty, something that we found from visualization and analysis of numerous commercial web sites

presentation of Romanian companies. Increase traffic web sites at the moment seem to be the main concern of web marketing actions undertaken by companies in Romania.

A retention strategy via the Internet aims to: stimulate and boost customer database that allows pointing their behavior, anticipate their needs and finding opportunities to add value relationships through CRM programs.

The Internet is the most abundant in terms of communication possibilities, so the moment when hosting a promotional flyer "on-line" can be planned very precisely and messages can be personalized include sound, images, animation and can generate several measurable actions.

The main strategies of customer loyalty over the Internet can be summarized in subsequent categories:

- Strategies punctual "one-shot"
- Loyalty Strategies "on-line" by analyzing customer behavior
- Retention strategies by analyzing online customer preferences
- Retention strategies based on knowledge of online personal data of customers
- The strategies of the online loyalty sending news letters about loyal customers
- Strategies for attracting and retaining customers using online viral marketing technique

Companies should not apply only one of these strategies, but each of them at different times. Effectiveness of loyalty programs by email should be tested regularly. Specificity communication over the Internet is the fact that the customer services online can cancel them at any time by unsubscribing to on those websites. To avoid such unpleasant events, companies must constantly engage in on-line surveys to observe customer satisfaction.

If a company wants to loyal the online customers, must generate loyalty to Web sites dedicated to this goal. Next, we present 10 factors that determine customer loyalty to commercial websites:

1. Site Content
2. Insertion on site of special price offers for online customers
3. Online service
4. Creation of online virtual communities

5. The existence of initiatives on sites
6. Simplicity
7. Security
8. Interactivity
9. Personalisation
10. Segmentation of customer portofoglio

2. Tennis - Easy, fun and healthy

2.1 History

For reasons related to children's limited capacity to adapt to the rigors of tennis practiced by adults, International Tennis Federation has introduced a series of recommendations to children playing tennis. For the first tennis experience to be one of those little funs and appealing it is recommended that training and competition in players to use three levels of play: Red, Orange and Green.

The "Tennis Play and Stay" campaign supported by the International Tennis Federation focuses on the slogan "serve, rally and score" and wants to athletes aged 4 to 10 years still feel playing tennis from the first lesson (<http://www.tennisplayandstay.com/site/>).

With the launch in 2008 of the system, this revolutionary program development for children 10 years and under 10 years has offered many children the chance to play tennis. In Romania competitive system proposed by Tennis Partner was released in May of 2010. Since January 2012 Tennis10 regulation was formalized by the International Tennis Federation.

The campaign is supported by main countries of the International Tennis Federation, professional players such as Roger Federer, Rafael Nadal, Justine Henin as well as sports equipment manufacturers.

2.2 Concept

Tennis10 system is based on the concept of scaling the elements of the game of tennis. It has three levels of play specific to age, physical development and abilities of each child. Like when players want to develop a range of physical abilities, categories Red, Orange and Green gradually learn tactical and technical elements.

- Red level:
- red balls;

-75% decompressed from the yellow ones;

- field 11 m long and 6 m wide;
- net of 80 cm height.

Orange level:

- orange balls;
- 50% decompressed from the yellow

ones;

- field 18 m long and 6.5 m wide;
- net of 91 cm height;

Green level:

- green balls;
- 25% decompressed from the yellow;
- field 23.77 m long and 8.23 m wide

(standard);

- net of 91 cm height (standard).

Rockets differ in size from 19 inches to 27.50 inches. Choosing rocket is based on height and strength and player age. A rocket too heavy would greatly influence the game; making it too passive at the same time can lead to injury.

Suitable competitions are equally important in the knowledge of tennis and making the sport fun. Competitions have motivational role and stimulate young players.

International Tennis Federation claims that slower balls should be used by all players aged under 10 years, with the aim of helping players to develop advanced technical and tactical.

Some countries have imposed in the competition those 10 years players and less than 10 years to play only slow balls, except highly trained and talented players.

2.3 The users of platform Tennis10

Tennis10 enrollment is based on the platform www.tennis10.ro creating an account. Each player is represented in the system by an adult. This in turn requires parental consent if the athlete is not one of them. Player representative can register up to three children in special cases an additional can be based on explicit request by the head of Tennis 10. Users are represented by e-mail and a password of your choice. Once created, you can then purchase Passport tournament entries you want. It is an easily accessible way. There is now a small percentage of people who do not have Internet access and do not have an e-mail.

2.4 Players

Tenis10 program offers three progressive stages for athletes who may enroll:

Red: for ages 4 to 8 years

Orange: for ages 8 to 10 years

Green: for players over 9 years

After passing the White Test and purchase passport tournament players can be registered. White test is to guarantee that every child has reached a certain stage of his skills before entering in the tournaments Tennis10. The player is tested in terms of overall level of skill and theoretical knowledge about tennis. This test can support any club from the list that appears on the internet right indicator "white test".

In section players, athlete once registered has a profile page with name, age and Statistics tournaments performed. On 30 June 2012, were enrolled in the project Tennis10 1925 players aged 4 to 11 years.

Each player profile includes personal data, participate in tournaments and results. It is obvious that the project aims to encourage children to participate in as many competitions without discouraging following poor results obtained by simply publishing the results without preparing a Ranking.

2.5 Tournaments

Tenis10 tournament series runs from May to October and have as Title Sponsor - BCR. It organizes tours to all regions on Saturdays and Sundays and Fridays rarely. They are published in www.tenis10.ro platform. Registration begins two weeks before the competition.

Depending on the number of participants, the organizing club infrascructura, coverage of awards, there are three types of tournaments: Silver, Gold and Platinum.

Silver tournaments are organized with up to 30 participants in one, two or all three levels of play, tournaments Gold is out for up to 50 participants and a minimum of 30 players and at least two levels of play and the Platinum is held only 4 times per year. Races begin and end on the same day. If the weather is unfavorable the organizers can postpone or cancel the competition.

Organizing club page shows information about sponsors, changes, address and location of the club on the map and contact.

Tenis10 project offers the possibility to organize such tournaments to all affiliated clubs to Romanian Tennis Federation.

At the end of calendaristic, each club shall elect the number of tournaments and their deployment dates for next year. They are sent via e-mail to the contact person in charge of competitions. Currently, 63 national clubs joined tennis program 10.

3. Web solutions provided by an e-CRM Strategy - Case Study

In terms of organization and management of customer relationships, the company is well structured. For more information, notices or other details concerning the competition, www.tenis10.ro platform is based on Web solutions to promote the project and attract customers.

a) The most used method of communication with customers is the personalized e-mail. GP team provides customers three e-mails for questions, problems and possible partnership opportunities.

They respond as soon as possible through messaging. Customer data remain confidential and the company can use this information to send personalized emails with promotions, offers.

b) An accessible and effective communication is Mailing List. Coordinator of the events keep customers informed with news and changes taking place in the system. Thus, the mailing list is entered into the program and the messages are distributed to registered users standardize platform www.tenis10.ro.

c) Image applications Internet or Video Over IP has a strong impact on customers. They can actually see what's going on and what promotes that Tennis10 project. Are published pictures and videos to show how to conduct its contests, news and interviews with players, coaches and parents?

4. Proposals to improve e-CRM strategy Tennis10

Tenis10 system has a modern information platform, represented by www.tenis10.ro site. Users have the support they need through active interaction e-CRM strategies. Without minimizing the effort of the organizers to

create a site oriented towards customer loyalty, today it is characterized by:

a. Tennis10 Site Content - provide relevant information about organized tours for small players. This site is able to provide answers to almost every question that comes from small players, parents and coaches. Thus, accessing the site both a customer of this website and any interested person may quickly find information on the performance of any player, awards, schedule of the competition, the competition fee, the number of tournaments a child is enrolled, the number of tournaments that a player retired.

A big drawback of this site is that data of the results of child tournaments are uploaded by webmaster with some delay, not being set a deadline for submission.

b. Insertion on site of special offers for players who register online to participate in various competitions - is an effective way to attract online network and customer loyalty, but is rarely used by companies in Romania. Tennis10 site does not provide information about possibilities for accommodation and rates privileged accommodation and meals for children who come from other places than the conduct of the competition.

c. Online assistance to the "players" - it is known that the on-line generates a high degree of loyalty. Tennis10 portal does not provide any support for the players and their legal representatives where they want to be assisted in their behavior.

Would be welcomed a nurse at least 8 hours per day on weekdays and 12 hours / day during weekends competition in which the activities to assist small players and their representatives in solving problems

d. Creation of online virtual communities - introducing on site the forum or chat application. This would facilitate interactions between members and coordinators. Thus, they can chat online and set up meetings tournaments in the country. Athletes can also discuss developments and exchange of experiences as well as detailed knowledge of sport for children.

e. The existence of initiatives on websites - always surprises and promotions give wellbeing and attract many people. Tennis10 project is with athletes enrolled in the system and enables them to receive benefits: the chance to become ambassadors

Tennis10 and receive awards by convincing other young athletes to join the system, newsletter subscription to the platform to keep up with the latest news, sites redirecting to sports equipment.

f. Simplicity is one of the basic conditions. A page with a language overloaded or slow, is that future members to distance themselves from the idea of using information systems. In this case, the site is well organized and clear. The format is especially good, with big letters; the expression is as simple as it made for children.

g. Security. In recent years has increased significantly percentage of those who make purchases and transactions online. Tennis10 team speculated the same time and decided that payment be made on the Internet Passport. To provide safety, they forced the creation of personal accounts with secure access. To ensure this competition, participation fee could do online, so the organizer is confident that he will have the full number of players.

h. Interactivity - The website provides information specifically for players and parents. These ones has regulation and also details on how the tournament. It is intended and children, the portal could introduce a series of interactive games that teach tennis kids tennis rules, conduct field tactics.

i. Personalizing personal profile of the individual members is something that attracts both big ones and small ones. In this section, Tennis10 platform provides only the opportunity to make the settings at the entry in the circuit, including attaching a representative picture, and then could not longer make any changes. If the profile is not set correctly must be contact the coordinators to make changes.

j. Segmentation of customers - Portal customers can select and divide into categories as follows: community Red, Orange community and Green community. This can discuss broader topics on forum sites and compare the organizers may propose conducting joint activities or offerings can be customized to address each level.

5. Conclusions

Without minimizing the role of web solutions offered today by e-CRM strategy of Tennis10 platform, in my opinion they are insufficient to meet the full requirements of a modern client. Thus, solutions of email, mailing list and video over IP are currently the only ones used by platform. They are solutions of customer relationship management off-line, the exclusive direct interaction and real-time "consumer" of information willing to always be in contact with the organizers in order to clarify any problems, doubts that arise in the process of enrollment, participation and assessment at one of the tournaments tennis10.

An important detail has always been customer feed-back. It shows how the objectives were met. Application Forum and Discussion Group gives users freedom of expression, the benefits available to event coordinators are: ability to adapt to changes in organizational behavior according to the wishes and needs of customers and market, establishing, maintaining, developing and optimizing the relationship between the organization and members its. Thus, expressing the needs in real time can lead to anticipating the needs of the event coordinators.

The Internet is the most abundant in terms of communication possibilities. By creating a connection, such as a network between these members: parents, coaches, players, organizers, founders develop a sense of belonging to the community. Interactive dialogue IM or Internet Voice or VOIP would be most appropriate to implement the www.tennis10.ro site for real-time communication and socialization, as well as obtaining technical assistance at any time. Internet facilities to access a huge volume of information makes most demanding customers. It's a little old to start a sports complex. Many people have grown sports performance education. Especially now that the parents are the ones who bear children work material, especially the need for additional information is present.

A web-based contact center or Web Call Center would be a good strategy to implement. It is available in a well-defined time interval and prepared in order to provide fast and complete information in real time.

Also a profile of each athlete by parents could be an extra point and a way to attract

more users. The more time they spend on the site, the more we can emphasize customer wishes and requirements.

Compliance with e-CRM strategy and investment in this system brings many members, loyal customers and profits as.

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Developments and Trends in CRM

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Abstract

CRM is an essential business strategy that integrates internal processes and functions with external networks, to create and deliver customer value target, given the profit. It is based on high quality customer data and on information technology. (Buttle, 2006). This definition highlights the bivalent customer relationship management scope, respectively creating and delivering value to both customers in target segments and for the organization. Also, an advantage of the definition is that it is taken into account both the strategic side and the operational one, based on software solutions.

The CRM goal is consistent with the philosophy of marketing and consists in generate value for the organization both in the form of revenue and profits, and customer value, as high degree of satisfaction and fulfillment of expectations.

Key Words: CRM, relationship management, information technology,

JEL Classification: M10, M21, M16, M30

1. Introduction

In implementing a CRM strategy, information technology plays a fundamental role in order to maximize profitability by fine segmentation of the market. We are in the era of information technology involving a strong link between a company and its customers due to the databases occurrence, embedded systems, data warehouses, internet facilities, etc.. All these technologies determines the share and customer profitability increase.

Information technology assist different data and knowledge management processes aimed at understanding customer needs, so

the most effective CRM strategy can be adopted. In addition, use of information technology makes possible the collect of needed data to determine profitability of acquisition and maintaining customer.

New web services allow users to combine the activities of real life with the support offered by the Web. User-centered services change the way people use the Internet and influences how they organize their lives.

When the web became commercial in the early '90s, there was an explosion of the Internet, the amount of information available on the Web taking impressive proportions. At that time most pages were generally static. This period was later called Web 1.0.

Web 2.0 is not the second version of a software or web techniques. Web 2.0 means (rather vague) new ways to find and exploit organizational possibilities of the web. According to these, web content and information is no longer offered to visitors only by the media, governments and private firms, but also by individuals, bound by informal networks based on the Internet.

These Web 2.0 features, combined with current CRM system, are giving rise to a new business strategy, Social CRM (SCRM). Social CRM creates a two-way interaction between the parts and gives to customers ownership right of the conversation with the company.

2. CRM objectives pursued in organizations

The general objectives

Business objectives for CRM software implementation are:

- increasing the number of customers and their profitability,

- identifying high-risk customers and right adjusting the services;
- Increasing market segmentation;
- Increasing the feed-back in campaigns;
- maximizing customer relationships lifetime through cross-selling;
- A higher percentage of customer satisfaction;
- facilitating immediate action to preserve the most valuable customers;
- a greater number of customers who return to visit the website;
- fostering a long-term customers loyalty through building relationships with it;
- a more streamlined internal organization (restriction workflow, shortening cycle activities and eliminating unproductive information flow);
- re-focus personal relationship with the client;
- Creating the possibility to meet customer needs with the right offer at the right time;

For example, in an analysis performed by the Conference Board on the adoption of CRM programs by questioning of 96 corporations, 52% of companies surveyed have implemented CRM solutions. Among other things, the first three statistical reasons were:

- maintain and increase customer loyalty;
- response effectiveness to competitive pressures, and
- build competitive advantage, differentiation based on competitiveness in terms of superior customer service.

The specific objectives of different departments

The specific objectives of the departments are:

Customer Support - obtaining basic information about customers and their complaints, monitoring customer satisfaction and faster resolution of claims in order to enhance their maintenance, self-service efficiency and

attenuation of the need for personal assistance.

Marketing - achieving dynamic customer segmentation to initiate a communication strategy and campaigns better targeted, adequate marketing campaigns, customer satisfaction by analyzing the segments, monitoring the feedback generated by the campaign.

Sales - Sales automatic development by region, guest history tracking, streamlined and efficient sales process and customer qualification based on past experiences.

Customer Relations - monitoring customer complaints history and their resolution.

3. CRM Benefits for organizations

A good CRM will help a company to acquire new customers, to serve old customers, increase the value of the latter, to keep and to determine which customers are loyal and which of them are interested in more complex services.

A professional CRM strategy can improve customer service by facilitating communication with them in several ways:

- increasing the efficiency of interaction with customers through all channels of communication;
- facilitating client-provider collaboration via the web, thereby reducing the costs of customer relationship management;
- provide information about the product and its use, technical assistance websites that are accessible at all times, 24 hours a day, 7 days a week;
- Identify how each customer defines quality, and then creating a service strategy for each customer, based on its individual requirements and expectations;
- a rapid mechanism of management and follow-up schedule - to find customer opinions from a purchase and to determine trends in purchasing new goods, the time of purchase and frequency of purchase;
- a mechanism for tracking the points of contact between a customer and the company - does it in an

integrated manner so that all the resources and types of contact are included and all system users have the same picture on the consumer, thus likelihood of confusion;

- Participation in the rapid identification of potential problems before they happen;
- a friendly mechanism for registering customer complaints (complaints that do not reach the company can not be resolved and become an important source of customer dissatisfaction);
- an effective mechanism for solving problems and complaints (complaints that are resolved quickly, increasing customer satisfaction);
- Internet use cookies to track customer interests and personalize product offerings;
- a mechanism for managing and scheduling maintenance, repair and ongoing support, improving efficiency.

Thus we can say that the benefits of CRM for companies are: increasing fidelity, lower acquisition costs, more revenue from existing customers.

4. Quantifying the success of CRM within organizations

Although success factors are different, at the end many companies choose ROI (return of investment) as the sole factor, although this method of calculation caused controversial discussions.

Sometimes CRM systems measure ROI only as a residual income or profit margin derived from implementing CRM technology. But it has only limited application because it does not provide a sufficient analysis to serve in decision-making. Also, evaluates the problem only from a business perspective and considers the customer only as a source of income, while CRM ROI should integrate both revenue and customer satisfaction.

A study led by researchers at the University Dayton highlights four key indicators for successful CRM:

1. CRM's ability to influence corporate strategy - 25% of respondents;
2. Successful integration of technology - 23% of respondents;

3. Enhancing strategic partnerships - 20% of respondents;
4. Technologies assimilation related to CRM - 18% of respondents.

Another indicator of financial success is customer lifetime value (CLV).

It allows companies to do analysis beyond a period of time and a client, and combines both financial flow reduction with activity-based cost and real probability of a customer retention to help understand the impact of various scenarios of CRM. Profitability results of most likely scenarios that can be implemented must be compared to find the best way to increase overall profitability.

5. Customer relationship management using information technology

In implementing a CRM strategy, information technology plays a fundamental role in order to maximize profitability by fine segmentation of the market. We are in the era of information technology involving a close link between a business and its customers due to the emergence of databases, embedded systems, data warehouses, facilities offered by the Internet, etc.. All these technologies determines rate and customer profitability increases.

Information technology assists various processes of data management and knowledge aimed at understanding customer needs, so the most effective CRM strategy can be adopted. In addition, use of information technology makes it possible to collect the data needed to determine profitability and maintaining customer acquisition.

The research shows that an increase of 5% in customer retention increases profits in net present value terms, between 20-125%. Although managers know the importance of keeping customers, few knows the impact on profit of close relationships with customers. As a result, they often adopt the most effective strategies for acquisition and customer loyalty.

Because the beneficial effect of keeping customers on profitability, organizations are increasingly turning to information technology to increase customer loyalty. To improve customer retention requires three steps: measuring customer retention rates, identify the causes of customer

dissatisfaction and implementing corrective actions.

To measure customer retention rate, a group of researchers from the Institute CRM Cranfield (UK) has developed a model which they called "Retention Gram" that allows managers to determine the impact of factors on customer retention profitability: cost of acquisition, the number of new customers conquered, apprehended customer profitability and customer retention rate. To facilitate the processes in this model requires sales force automation and creation of contact centers, web based and client-server technologies.

Retention Gram model involves creating an IT platform consists of computer networks, databases, data warehouses and integrated CRM software solutions. The ultimate objective of this model is to identify new opportunities for finding and loyalty the customer.

Another model that describes the relationship between employees attitudes, customer retention, their loyalty and company profitability, is the chain "service-customer-profit" developed by Harvard Business School. Under this model there are highlighted five key elements: customers, employees, innovation, financial performance and values of the organization, and the obstacles that arise in relation to the organization - customers.

Companies need to know what management actions should take (ie. investments in sales force training in IT, e-CRM call for action on a Web Call Center, etc.) to improve customer satisfaction and to retain their loyalty. This model was applied to Roebuck & Co. company, where the results were impressive: there were identified links between customer satisfaction as a result of e-CRM solutions applied and company profitability indicators. Attitude of employees towards the company was considered critical to approach customers, while customers impression, due to e-CRM strategies positively affected their retention. The model is used as a revenue growth forecasting: an increase of 5 units of employee attitude leads to a growth of 1.3 units in customers impression and 0.5 units in revenue increase, and if the system database customers can be integrated, it can lead to an

increase of 4 units in customers feeling which determines an increases in revenue.

6. Design and implementation of a CRM system within the organization

In a CRM project will participate employees of Sales, Marketing, Technical Support, Finance and Accounting departments, and IT professionals within and outside the organization. The organizational structure of the company will be held some temporary changes, creating a matrix structure specific to project management.

Team involved in CRM project will interact actively with customers, giving them the support they need.

On the basis of a CRM strategy is client-server technology with which it can quickly be distributed digital information between team members participating in the project. As IT support, there are used software for facilitating teamwork and different web applications.

Sales department benefits of a sales automation tool with which are identified potential customers, based on their needs that are not met or only partially met.

Marketing department uses information technology on sales and cross promotions, business presentations on the web as ways of promoting effective. Offers customization strategies are becoming prevalent. For example on the website www.nike.com customers are given the opportunity to create their own sports footwear, choosing his favorite color, the damping, etc..

Technical Department collects in a database the technical problems that customers sends, by providing necessary technical assistance quickly. It is known that rapid after-sales service is an important factor in selecting an offer by customers.

Department of Finance - Accounting provides reports on customer profitability, the cost of CRM strategy, coupled with expected revenues, costs of training the human resources involved in the process, etc..

Specialists in IT infrastructure creates customer interaction system and are responsible for the proper functioning of the system and for the flow of information carried.

In order to assess the effectiveness of CRM strategy, an important role is the feedback provided by customers, showing how the objectives were met.

The collaboration of these departments with the specialists in IT should not lose any sales opportunity, and each client must promptly receive the ordered products and services, support both during purchase and after purchase, suggestions and personalized loyalty programs.

Bill Gates proposes to CRM project managers: "Spend information and buy time in share. Use digital tools to help customers to solve their own problems and book your time devoted to personal contract in response to more important customer needs."

A company with good management realize the importance of customer who expect a personalized treatment that can be easily accomplished with a CRM strategy.

If we consider the triangle of project within a CRM strategy we highlight its limitations of time, budget and objectives.

Duration of a CRM project plan can decrease as the manager of the adopting company of this project decided to reduce the third part of the time dedicated to CRM system implementation, to quickly get a competitive advantage. You will need to increase the budget for the project or goal to be reduced.

If CRM project budget decreases, the project manager will need more time to complete the project and will require a reduction of project objectives.

CRM project budget can be reduced for various reasons: either reflect a company's financial situation worsened or the manager decides to relieve some of the own personnel burden on CRM, and to transfer it to a specialised contact center.

If the project goal increases, the project manager will need more time and more resources to perform the work generated by the extended goal. For example: the initial goal of the project was CRM sales force automation, extended target attached to the original objective is to achieve an integrated electronic communication with customers.

7. Conclusions

It is estimated that the success rate of IT projects in the field of CRM, of implementation

of software solutions for customer relationship management, does not exceed 30% (Hoekstra, 2001). The main cause of many failures is that calling an IT solution is unable to produce the desired results as long as the organization has not created a philosophy and a culture focused on customer, oriented to development of long term customer relationships. Increasing customer loyalty is possible only when all resources and processes have in their center the customer needs and his expectations.

Consequently, the conceptualization of customer relationship management involves consideration of the following major coordinates:

- a) strategic nature - CRM is a business strategy. Customer relationship management is relevant and profitable for the organization project only to the extent that they contribute to the objectives of the organization to generate value for the customer and the organization.
- b) the role of IT solutions - Information technology help in developing and implementing capable strategies of meeting the objectives of the organization on customer relationships and develop their loyalty. However, CRM solutions help in performance measurement regarding the applying strategies and programs in customer relationship management.
- c) The purpose of CRM - Elaboration and implementation of strategies to develop customer loyalty and to develop a preferred provider profile for the organization applying CRM strategies aimed at creating value for both major partners of the relationship, supplier and customer. To be recognized and adopted by the client, the value should be meaningful and relevant from his perspective.

Many experts consider three levels of customer relationship management: the strategic, the operational and the analytic level. In essence, strategic level refers to the major objective of CRM and its position as organization strategy, not only as functional strategy. Operational level is targeting the different automation of sales activities projects, service and marketing, and communication channels with customers. Analytical level consists mainly of measuring performance in customer organization, analysis of information about customers and reliance on the

information, analysis of the most appropriate marketing strategies and tactics.

In other words we can say that CRM is the process of continuous adaptation to market demands, marketing decisions improvement, optimizing sales, primarily aimed more detailed knowledge of customers and, hence, its satisfaction by delivering superior quality products and services and at the lowest possible price.

CRM is the technology assisted process by which is collected informations that enable companies to treat customers as individuals, not as consumer segments and cultivate relationships with them as such.

CRM is a strategic management solution for continuously improving client and buyer relationships in a competitive market where success is not only to provide a variety of products, but at the same time to differentiate the services they provide.

CRM is not just automation of sales in a call center but it means enabling an approach cross-channel to customer interactions.

It is a concept of root and branch to ensure that all customers are treated in the same way across all channels and that the institution can learn from interaction with consumers and therefore act wisely based on this interaction.

From a strategic perspective, CRM mobilizes resources rather around customer relationships than around some product groups, and encourages activities that maximize the lifetime value of the customer relationship.

From an operational perspective, CRM is linking the business processes in the "supply chain" from back-office functions to all customer contact channels ("contact points"), enabling the continuity and consistency of customer relationship.

In terms of analytical, CRM provides resources that enable organizations to fully understand customer segments, evaluate and maximize the value provided during the life

cycle of each customer, to model scenarios such as "what if", to provide consumer behavior, to design and implement effective marketing campaigns.

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Social Media and its Benefits within an Organization

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Abstract

Social CRM tools provides us with the means to capture data about profiles and to create the maps of customer experience which contributes to the development of real perspectives to customers, that offers what is really a personalized experience for individual customers. Based on history, CRM could not do it. It might be gathered all transactional data, but emotional and behavioral customer information that the profiles and the maps of experiences with the customers provides, were not part of the CRM value proposition given before.

The strategy behind Social CRM is to be opened with the client, to be visible to them, and give them the needed space and information to make smart decisions for themselves about how to interact with the company. By following this strategy, the company can learn from its customers because they have more freedom in their interaction with the society and with other customers.

Continuous interactions with customers, the ones that have good results, reduces the bad and increases the good relations between the company and the customers.

Key Words: social CRM, CRM, strategy, organization, management

JEL Classification: M10, M21, M16, M30

1. Introduction

There are many points of view on conceptual clarification of customer

relationship management. Until now, experts have opted for a single definition of CRM, which proves that this area is still in a phase of exploration and development of its essence.

However, an undeniable aspect is the particularly important role that effective management of customer relationships has in the sustainable development of the organization. One of the most relevant arguments that support the interests of managers and businessmen for CRM is that the reduction of 5% in the number of customers lost by the organization can result in an increase of 25% to 85% in organization profit. (Reichheld, Sasser, 1990). This reflects the importance of increasing customer loyalty for the existence and development of the organization, emphasizing, by default, the need of design and implement appropriate strategies for customer relationship management.

2. CRM - a key element of organizations in the current business

CRM is a business philosophy that describes a strategy that puts the customer in the center of the process, activities and culture of an organization. This strategy is implemented through IT applications, and the new developments in IT helps an organization to adapt their strategies regularly.

The main concept of CRM is relatively simple. For years companies have greatly focused their efforts on lowering costs and improving efficiency within the organization.

They focused more on internal process, often automating their functions elements of back office, such as production, logistics and finance. By contrast, management effort invested in customer-related activities such as sales and marketing are often left behind.

As the market consolidates and suppliers become more efficient in providing services or products, the rivals offers are becoming increasingly difficult to differentiate. For example, what is the main difference between two toothpastes? In the same time, as the quality of services and products improves, customer expectations and demands increases. As long as the client is able to change his supplier, it is becoming increasingly difficult for a company to maintain loyalty. It is therefore very important for a modern company to have a system to shorten the response time to customer requests, providing quality and support to their services.

For many industries, the evolutionary process of how to do business is not new. Suppliers of consumer goods in large quantities fought over the years to create brands based on quality and price. What is changing is the impact of increased customer decision-making power. Now, in an environment dominated by the Internet, where suppliers can change with just a few mouse clicks, the problem becomes even more complex. It affects every organization, whether it focuses on customer or business.

It turned out that maintaining old customers costs significantly less than buying new customers. Therefore, as companies expand their customer base, must not lose sight of keeping and multiplying the best of them. Increase of "customer action" - in other words, the amount of business that each client offers - becomes as important as increasing market action. Through good management with good customer relations can increase profitability. And this is essentially Customer Relationship Management.

3. Strategies of SCRM

Social CRM strategy and associated business models are defined by customer engagement, not customer management. While traditional CRM uses database to track customer transactions - be it sales data or

services data, the focus was on 360° angle of view of the client. This is a recording of a single client, with all the data relating to the customer - regardless of department - which is made available to all those who needs to see it. But while this was considered optimal realization of a traditional CRM implementation, it is now a prerequisite for a truly successful CRM effort - although only 38% of companies reporting that they have it.

But Social CRM has a different pivot. Than one that is easily traded and that manages data, rather this new center is a "company like me". This is actually a customer engagement strategy.

What is important is that every client has the products, tools, services and experiences that he needs to carve a personal interactive relationship with the company in a way that meets each of their personal agendas. This means that the company is willing to be sufficiently transparent and sincere quite to be trusted by the client. So, the company becomes a "company like me". The experience that the customer has with the company is positive enough to make that client become at least a loyal one, and in the best case, a supporter, an advocate client.

When a customer engagement strategy is efficient with the support of Social CRM tools and processes, there is a mutual benefit derived, planned from the beginning. Success is characterized by a fundamental change in the relationship between company and customer, from manufacturer to customer-partners. This is not a little effort. This is a major cultural and behavioral change in the way customers interact with a company. If they see themselves as partners, they feel having a contribution and an interest in its success. They are taking their commitment to company in ways that exceed their satisfaction, becomes advocates for the company, engages in community development and can even act as an extension of the company's sales team. These customers expect a reward.

They expect that they will have a degree of access to the operating mode of society, so that they can make intelligent decisions. They expect to receive personalized treatment and privileges. This could take the form of higher discounts, loyalty points program, other forms of recognition, even access to management is not out of the

the sales department directly on their mobile phone, smartphone, or any other means of communication with internet access (anytime, anywhere, on any device). Not only do they have access to other customer reviews and ratings for each item and they can add and theirs, but their activity is tracked in real time and an optimized offer is sent with a message, based on their history and their activity in real time. All these things take place on a mobile device.

Customer Service 2.0

Traditional customer service is easy to identify. It begins with a complaint to a customer service representative through a phone call to a call center full of automatic features menu or via Internet. Even if the problem can be solved in the end, the customer is usually more unhappy than when he made the claim. It could be that the automated system was a hindrance rather than a benefit, or the person who spoke was inappropriate educated. One way to solve this CRM problem is to reduce the waiting time in queue calls. Customer service tools 2.0 is based on a significantly different archetype:

1. Services which scans the communities of different sizes, from Facebook to Twitter, to find customer complaints, and then, using analytical tools, determine the emotional depth, good or bad, of the complaint. Based on business rules and workflows that are built into the application service, the result triggers an alert that will be sent to the appropriate person in the chain of command.
2. If a customer has a problem and is willing to allow another customer communities to help solve the problem, it is exposed to the community that can be a possible solution provider. If an answer is found, it becomes part of the knowledge base of customer relations department.

5. Conclusions

Social CRM gives us the tools to a real customer insight that can be used to facilitate successful sales and improve customer relationships. It also provides opportunities for customers to interact with us in a more efficient way, which transforms the way the client sees us and what he expects from us.

Social CRM tools provides us with the means to capture profiles data to create

customer experience maps which, at their turn, contributes to the development of real prospects to customers, that offers what is really a personalized experience for individual customers. Based on history, CRM could not do it. It might gather all transactional data, but emotional and behavioral customer information that the profiles and the maps of experiences with their customers provides were not part of the value proposition offered by CRM ever.

If used properly, the gained perspective will provide what a sales person in particular, but also any staff member who interacts with a customer, generally, wants. That means an increased reputation, which can lead to increased influence, which then could allow an honorable and influential salesperson to be more convincing, because these traits are more reliable.

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General Principles Regarding the Relationships Among the Environmental Cost Accounting, Environmental Performance Measurement and Eco-efficiency Indicators

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Abstract

The scope of hereby paper is drafting a proposal on the environmental cost accounting, environmental performance and eco-efficiency indicators. The paper briefly presents the main trends on the environmental cost accounting. Having in view the material flow expenses and their impact on environment, the eco-efficiency performance measurement is recommended in the costs accounting for measuring the indicators. The complementary relation among the environmental costs accounting and the environmental performance indicators, especially with the eco-efficiency indicators, and with environmental performance measurement, requests the integration of them on the global level. Therefore, this article suggests that the environmental cost accounting and the environmental performance indicators are to be integrated within the decision-making process. The paper concludes with various comments on the integration of the environmental costs accounting with the environment indicators.

Key words: environmental cost accounting, environmental performance measurement, eco-efficiency indicators, sustainable development

JEL classification: E01, F63, Q01, Q56

1. Introduction

The environmental management, through its activities that generate various costs within an organization, can assist in avoiding certain expenses and can generate benefits.

The environmental management accounting objective is defined by the above mentioned functions. The main activity of the environmental cost accounting, part of environmental management accounting, represents the expenses occurred and the related costs that can be avoided and not directly related to the environment performance improvement benefits. The latest is defined by another activity within the environmental management accounting, focused on environmental performance measurement [1].

By issuing an appropriate documentation, this article presents a general view on the environmental accounting concepts, environmental performance indicators and eco-efficiency indicators, and their importance in improving the environmental performance. The environmental cost accounting focuses on the specific costs related to material and energy flows and their impact on the environment, which represents the integration of the economic indicators with the environment indicators and calculating the eco-efficiency level of an organization. The eco-efficiency indicators provide useful information to the environmental cost accounting and during the decision making process.

2. Environmental cost accounting

Environmental cost accounting is defined by the International Federation of Accountants (IFAC) as part of the environmental management accounting [2]. Presently, there are five methods of calculating the environmental costs, differentiated based on the definition of the environmental costs and costs accounting method, defined by the enterprise. Some of

these methods were created for stand alone calculations, and not for integrating them in the accounting system of the organization, and some were designed as part of the management accounting system of the enterprise: full cost accounting, direct costing, process costing, target costing. The last two have been implemented only by few companies [3].

The environmental costs are expenses related to the environmental protection, material and energy flows involved and which have to be reduced when implementing the sustainability concept. The environmental costs are expenses related to those activities of environmental protection and "end-of-pipe" technologies. This type of "end-of-pipe" technologies are used for controlling the pollution level and are related to impacts generated by industrial pollutants disposal/emissions. It has been agreed that this approach represents only a temporary postponement of environment issues, focusing more on "pollution containment" than on their reduction. As per this principle, the pollution is reduced after it was generated. It has to be admitted also that this approach involves additional resources and costs and it is not following the sustainable development vision. The environmental costs can be defined as the total amount of direct and indirect costs, generated by the material and energy flows, and of the expenses as a result of the impact of these flows on the environment. These costs include all the expenses occurred from: taxes, fines, materials purchasing, administrative expenses with environment provisions, which can occur if the materials and energy flows consumption is not reduced [4]. All the current, past and future costs must be considered.

Taking into consideration all the materials and energy flows costs and the environmental issues that may occur, and the present trends in the environmental costs accounting field, a tight relationship between material flow information and costs information is mandatory. Also, the benefits that the environmental management activities could generate have to be considered, regarding the environmental performance improvement of the enterprises. The environmental performance measurement, environmental performance indicators and eco-efficiency

indicators influence the present trends of the environmental costs accounting. The paper further describes these elements and if they can be complementary to the environmental costs accounting, in order to improve the performance measurement through eco-efficiency.

3. Environmental performance and environmental performance measurement indicators

The environmental performance concept was generally defined as "the results of an organization's management of its environmental aspects" [5]. According to ISO, an environmental performance indicator is a "specific expression that provides information about an organization's environmental performance" [5]. Bennett defines the environmental performance measurement as the interaction measurement between business market and the environment [1]. In our opinion, all three definitions are rather dim. We believe that the environmental performance represents the actual reduction that an organization succeeds to obtain in time of its impact on the environment. Thus, the environmental performance can be measured by using the following indicators: total gas exhausts and gas emissions, compared to the turnover or to the overall production output, for improving the environmental objectives of an organization in a given period of time.

According to Schaltegger and Burritt, the concern of certain stakeholders resulted in developing the environmental performance measurement [4]. The environmental performance is calculated based on objectives. The question might be if these objectives have to take into consideration only the organization, or they should be exclusively focusing on improving the environment conditions, or if they should have in view the sustainable development or should improve on a short time basis. Given all these aspects, we wonder if the environmental performance measurement should or not be an approach that takes into consideration the overall lifetime process or should be targeting only a single aspect. Another question, in addition to the others above mentioned, is if the environmental performance measurement should be related

more to the external or to the internal organization stakeholders benefits. The issues regarding the environmental performance measurement and their impact on the environmental cost accounting must be clarified accordingly.

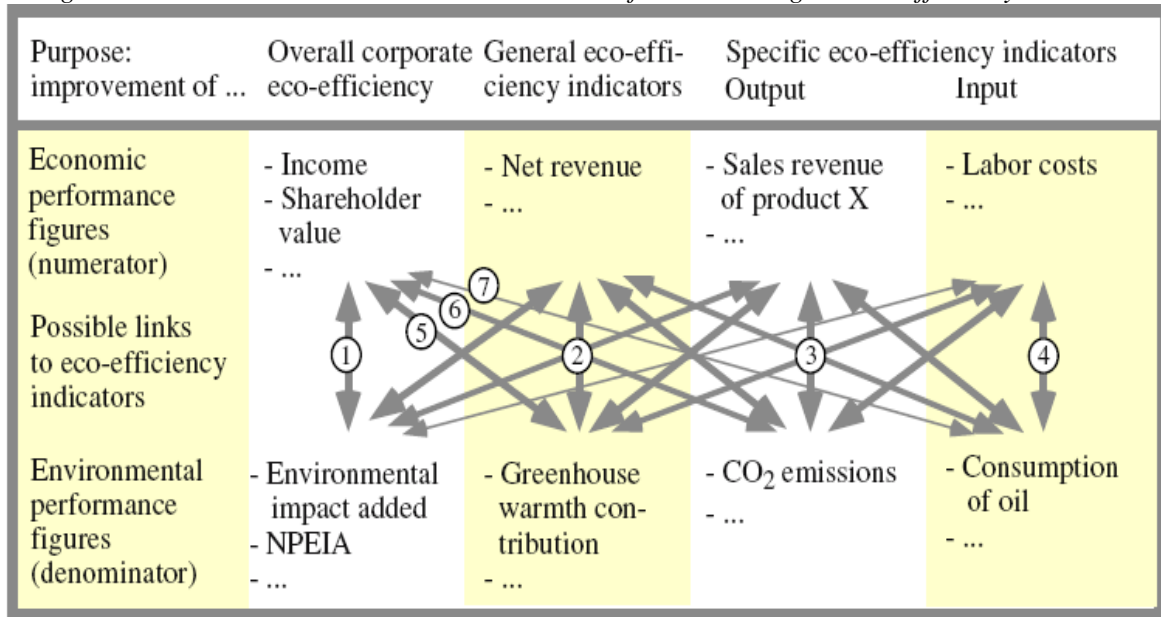
4. Eco-efficiency indicators

The concept of eco-efficiency was the result of the ecologic-economic efficiency and was further developed by Schaltegger and Sturm [6]. Starting from these studies, Schaltegger and Burritt (2000) have conducted various researches on environmental performance indicators. They suggested that for measuring the eco-efficiency of an organization, the available economic and ecologic information have to be converted in information indicating the eco-efficiency [4]. Thus, the economic data, given in currency units, and environment data, given in ecological indicators, have to be integrated as an eco-efficiency indicators system. The integration of the economic efficiency indicators (numerator) together with the indicators that define the environmental performance (denominator) determines a ratio that measures the economic-ecologic efficiency (eco-efficiency) and allows certain environmental issues to be taken into consideration within the decision-making process, and economic matters. An eco-efficiency indicator is a parameter having the same meaning of an environmental performance indicator, defined by ISO 14031 [5] or in the GRI Guidelines [7]. The results showing the economic and environmental performance are different, based on the way the economic indicators are combined with the

environmental ones and on the level of their integration. The result is the general indicators defining the eco-efficiency in an organization and specific indicators that provide detailed information on the processes that take place at different levels of the organization. Figure 1 mainly presents the economical performance on various levels (from a general level to a more specific one), and secondly the environmental performance. The middle row presents the calculation methods of the eco-efficiency by combining the economic indicators with the environmental indicators. Mathematically speaking, and keeping in mind that the eco-efficiency is a concept that needs to be related to a specific event, an unlimited number of combinations can be obtained from the economic data and environment data. However, Figure 1 recommends those combinations that generate advantageous eco-efficiency indicators (the arrows width shows the efficiency of the calculated indicators; the larger, the more advantageous combinations).

Most general eco-efficiency indicators are: short run income, based on the environmental impact added value or, on a long term, the shareholder value, based on the net present environmental impact added value. The net present environmental impact added value, as well as the shareholder value, is strongly connected to the net present value and residual income, and can be used for calculating the long term eco-efficiency indicators. The net present environmental impact added value represents the discounted aggregate future environmental impact added value and also a long term accounting indicator for calculating the future impact on the environment.

Figure 1. Economic and environmental indicators for calculating the eco-efficiency indicators



Source: Schaltegger and Burritt, 2000 p. 362

Other general eco-efficiency indicators can be defined by the ratio of net revenue and free cash flow, as economic data, and the greenhouse gas exhausts that increase the global warming, the gas emissions that affects the ozone layer and which results in photochemical smog, as ecological data. The free cash flow and the product's net revenue can be directly affected by the financial consequences of a specific environmental issues, which generate additional specific costs.

The specific eco-efficiency indicators include indicators related to output, as the income resulted from selling a product/1 kg of CO₂ emissions, and to inputs, as the labor-related expenses/1 consumed fuel unit. Understanding and developing the general indicators are rather simple operations, while the specific indicators involve their integration within a wider frame to be correctly calculated.

By combining all the possible general/specific economical indicators with the general/specific environmental indicators, the eco-efficiency indicators are obtained, offering interesting information for all the involved stakeholders. Having in view the connection between the financial consequences of some environmental issues and materials and energy inputs, many stakeholders will be interested in these indicators. The investors are concerned with calculating indicators as: the shareholder

value/greenhouse gas emissions quantity ratio, shareholder value/unit of CO₂ emissions ratio; or they will be interested in the shareholder value/1kg of consumed fuel. These indicators offer to the investors the information regarding the financial sensitivity of an organization to a possible insourcing of the external costs with greenhouse gas emissions, which can worsen the global warming or determine a possible raise in the fuel price, resulted from, for example, applying a greenhouse gas emission tax.

Defining and clearly assigning the eco-efficiency indicators are very important, thus the economical and environmental data are to be comparable and to take into consideration those activities that are in the stakeholders' benefit. For example, if a stakeholder has a long term vision, then the economic indicator has to be chosen also on a long term basis, as shareholder value, and which has to be related to an environmental indicator also on a long term basis, as the net present environmental impact added value. On a short term, calculating the ration between the return on capital and environmental impact added value is very useful. If the organization is interested in the impact on the company and community, it will determine the eco-efficiency by calculating the ratio between the value added and the environmental impact added.

It is well known that the internal stakeholders have different views than the external ones, and that they are interested in different indicators, but all the stakeholders focus on the financial evaluation of the investment. For the shareholders the appropriate eco-efficiency indicator for this scope will be the ration between the shareholder value and the net present environmental impact added value. The government and the top level management are concerned with evaluating the general impact on the community, the appropriate eco-efficiency indicator for calculating this effect being the ration between the value added and environmental impact added value. The top management is also interested in evaluating the annual performance that can be calculated with the following eco-efficiency indicator, given by the ratio between income and the environmental impact added value. The divisional management, for example, is interested in the economic and environmental impact of the business strategic units. The middle management is focused on the product and the production stages. The eco-efficiency indicators have to be carefully assigned, based on the related activities characteristics.

For most involved parties, the economical, environmental and eco-efficiency indicators make sense when these indicators are related to the specific activities under the responsibility and control and which they can improve. Therefore, an eco-efficiency indicator is determined based on the interest of the involved party and has to be related to certain controllable and relevant comparing standards, within the organizational level to be applied on. For example, for the investors, the denominator of comparison could be the invested currency unit (euro, dollars), and for the production management, the number of the products.

Taking an investment decision, that is to include also certain ecological aspects, requires designing a project which involves both financial and environment information. The indicators for preventing pollution, for example, can include next costs, scrubbers costs/cubic meter of polluted air, sewage plant costs/cubic meter of sewage caused. The calculation of the eco-efficiency indicators ensures a very good practical control of the ecological concerns. The

current eco-efficiency level is evaluated, estimations are carried out and targets are fixed to be compared with certain benchmarks. The indicators that are correctly calculated can offer important information related to the current situation on the eco-efficiency level and improvements directions in the future. Still, even if the eco-efficiency indicators usage can result in more benefits to the involved parties, presently this usage is rather low for certain reasons.

One of the reasons could be that the eco-efficiency indicators can be taken into consideration in the decision making process and can improve the quality, only if based on real information and if correctly calculated in the accounting, using well established methods. As in the environmental accounting there are no generally accepted standards, when calculating the eco-efficiency indicators, internal comparisons are carried out between the enterprise business units, and comparisons at different moments in time. It is about enterprise performance and comparative analysis.

Another angle to have in view is that even if the provided data are real and of a high quality, the eco-efficiency indicators have to be carefully considered. The indicators and data used in this process can be inaccurate, as being too specific or too general when taking a certain decision, and this can create an inappropriate image of the situation. Therefore, any definition of a eco-efficiency indicator has to be carefully analyzed. Also, in most cases, the data indicating the eco-efficiency level cannot underline all the matter aspects for which a decision is necessary to be taken. They are necessary, but not sufficient within the decision making process and, thence, additional qualitative and quantitative information are furthermore required.

5. Conclusions

Lately, the environmental management accounting, especially the environmental cost accounting, is gaining more practical importance. There are various implementation methods of it, and for the managers it is difficult to choose the right method or combination of methods. Also, managers find it difficult in practical situations to appropriately implement these

methods. Moreover, this action needs allocating additional resources.

These reasons led to a stronger focus on the environmental performance indicators, disadvantaging the environmental costs accounting. However, we need to take into account that these two concepts are complementary and are related one to each other. The environmental cost accounting offers important information for correctly calculating the environment indicators. The eco-efficiency indicators are the result of modern approaches of the costs accounting and they combine the economical indicators with environmental indicators. For successfully reaching the targeted strategy, the consistent system of environmental indicators will assign a particular importance to the environmental accounting. The environment indicators, calculated based on a consistent environmental accounting, offer useful information for the decision making process. Basically, the discussion regarding the environmental cost accounting, environmental performance indicators and eco-efficiency indicators needs to focus on their efficient implementation.

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Romania's Tourism Brand – a Critical Analysis

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Abstract

Today the tourism is the fastest growing industry in the whole world. In comparison with other countries that have been taking advantage of these phenomena of travelling, Romania is lagging behind in terms of tourist arrivals. To capitalize our potential tourist destinations, the Romanian government launched a series of promotional campaigns in order to obtain a competitive advantage over their rivals.

The article provides conceptual delimitations about tourist destination branding. Also, the paper intends to approach in an exploratory manner how Romania has been presented in the communication campaigns over the years and what efforts has been made by authorities to promote the country as a tourist destination. Finally conclusions were outlined that highlight why failed all campaigns that promoted Romania as tourist destination.

Keywords: tourist destination, promotional campaign, Romania;

J.E.L. Classification: M31, M38, L83;

1. Introduction

In comparison with other countries from Western Europe, Asia, and North America, little research has been conducted into the destination branding of Romania. This article aims to help fill this gap in the literature, by examining the contrasting approaches and strategies used by Romanian authorities in their respective attempts to develop a strong tourism brand. The most countries only clearly brand themselves for tourism purposes, so much so that tourism branding tends to be confused with nation branding. This is the case for what happened with

Romania branding.

2. The importance of tourism destination branding

The concept of branding has been traditionally associated with corporations and their products and services. Today branding knows no boundaries. Branding is now applied to people, institutions, political entities, places, destinations, cities and even countries or nations.

If creation, development, employment and positioning of brands are relatively easy to understand for the tourist products and services, in the case of the tourist destinations such activities tend to be more complex [8]. Thus, developing a brand for a tourist destination becomes more difficult as a result of the multidimensional nature of the destination itself, the different interests of the stakeholders present in the tourist market, the differences between the theory and specific decision-making process involved, on the one hand, respectively the consensus of the involved community, on the other hand, a concrete way of measuring the loyalty to the brand and, last but not least, the problems associated with the financial support of the brand.

Brand consultants [4] concluded that, for products and services, principles of branding are common and brands must be developed as the link mirroring the set of functional and emotional values created by the company.

The conditions that support branding in tourism has been defined as: easy identification by consumers, perception of good value for the price, easy maintenance of quality, a large enough demand for the general product for a chain and the existence of economies of scale [6].

A brand as the core element of the process of branding embodies a whole set of physical, social, psychological, traditional attributes, perceptions and beliefs associated

with the place – country, nation, region, city. In other words, a destination brand is something distinctive through its positioning in the competition through its personality comprising a unique combination of functional attributes and symbolic values.

A tourist destination branding is claimed to include selection and strategic combination of a consistent mix of brand elements to identify and distinguish a destination through positive image building. These elements, similar to the consumer products, are proposed to include terms, names, signs, logos, designs, symbols, slogans, color, packages, architecture, typography, photographic styles, as well as heritage, language, myths and legends [3]. All of these have their contributions to identification and differentiation a tourist destination. Due to them, tourists may have holiday memorable expectations which are associated with a unique set of values that create, in time and voluntarily, positive associations with tourist destination. The elements of tourist destination brand serve to consolidating and strengthening the emotional connections between the visitor and destination, and reduce the *searching costs* of the consumers and *perceived risk*. Together, these activities serve to creating a unique distinct *image of a destination* in the minds of the consumer that influencing positively the *choice of the destination*.

3. Communication campaigns of Romania's tourism brand

The Romania's brand story started at the beginning of the 1990s, when a Commission for the Improvement of the Image of Romania Abroad was created.

First promotional campaign was in **1996**, when the government granted 6 million dollars for the publication of an album entitled „**Eternal and Fascinating Romania**” intended to improve Romania's image as a tourism destination abroad. Theoretically, the Eternal and Fascinating Romania should have arrived in 96 countries worldwide. Thus, the album should have promoted Romania all over the world.

In March 1998, of the 97,000 albums only 10,000 were made and only 4,200 reached in Romania. The press pointed out that an album cost 600 Euros, a sum considered

exorbitant.

Then as now, the country promotion was politicized and it became the victim of domestic politics, especially when there is no agreement among the different political parties about how or by whom the country's reputation should be managed abroad. In 2000 the “Eternal and Fascinating Romania” launched a scandal into the Romanian political arena and the Romanian Presidency has been associated with this scandal and with a Romanian-French businessman that has been accused of money laundering, depositing Romanian funds in a group of French businesses.

The scandal has escalated, spreading like wild fire and highlighting more and more corrupt practices within Romanian politics. A scandal of such magnitude has not been publicised in Romania since the collapse of Communism and had far-reaching implications for Romania and her political image abroad.

The second promotional campaign was launched in 1998 – 1999 under the slogan “**Come as a tourist, leave as a friend**”. Its aim was to increase awareness of Romania's tourist attractions and to market Romania as a year-round tourist destination for Americans and Canadians. The campaign slogan was not original one, being used by Greece in 1994 for the same purpose. Finally the promotional campaign was abandoned because the state was unwilling to allocate sufficient funds for marketing and promotion.

The third promotional campaign was entitled “**The 1999 eclipse**” and was connected with the total solar eclipse from 11 august. With this occasion Romania promoted what experts have called the best vantage points for the last eclipse of the millennium.

The purpose of campaign was to take our country out of darkness. The budget for this campaign was of 1.5 million dollars which 140.000 dollars were spent on a commercial spot broadcasted on Discovery, Eurosport and Euronews channels. Other 500.000 USD were spent for the participation to the fairs and exposition, including the printed materials [5].

The results of campaign were disappointing, both for tourists because of the slow privatization, and for authorities who estimated that 500.000 people would be

interested to come to see the total sun eclipse from Romania. But the total number of foreign tourists which expressed their interest to come in Romania for the total solar eclipse was around 3.000 peoples [5].

Tourists were also very puzzled by the almost complete lack of entrepreneurialism around the eclipse. This event has been seen as the greatest influx of foreign tourists that Romania ever saw. Yet, hardly anyone was seen selling eclipse tea-shirts, posters or other souvenirs, something that even the smallest event elicits in the West. It's almost as if as a people we've forgotten how to make money and thus improve our situation.

Another glaring example with regard to one of the government's few eclipse initiatives was — the issuing of a beautiful eclipse commemorative 2,000 Lei banknote (worth about U.S. 12 cents). Tourists had read about them before arriving in Romania and were anxious to pick some up as souvenirs. None were to be found — anywhere. Some tourists even asked if they were real and available. A superb entrepreneurial opportunity was completely missed by our government.

The next campaign that promoted Romania as a tourist destination was initiated in **2001** when government started realized that Romania had „image problems”. This was the first real international campaign meant to improve the country's image abroad and encourage tourism.

The promotional campaign had several steps. In 2001, under the slogan “**Romania – always surprising**”, campaign was commissioned by the General Direction of Tourism Promoting and her achievement was attributed to the agency Ogilvy & Mather Advertising, following a tender. The result of tender was contested because the price offered by Ogilvy was considered by competitors extremely low. The commercial spot contained a story that was inserted main tourist attractions.

During the period, 2000-2003, other numerous programs were proposed and launched by the Ministry of Tourism, such as: “Super ski in the Carpathian Mountains”, “Salvamont”, “Romania – Country of wines”, “Cruises on the Danube”, “Blue Flag”, “Q Mark (Seal) Program”, “Romanian Casino” and “Infoturism”. For internal tourists were launched social programs,

directed at Romanians with low incomes: “May 1st on the Black Sea Coast”, “One week at the Seaside”, “The Littoral for all”. Other program ideas were: “Mamaia – Riviera of the East”, “Europa Resort”, “National tourist parks”, “The rehabilitation of burnt lodges”, “Old trains”, “Cultural and religious tourism”. All those interesting and modern ideas were, unfortunately, lost because the main characteristics weren't anchored in reality: the large number of launched program and their diversity; the time horizon established for implementing the programs (2-3 years) was unrealistic; the sources of funding were not indicated and no special budgets were allocated; no implementation guidelines were established. The absence of a strategy created the false belief that a good idea was enough; transpose it into practice would be easy. This proved not to be the case as for all the announced programs lacked the real communication between the central tourism authorities, local authorities, and local business communities which would have the most important role in the implementation of those programs.

In **2004** was started the second step of campaign initiated in 2001 (“Romania always surprising”) and same agency obtained the contract because had no real opponents [7]. The new slogan was “**Romania – simply surprising**”, with the declared scope of improving Romania's image abroad and attracting foreign tourists. One of the spot presented virgin nature and the Danube Delta as an image for one of the world's greatest wildlife sanctuaries, authentic villages which is easily connected to nature, and Romanian hospitality. Aimed primarily at foreign tourists (20-55 year-old, having an average income, interested by new experiences, culture and history), the first significant series of advertisements aired on Euronews, Eurosport, Discovery, CNN, and BBC in the summer of 2004. The Government-sponsored “Romania Simply Surprising” campaign begun in May 2001 and has since cost the state around 20 million USD.

Although professionally produced, they were criticized for having failed to distinguish Romania from other countries. Part of their criticism is labelled at the adjective “surprising”: Singapore was surprising in the 1980s, Rwanda was

surprising in 1991, Bosnia was surprising in 1995 and Chile was surprising in 2005. “Being surprising per se is not potentially enticing” [2].

The project, “Romania, simply surprising” was cancelled in 2007. The World Tourism Organization criticized both the campaign and the slogan of the project and proposed that serious measures should be taken to enhance Romania's visibility abroad. Richard Batchelor, the chief of international consultants' team from World Tourism Organization said that slogan „simply surprising” didn't communicate the essence of Romania for any potential visitor.

In 2005 the Ministry of Tourism invested 8 million US dollars in Romania's image around. Half of this money was spent on promoting the country abroad through Romania's 18 tourism operators. In the same time, the Agency for Governmental Strategies and the National Authority for Tourism began getting involved in the issue of country branding by ordering research studies on Romania's image. In this context The Agency for Governmental Strategies has conducted several studies in order to draw a comprehensive image about Romania and Romanians abroad. The surveys were performed in several countries of extremely high relevance for Romania: Finland, Sweden, Germany (July 2006), Italy (March – April 2008), and Spain (May 2008).

The reasons which was the basis of choosing these countries for in-depth perception-studies was as follows: on the one hand, during the communist period a lot of people from Germany and Nordic countries was interested by Romania as tourist destination; on the other hand, in Italy and Spain Romanians constitute a large minority of immigrants and also in both countries Romania's image in mass media is preponderantly reflected in a manner which can be situated somewhere between negative and strongly negative. This fact is considered a constant threat to Romania's nation-image, not only in these two countries, but, by extension, in others as well.

After these studies, the Ministry of Foreign Affairs, organized between September – December 2008, a public diplomacy campaign in Italy and Spain, entitled “The Romanians in Europe”, in order to prove that there are more things linking the

Italians and Spanish to the Romanians and less those that seem to separate them. In Italy, the campaign “**Romania: piacere di conoscerti**”, takes place under the slogan “Romania: un mondo da scoprire” and in Spain the name of campaign was „**Hola, soy rumano**”.

Both diplomatic campaigns had opened the series of public actions which were carried out in Italy and Spain, in order to promote Romania. For the entire diplomatic campaign, the Ministry of Foreign Affairs spent 7.9 million euro.

In July 2006, was launched the national campaign “**A journey is a lesson of life. Choose domestic tourism offer**”. The campaign promoted the intensification of domestic tourism around five themes: Littoral; Danube Delta; Mountain tourism; Cultural tourism and Spa tourism. The budget for this campaign was of 800.000 EURO. Despite the fact that was the first promotional campaign dedicated to Romanians, the number of those who travelled abroad continued to grow dramatically.

One of the most important attempts to promote Romania as a tourist destination was the “**Romania – Fabulospirit**” project, designed in December 2006 and initiated in February 2007 after the evaluation of Romania's perception among foreigners. Through this project, Romania decided to valorise the spiritual dimension of its people and brought forward a new slogan “Fabulospirit”.

Since its birth, the project raised various scandals involving its financing and the agency that took over the concept, Gav Scholz&Friends. Only the slogan “Fabulospirit” which had not any meaning in any language (it is a combination of two words: fabulous and spirit which has some meanings), but had the quality of being unique, was paid for 110,000 euro.

In the same year, the project was cancelled after the resignation of the Minister of Foreign Affairs, and the new leadership Adrian Cioroianu was promoted. He decreed its inapplicability and the importance of a sound project that would not hurt Romania's quasi-inexistent image abroad.

In 2008, the discussions related to branding Romania started to take a shape and in June it was announced the intention to use

a budget of Euro 75 million euro to promote Romania. The Romanian advertising organizations got involved in helping the Tourism Ministry to write the brief for “Romania’s tourism brand” international pitch. After the pitch, in 2009, the Romanian Tourism Ministry selected THR– Taylor Nelson Sofres to realize Romania’s tourism brand as a way to communicate Romania as a tourist destination. Although a pitch was started, the Tourism Ministry launched an intermediary slogan to be used until the new brand was ready.

The new campaign *“Come to Romania, The Land of Choice”* was launched in April 2009, in order to promote Romania. On 1st August 2009, Eurosport has broadcasted for the very first time the video of promoting Romania as tourist destination. To mark this debut, the clip was simultaneously run on both TV as well as on the largest digital media facade in Europe located in Bucharest. During the period August – December, and CNN broadcasted the ads that used the tagline ‘The land of choice’, revealing the concept of „one country, so many experiences”. The logo was common one, undifferentiated because it contained no specific symbol for Romania, and, only emphasized the country’s varied landscape, a feature of most Central and Eastern European countries.

The video’s unrealistic portrayal of the country drew heated debate about national identity and harsh criticism for tourism minister Elena Udrea. It also generated a series of viral response videos with titles such as “The Truth about Romania”, “Come in the summertime, when we are abroad” and “We are the End of Choice,” which sarcastically foreground the dire conditions that the ad concealed about Romania. The conclusion is that Romanians prefer to travel abroad because “it’s cheaper in Turkey and Greece”. Even worse, the ad was promoted by a “tourism anthem” encouraging travellers depressed by the predictability of global tourist hotspots to head for Romania. The daily Cotidianul [1] described the song which praises Romania as a “land of choice” and cost 10,000 euros, as a “very bad joke.” “The real question,” the newspaper noted, “is what sense such a song can make for a sector that really deserves a requiem or a funeral march?”

In this case, was commissioned a new series of ads to run on CNN and Eurosport, which had three Romanian sport legends as protagonists: Nadia Comaneci, Ilie Nastase and Gheorghe Hagi. This campaign focused on the idea that foreigners know nothing about Romania. One of these spots challenges potential tourists to admit the surrealistic projections associated with Romania. It begins with the image of a happy bride in the company of four men. “This is Romania,” Nadia Comaneci playfully comments, “the only country where a woman has the right to marry four men at the same time!” “Discover Romania, the country where people are riding zebras,” urges Ilie Năstase. “Come to Romania and test the fish fruit!” Gheorghe Hagi concludes, leaving us with the image sardines that grow on trees. The campaign tells the audience about itself, but fails to say anything about the content of its own brand - except surrealist images which seek only to confuse the potential tourist further.

Statistics reveal that these ads have been ineffective at attracting tourists. Despite the two million Euros used for the Land of Choice campaign, the number of tourists in Romanian hotels decreased by 21.9 % in 2009. Newspaper articles with headlines such as “Romanian Tourism in Free Fall” and “Romania, the European Country with the Lowest Number of Foreign Tourists,” reported a shrinking number of foreign visitors. Foreign marketing experts, and even some critical scholars, tend to blame the strategy itself. Statistical data for January-May 2010 show a continuing decline in arrivals, of 3.5% year-on-year in those five months. The total number of tourist nights in all accommodation establishments fell by over 3% year-on-year in January-May 2010, with nights by foreign and domestic tourists declining by about 1% and 4% year-on-year respectively. Foreign tourists accounted for nearly 21% of total overnight stays [9].

The most recent promotional campaign for Romania as a tourist destination was presented in July 2010 during the “Day of Romania,” celebrated at the World Expo in Shanghai. Romania’s new tourist brand was officially launched at the Romanian pavilion through the *“Explore the Carpathian Garden”* communication campaign. The new logo and slogan under which Romania is

promoted as a tourist destination, in the coming years, have been also presented.

But the event was shadowed by controversy back home as bloggers revealed that part of the logo is almost identical to a logo up for sale online at 250 US dollars. The leaf which at the bottom of the controversy was claimed to have been produced and had its rights marketed by a Belgian designer through an online library, and has already been utilized by several European companies.

Another huge aspect of the scandal was the price – THR is supposedly getting 900.000 Euros to develop Romania's tourism brand strategy not only for a logo which was broadly criticised for looking like it been taken out of a stock image bank. A brand strategy involves aspects such as how and where to use the logo, how to communicate the message, which channels to reach, etc.

Business people in the travel sector and branding consultants say the slogan's message is hard to decode by foreign tourists and can generate confusion considering that the Carpathian mountain range crosses several countries.

On the other hand, launching a promotional campaign with a plagiarism scandal is not the most orthodox way to attract clients. But in Romania, maybe work.

4. Conclusion

After the fall of communism, Romania sponsored several large-scale campaigns promoting the country as a tourist destination. Only in the last five years, Romania tried to re-brand itself for three times in tourist purpose, as a reaction to the negative comments generated by the campaigns. Although almost all campaigns primarily have focused on tourism, they had not a resounding effect because touristic brand of Romania has not managed in an organised, continuous, consistent and proficient way. The national logo years by years was modified concerning the shape of letters, colours and connotations. Moreover, were the source of funding scandals be used either plagiarized existing ideas from others. On the other side, a lot of money was paid for slogans that were criticized for having failed to distinguish Romania from other countries.

But creating a slogan and logo is only a

small part, because even the most brilliant logo and slogan is powerless if it is not backed up by a comprehensive branding system. A precarious gap has emerged between the reality of everyday life in Romania and how it is perceived by the outside world - most people either know nothing about the country or harbour half-formed and negative perceptions. This image problem is not just one of recognition, but also of differentiation from other Central and East European countries. Romania needs to present a deliberate and coherent tourism brand image of itself to the outside world to better compete in tourism and to differentiate itself from the other EU countries.

It is clear that the tourism has collapsed, the infrastructure is antiquated, access is worse than it was a generation ago, everyone qualified has gone to places where tourists really go, and prices are higher than everywhere else. Promotional activities are connected with touristic offer, that not corresponding with European standards.

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Observing Insurance Companies' Customer Complaint Management in the Online Environment

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Abstract

The strategic importance of an efficient customer complaint management is recognized nowadays by the practitioners as well as by the academic literature.

The hereto paper is focused on the online environment and on the instruments used to allow a direct communication through various channels of the complaints addressed by the customers to the insurance companies.

The descriptive research of the online secondary sources revealed that most of the insurance companies are transparent concerning customers' complaints and have implemented at least one instrument for their collection. However, most of the times, the instruments found on the companies' sites, have the same features for all the customers and are rarely adapted to business customers.

Key words: relationship marketing, customer complaint management, business customers, Internet.

J.E.L. Classification: M31

1. Introduction

The development of the Internet technologies is regarded as one of the factors that have enabled the fast economic growth in the 1990's and it is considered responsible for changing the way business are made [1]. The appearance of the sophisticated telecommunication technologies allows a direct interaction with the customers, and the real success of online banking, online investment and online book selling or even cars, are proving the growing interest of the consumer to maintain direct relationships with the marketers [2].

Nevertheless, in the insurance industry, the potential customers believe that the procedure for signing an online insurance contract is rather complicated and the online insurance policy sales are low [3]. On the other hand, the relationship marketing's key component [4], the customer complaint management, is carried out in the online environment, throughout the insurance companies' sites. It has been proved that an efficient customer complaint management through e-mail improves customer satisfaction and helps building a long term relationship with customers [5], [6].

Beyond the relationship aspect described previously, the transparency and the correctness in customer complaint management have become a legal obligation since the Insurance Survey Commission Order number 11/2012 was adopted. More precisely, the insurance companies are compelled to publish on their sites all the decisions concerning the complaints registered by the aforementioned commission.

This study's objectives are: to observe the degree of transparency in the online customer complaint management, to observe the instruments adopted for customer complaint management in the online environment by the insurance companies acting on the Romanian market, to observe the way in which the individual customers are being differentiated from the business customers by the instruments used in the online customer complaint management.

2. Literature review

Virtual communication – in general – and especially the Internet – has determined essential changes in the business architecture [4]:

- The plenary implication of all the stakeholders in the business process;
- The development of an integrated communication in the businesses' marketing [7];
- A new way of managing time in the business economy;
- The customer's awareness about the possibility and the necessity of its involvement in the projection and the execution of the performance that he desires for a complete satisfaction of his demand;
- The efficient customer complaint management.

Customer complaint management occupies a central role in the relationship marketing and has become a strategic instrument considered to be very important for all types of firms [5]. Using efficient ways to solve customer complaints is seen as a sure way to gain customer's attachment to a product, a service, a brand or a company [8], [9].

Strauss and Hill's study [5], has demonstrated that a prompt answer given to an e-mail complaint determines a higher customer satisfaction with the response and an increase of customer perceptions of the company concern.

The academic literature focused mostly on customer complaint management for individual consumers, but the business setting didn't receive the same attention, although it represents one of the cores which formed relationship marketing [10]. The importance of implementing a customer complaint management adapted to business customers is underlined by several studies that have shown that this particular category is less likely to follow a complaint than the individual consumers [10].

3. Methodology

The direct research methods used in the marketing studies are divided according to several criterias [11]: the place where the information was collected: desk research methods, and field research methods; the awareness of the information source: methods which are involving consciously the information source (free talks, experiments, projective tests, marketing simulations) methods in which the information source is

not aware that it is being analyzed (the observation).

Lately, the observation through technological instruments has become very popular because its reliability and data objectivity [12] in new research fields such as neuromarketing. The aforementioned represents a group of investigation techniques for the uncontrolled reactions of an individual exposed to different stimuli – such as colors, smells, shapes, images – with the help of a sophisticated equipment [13].

In order to fulfill the objectives previously established, a descriptive research was carried out through the simple observation method of the secondary sources in the online environment.

With the help of the specialized site www.lasig.ro there have been identified the sites of 30 insurance companies that are working with individual consumers and with business customers as well. A first observation of the sample was carried out in November 2011, and the second one in November 2012. For the data collection, a contingency and observation table was designed.

The study's hypotheses were: I. The insurance companies are totally transparent concerning the complaints registered to the Insurance Survey Commission and they are publishing all the required information in this matter. II. The insurance companies are using at least one instrument for the customer complaint management in the online environment. III. The instruments that are visible in the online environment have elements which allow the differentiation of the individual and the business customers.

4. Results

In order to test the first hypothesis, we have verified the degree to which the Insurance Survey Commission Order Number 11/2012 is being respected and we have gathered information about the number of complaints received for each observation unit during the last three reported months. Hence, 86,20% of the visited sites are using a pop-up window which tells the user that this information is available on the site and offers him a direct link that remains active for about ten seconds before charging the homepage. However, as one can notice from Table 1,

there are companies that are not sharing yet the aforementioned data. It can also be observed that the minimal complaints number is 0 and the maximum is 1218. During the last three reported months there have been 3459 in total, which means an average of 138.6 complaints per company.

Table 1: The list of the observed insurance companies

Nb	Site	Com*
1	http://www.alico.ro/	15
2	www.allianztiriac.ro	76
3	www.abcasigurari.ro	5
4	www.asirom.ro	ni**
5	www.astrasig.ro	1218
6	www.aviva.ro	3
7	www.bcrasig.ro - www.omniasig.ro	-
8	www.certasig.ro	3
9	www.eureko.ro	11
10	www.euroins.ro	625
11	www.general.ro	203
12	www.groupama.ro	108
13	www.omniasig.ro	714
14	www.onix.eu.com	0
15	www.uniga.ro	150
16	www.cascoeuropa.ro	7
17	www.ateinsurance.ro	ni
18	www.carpaticaasig.ro	222
19	www.cityins.ro	56
20	www.ceasigurari.ro	21
21	www.efgeurolife.ro	1
22	www.fata-asigurari.ro	ni
23	www.garanta.ro	4
24	www.gerroma.ro	7
25	www.grawe.ro	1
26	www.platinumasigurari.ro	0
27	www.qbe.com	ni
28	www.signal-iduna.ro	0
29	www.ingasigurari.ro	8
30	www.brdasigurarideviata.ro	1

Source: personal research

Com* = number of complaints

ni** = no available information

The second hypothesis was aiming the observation of the instruments used in the

online environment for the customer complaint management. After having analyzed the collected data from 2011 and 2012, we reached to the conclusion that the most frequently encountered instrument is the online form, present on 93% of the sites in 2011 and on 90% in 2012, followed by the call center and the e-mail. The instruments that are appearing rather rarely on the companies sites are the fax and the postal address. Moreover, compared to last year, the number of firms that have a call-center and an e-mail address increased.

It is important to underline that in 2012 there are still sites that don't use any instrument for customer complaints. Nevertheless, 7 out of 30 companies are offering to their customers, four distinct instruments, namely the online form, the call-center, the e-mail address and the fax or the postal address. The 7 companies have different market shares and are not homogeneous from the point of view of the turnover, but they all have a low level of complaints registered to the Insurance Survey Commission during the last three reported months.

Table 2: The presence of the customer complaint management instruments in the online environment

Customer complaint management instruments	Site presence	
	2011	2012
Online form	93%	90%
Call center	37%	57%
e-mail address	37%	63%
Fax	10%	27%
Postal Address	7%	3%

Source: personal research

Because of the fact that the last hypothesis refers to the elements that differentiate the complaints online form for the business customers, this instrument was analyzed. The simplest structure for this kind of form has the following fields: Last Name, First Name, Address, e-mail, Phone Number, Complaint Description. However, in most of the cases, the form is also asking for the number of the insurance contract, the number of the identity card and even the favorite way to be contacted the insurance firm representatives.

Although all the insurance companies included in the sample are also addressing to business customers, only 5 of them have an adapted form dedicated to this particular category. Hence, the third hypothesis is rejected, as the majority of the analyzed forms have a general structure.

5. Conclusions

From the analysis of the sample, one can conclude that the importance of using efficient instruments for customer complaint management is properly understood by a significant percentage of the managers. In most cases, the link to the page named „Suggestions and complaints” is easily found on the homepage and the customers are invited to use one of the discussed instruments in order to communicate directly with the company their dissatisfaction.

90% of the sites have integrated a complaint online form easily to access, but only 5 of the companies chose to adapt it for the business customers. Because this is an important and profitable category, it is recommended that the form should have a special, customized structure with specific elements such as: CUI, The Department Function, Contact person etc.

With four exceptions, the observation units are presenting the complaints registered to the Insurance Survey Commission, many of them through the form of a pop-up window which is launched instantaneously when the site is being opened. If we take into consideration the results of the first CSA report in 2012 according to which after a series of verifications carried out in 2011 [14], they have noticed the lack of an efficient, integrated IT system and the ineffective complaint solutions for some of the insurance firms, one can conclude that the degree of transparency and customer orientation has improved.

One of the study's limitations is that it did not evaluate the use of the online instruments by the customers who want to communicate their complaint. Hence, a future research should focus on the analysis of the impact of the aforementioned instruments on the customer's satisfaction, especially in the case of business customers.

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Economic and Financial Analysis of an Intelligent Organization

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Abstract

The emergence and development of new technologies, in which information and knowledge play a crucial role, the transition from industrial economy to modern society and then to postmodern society have led to compression of time and space and to the intensification of economic, social and politic relations.

It becomes increasingly emphasized a new trend: the orientation towards lifelong learning organization or in other terms the intelligent organization.

To analyze the overall situation of intelligent organization is necessary to analyze the economic structure by studying the structure of assets and liabilities, the liquidity and solvency of the organization.

Key words: economic analysis, financial analysis, intelligent organization

J.E.L. classification: G00, M10, M21

1. Introduction

Economic and financial analysis serves diagnosis and control of the enterprise business system. Organization is seen as a complex and probabilistic system. Diagnosis involves research of the functioning of the system using status information. These are critical points within the system and approves the decision centers to take appropriate measures.

2. Intelligent organization

Organizational changes have led to new concepts such as intelligent organization (J.B. Quinn, 1992), learning organization (P. Senge, 1990), networked organization (P. Keen, 1991), democratic organization, expressive organization (M. Shultz, 2000), generally about an organization that

leverages more than in past knowledge, innovation, talent and motivation. The success of these organizations depends on effective use of talented people.

The causes that led to organizational changes are: the emergence and development of globalization and mondialization, the increasing competitiveness, the increasing environmental turbulence, the introduction of new information of knowledge that emphasize the importance of knowledge and innovation, major demographic changes at the population level in general and human resources in particular.

Ratner defines the learning organization as "organization in which people at all levels, both individually and collectively, continually increase their ability to get the results they want." [3].

Learning organization is "organization where people continuously develop their capacity to create the results they truly desire, where new and enhanced models are powered thinking, where collective aspiration is freely accepted and where people continuously learning how to learn together." [1].

3. The economic and financial indicators

The rates of patrimonial structure provide opportunities for comparative analysis in time and space by identifying major structural features of the balance. Balance sheet structure analysis aims to determine and track the patrimonial elements share of assets and liabilities.

3.1 Rates of asset structure

The value of the asset rates are influenced by the economic, technical and legal aspects of the company. The main rates that characterize the structure of the asset are:

a) Rate of fixed assets:

$$R_{FA} = \frac{FA}{TA} * 100\%$$

where: FA are fixed assets and TA are total assets.

a1) Rate of intangible assets :

$$R_{IA} = \frac{Ia}{TA} * 100\% ,$$

where Ia are intangible assets and TA are total assets.

This rate reflects the share of intangible assets (patents, licenses, trademarks etc.) in the total assets of the company. In case of Romanian companies the value of this rate is very low while in other countries such as USA, intangible assets ratio exceeds 50%.

a2) Rate of tangible assets:

$$R_{Ta} = \frac{Ta}{TA} * 100\% ,$$

where Ta are tangible assets and TA are total assets.

The values of this rate are different from one branch to another, with very high values for firms that use an important infrastructure or expensive equipment (production and distribution, transportation etc.). This rate indicates a company's ability to withstand economic crisis as a high rate of fixed assets entails a high risk of failure to transform the assets into cash.

a3) Rate of financial assets:

$$R_{Fa} = \frac{Fa}{TA} * 100\% ,$$

where Fa are financial assets and TA are total assets. This rate has high values for financial investment companies because it reflects the intensity of financial relations and connections that the company has established with other firms for external growth (loans, portfolio investment etc.).

b) Rate of current assets:

$$R_{Ca} = \frac{Ca}{TA} * 100\% ,$$

where Ca are current assets and TA are total assets.

b1) Stocks rate:

$$R_S = \frac{S}{TA} * 100\% ,$$

where S are stocks and TA are total assets. This rate has higher values for firms with production activity, with a long production cycle or for firms with distribution activity.

b2) Trade receivables rate:

$$R_{TR} = \frac{Clients + Assimilated_Accounts}{Total_Assets} * 100\%$$

This rate is influenced by the customers' type and the payment term that companies gives to its partners.

b3) Available funds and placements rate:

$$R_{AFP} = \frac{Available_funds + Placements}{Total_Assets} * 100\%$$

The interpretation of this rate should be used with caution because significant liquid assets may change over short periods of time.

3.2 Rates of liabilities structure

a) Financial stability rate:

$$R_{FS} = \frac{PC}{TL} * 100\% ,$$

where PC is permanent capital and TL are total liabilities.

This rate is a global indicator of funding sources stability. Permanent capital consists of equity, provisions, medium and long term debts.

b) Financial autonomy rate:

$$R_{FA} = \frac{E}{PC} * 100\% ,$$

where E is equity and PC is permanent capital. It is recommended that this value is greater than 0.5. Financial autonomy rate indicates the share of own sources of funding from the total capital of the firm with different values depending on the company's profitability and financial policy.

c) The rate of short term debts:

$$R_{STD} = \frac{STD}{TL} * 100\% ,$$

where STD are short term debts and TL are total liabilities. This rate signifies the share of debts with chargeability term less than one year in total company sources.

d) The rate of total debts:

$$R_{TD} = \frac{TD}{TL} * 100\% ,$$

where TD are total debts and TL are total liabilities. This rate signifies the share of short, medium or long term debts in total company sources.

4. Solvency and liquidity indicators

Solvency is the ability of the firm to face

the outstanding obligations arising either from previous commitments contracted or compulsory levies. The main indicators used in the analysis of bankruptcy risk are working capital and liquidity rates.

According to the accounting theory, a firm is solvable if the following equalities are observed:

- fixed assets = permanent capital;
- current assets = debt service.

Compliance with these conditions requires a perfect balance of revenue and payments, which in financial practice not always happen.

When permanent capital is greater than current assets, the difference between the two indicators is called working capital. Working capital is a very important indicator for assessing the financial situation of the company representing the part of the permanent financial resources to provide financing current assets which renew continuously.

The most important indicator that measures solvency of a company is the overall solvency ratio:

$$R_{os} = \frac{TA}{Td},$$

where TA are total assets and Td are total debts.

Liquidity is the degree to which an asset can be converted quickly and without additional expense means in immediate payment. To analyze the risk of bankruptcy is important to analyze liquidity ratios.

The most important liquidity ratios are:

1. General liquidity rate:

$$R_{GL} = \frac{Ca}{Cd},$$

where Ca are current assets and Cd are current debts. Normally this rate has to be greater than 1, which confirms the existence of working capital. It is estimated that overall liquidity position is satisfactory, according to some sources, when is between 1.2 and 1.8 and according to other sources between 2 and 2.2.

2. Current liquidity rate:

$$R_{CL} = \frac{Ca - Stocks}{Cd}.$$

According to the American theory, this rate is called the acid test. It shows to what degree firm's total liabilities can be covered

in a short time without taking into account existing stocks. The interval considered satisfactory for this rate is between 0.65 and 1.

5. Economic and financial analysis of an intelligent organization

Based on data presented in the balance sheet of the company S.C. MED S.A., I have made an analysis of the economic and financial overall condition (the name S.C. MED S.A. is conventionally attributed, data were obtained from a real company that belongs to the medicine production).

Table 1. The Balance Sheet of S.C. MED S.A.

Indicator name	Sold at 31.12.2010 (lei)	Sold at 31.12.2011 (lei)
A.FIXED ASSETS	168.483.874	173.363.858
A1. Intangible assets	1.989.252	1.652.572
A2. Tangible Assets	166.413.201	173.690.051
A3. Financial Assets	81.421	21.235
B. CURRENT ASSETS	223.940.478	273.646.635
C.EXPENSES IN ADVANCE	327.246	302.678
TOTAL ASSETS	392.751.598	449.313.171
TOTAL DEBTS	110.652.469	142.722.089
TOTAL CAPITAL	262.612.444	287.058.407

Source: The Ministry of Public Finances

Studying the data in the table above are obtained the following asset structure rates:

Table 2. Asset Structure Rates

Structure rate (%)	2010	2011
1. Rate of fixed assets	42.90	39.03
1.1 Rate of intangible assets	0.51	0.37
1.2 Rate of tangible assets	42.37	38.86
1.3 Rate of financial assets	0.02	0.004
2. Rate of current assets	57.02	60.90
2.1 Stocks rate	10.29	9.33
2.2 Trade receivable rate	45.78	50.38

Source: made by the author

It is noted that the rate of fixed assets is closed to the rate of current assets because the company belongs to the productive sector. The rates of intangible assets are low in both years analyzed. The rates of financial assets are very low because the company has a limited financial investment activity, not being its area of activity. It is noticed an increase in current assets in 2011 (60.90%) compared to 2010 (57.02%), increase that has been achieved on account of receivables whose rate increased to 50.38% in 2011 compared to 45.7% in 2010. The rates of liabilities structure are presented in the following table.

Table 3. Liabilities structure rates

Structure rate (%)	2010	2011
1. Financial stability rate	70.42	67.14
2. Financial autonomy rate	94.97	95.16
3. Rate of short term debts	28.17	31.76
4. Rate of total debts	28.17	31.76

Source: made by the author

It is noted that the organization has a high, relatively constant financial stability in 2010 and 2011. The organization has also a high rate of financial autonomy, with an increasing trend over time. Total debts ratios have relative constant values in 2010 and 2011. The situation is very favorable because the risk of subsequent difficulties due to different debt maturities concentration is low.

Table 4. Solvency and liquidity indicators

Indicator	2010	2011
1. Overall solvency ratio	3.55	3.15
2. General liquidity rate	2.02	1.92
3. Current liquidity rate	1.66	1.62

Source: made by the author

The general liquidity rate reflects an equilibrium situation of the organization on short term. The company has the ability to pay its current debts from current assets (working capital). The overall solvency ratios have very good values, indicating that the company has the ability to honor debts on short, medium and long term.

6. Conclusions

In a competitive economic system, the major objective of an organization is to maximize its value. This involves the development of business activity in conditions of high profitability and at the same time maintaining solvency and financial stability.

Economic and financial analysis of an organization is only one stage in performance and competitiveness analysis of the organization, having a key role in establishing strategies to follow.

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About Knowledge Management

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Abstract

The beginning of the new millennium finds the world in a process of inter-connectivity increasing, of data flows acceleration and of temporal and national borders compression. The necessary power for these transformations at global level is represented by the technologies from the information and communication IT&C domain.

The social structures transformation through knowledge and knowledge management considered as an essential resource of economical increasing and as the main factor of production, constitutes a reason and in the meantime a sufficient justification for defining the modern advanced societies as „societies of knowledge”.

In a society based on scientific knowledge, the old competitiveness measurements, like the manpower cost, like the structure of the appropriation and the infrastructure, are over fulfilled as importance and signification by new economic-social indicators, such as knowledge, knowledge management, knowledge capital etc., key indicators that raise the market value of firms.

Key words: economy, knowledge, information, management, knowledge management, industry, development.

J.E.L. classification: O32.

1. Introduction - Knowledge revolution

With the "industrial revolution" scientific knowledge has become the determining factor of progress of human society in general and economic in particular. Mankind has progressed rapidly in the industrial domain (secondary sector of the economy)

quickly became the most important economic area, thanks to new advances in mathematics, physics, chemistry sciences etc. applied in technology (technology) but also due to the emergence and evolution of management science with its creative traits.

Knowledge revolution - is based on the crucial role they play in the modern economy. In essence, the "knowledge revolution" has made a fundamental change from an economy based predominantly on natural resources (land, technology, workspace, mineral resources etc.) to an economy based predominantly on knowledge.

The richness and power of the 21st century will be derived mainly from knowledge resources (intellectual and intangible) otherwise said, the knowledge capital. The result of the knowledge revolution will be the knowledge economy and a wider dimension - the society based on knowledge. [1]

Of course, we are already familiar with "new" concept "computer revolution" based on information technology, which allowed the amplification and unprecedented speed of collection, storage, processing and use / distribution of information.

Computers are an extension of our intellectual possibilities, which made possible the unprecedented acceleration of research, design and development activity.[2]

In the knowledge society, knowledge becomes the essential element of achieving high performance (productivity / competitiveness) in the economic domain.

2. The evolution towards knowledge

If over time, science was intended only to explain those encountered / seen in nature and current practice (different physical phenomena, some mechanical issues, etc.), and progress, extremely slow, was made only

after lengthy comments due to the understanding of some people, with the development of science, which has taken practical activities before, proposing innovations derived theoretically, calculated and sized correctly, accurately, before applying them in practice, a well-known example being the mid-20th century, the enhancement of nuclear energy. [3]

So, science of the last century has come to be the engine pulling itself after technical and technological progress.

Present computer simulations allow for including "piloting" airplanes and helicopters, industrial facilities design and their virtual control, simulation of geological phenomena, meteorological evolution etc. All these represent a major step, from unpredictable to knowledge, and thus bringing under control the unpredictable.

3. The need to know

During the period in which we live, the industry is the defining element of society. Relating to this element, the world has experienced three types of societies:

- pre-industrial society,
- industrial society,
- and now, post-industrial society.

The differences between them are determined by the importance of different industries, defining for the three types of societies, and in this context, are the main productive prestations change.

Thus, in the pre-industrial society, the priority element of the economic organization is raw material; the industrial society is of the machines and huge mass production number; and the postindustrial society is dominated by information and services sector. The next step will be toward the postindustrial society of knowledge. [4]

For the first time, after centuries of conditions and living standards have remained relatively the same, in the industrial society hundreds of millions of people have come to the material and spiritual standards, like the top class, holding all the comforts of modern homes, cars, shifting to spend holidays around the globe by plane or other means of quick and comfortable transportation, communication and economic transactions over the Internet, have equal access to education etc.

Also for the first time, this society was the one that required the necessity of educating the masses. Education came to be established as required by law. The population had to be literate and educated in order to be able to work in technical and industrial enterprises dominated by increasingly sophisticated technology. The population began to open horizon towards knowledge. With the industrial society, has begun a new world.

Postindustrial society - will impose itself gradually amid the unstoppable progress of science and technology - which has become more intelligent.

Industrial processes will be characterized by a high level of programming, automation and robotics, which will determine quality and extremely high productivity in the production of goods, in a more limited degree of human labor utilization. [5]

Postindustrial society will be dominated by information and communication technology.

4. Economy and management based on knowledge

Labor productivity - has been and will be an essential parameter of economic efficiency. But the future economy - informational, post-industrial knowledge - will greatly reduce the employment level and the labor share in input system, in the economic growth process. A higher importance will gain new workforce productivity, the knowledge workers, knowledge becoming the workforce.

In the information society, where information and knowledge will be the main economic resource, knowledge formation will be the main investment in developed countries. Income derived from knowledge, will become increasingly a decisive competitive factor.

Productivity and knowledge management - will be decisive in achieving economic performance especially that they already exist and will continue to maintain, differences between countries, industries and firms, in these two categories of performance.

Knowledge-based management - can be defined as the management of human capital, through the knowledge they carry, represent the most important and dynamic element in a

more efficient economy induced by globalization.

Society of the future will develop so much, that the basic economic resource (the means of production) to use the term used by economists, will no longer be capital or natural resources, not work, but will be **k n o w l e d g e** ! Another feature which is already well felt, is the rapidly increasing pace of changes, scientific and technological developments. [6]

Transformations currently occurring in a period of only 30 - 40 years due to technological advances are greater than those recorded in human evolution, from ancient times until the beginning of the industrial age.

We can really talk about an acceleration of changes, even the acceleration of history. Of course, these changes will have to be managed by an advanced knowledge-based management.

In terms of value, there is the belief that this will primarily grow through knowledge and less through work (physical). Accordingly, "value theory" promoted by Marx will gradually lose its validity, being replaced by a new theory of value, based on knowledge.

In time, the value will increase due process knowledge, value that can be created or destroyed. Knowledge is synergistic, the whole worth more than the sum of the parts. Information and knowledge are in a direct relationship.

While information provides us data about the economic reality, about production and research, knowledge is much more, enabling us understand this reality, and by analyzing the information we can decipher trends and directions of development of economic reality.

Through knowledge, information receives concrete and real meaning arising from human activities, accordingly gaining a much wider content, which makes it possible, if we speak in the economic, the acceleration of the progress.

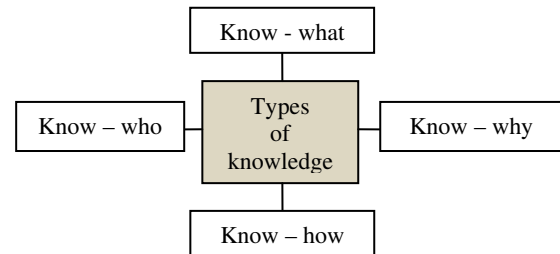
The signal that indicates an informed observer the fact that he is in front of an economy that is evolving toward a structure / function based on knowledge management, is dematerialization and virtualization increase degree of the share capital of companies and products on the market - goods or services.

Globally, the stock of knowledge is growing much faster than in the past, generating annually information equivalent of several hundred million books, knowledge becoming of the main capital of firms. Thus the last 2-3 decades, in developed countries of the world, there was a 20-25 % decrease of tangible assets in value creation. [7]

The main processes in terms of knowledge management are: Obtaining knowledge, by looking in different publications etc.; Knowledge creation in the form of inventions, projects, management systems; Use of knowledge by creating new products and services and of other knowledge; Preservation and protection of knowledge in databases, systems etc.

Currently, economic performance is more and more conditioned by the efficient use of the capital of knowledge held by each firm. OECD experts from the Institute of Knowledge Management Williamsburg - USA define for the economic domain, four categories of knowledge, as shown in Figure 1:

Figure 1. The main types of knowledge



Source: Authors' processing.

Know what - to know what others are doing, and therefore what you should do;

Know why - to know the main laws and principles of nature and physics, to understand what happens ... as it happens, and not otherwise;

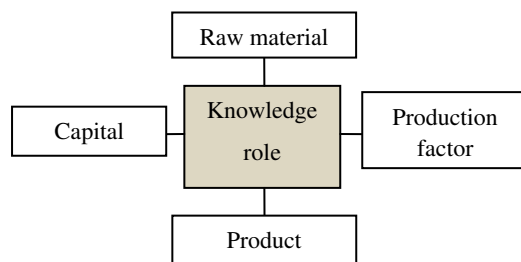
Know how - based on applied research, find out how we can proceed to accomplish what we wanted;

Know who - to know with whom we can achieve what we wanted, how we get access to specialists that we need.

The role of knowledge: raw material, input, product, capital... the capital of knowledge has an increasing share in the overall value of modern and performant firms.

Knowledge held by employees of companies are called "intangible capital", knowledge in the form of technology, marketing know-how, managerial etc. represent the competitive advantage that allows the company to maintain itself on the globalized market.

Figure 2. The roles of knowledge in economy



Source: Authors' processing.

We know that those companies that have a high knowledge capital, such as: Microsoft, Intel, Nokia and Erikson, Boeing and Airbus, Bayer and Aventis etc. their market value (stock market) is a few times higher than the land owned, the buildings and their equipment.

Currently, for example, the book value of U.S., Japanese or European firms, is on average only 20-25% of their market value, the difference of 75-80%, representing an intangible assets.

Intellectual work has become the majority in developed countries. In the U.S., Japan and Western Europe since the '60s intellectual work became the major, when the number of persons in positions of leadership, the professionals and officials - has exceeded the number of workers.

The main characteristics of knowledge-based management are: [8]

- knowledge management requires high costs, but higher costs are due to his ignorance
- to be efficient, knowledge management require interdisciplinary work collective and more sophisticated technologies
- politics is increasingly attracted to and involved in issues of knowledge management
- knowledge management is increasingly avoiding hierarchies, try not so much to respect hierarchies
- within firms, knowledge sharing among certain categories of employees is

necessary to accelerate the process of obtaining performance

- cooperation between firms is necessary to achieve the same competitive product
- knowledge can be sold, their value depending on the degree of novelty and their productive potential.

The characteristics of knowledge management are:

- Knowledge is the basis of company performance
- Using multivalent and multidimensional knowledge management
- Increasing scale use in the management of information and communication technologies
- Promotion of staff who have advanced knowledge of IT & C
- Stimulating employees to produce, exploit and protect the company's knowledge
- Stimulating employees to disseminate knowledge within the company
- Knowledge management requires managers motivated by the desire for self-improvement
- Ignoring knowledge management orientation will decrease competitiveness of firms, leading to negative consequences
- Company must adopt the concept of permanent learning organization
- The body of managers of the firm, will protect with priority individual knowledge of their employees and the one at the organizational level
- Firm performance are based on the quality and experience of company managers
- Stimulation of employees and departments that produce and use new knowledge.

Certainly, the rapid evolution of society "in the industrial age" and then "IT society" and now became "knowledge society" this way was based on development of education, mainly technical and informatics at the university level.

Finally, we can say that neglecting the orientation to knowledge management will lead to decreasing the competitiveness of firms, with all negative consequences, competitive market exit and their bankruptcy.

5. Conclusions

Knowledge revolution - is based on the crucial role they play in the modern economy. In essence, the "knowledge revolution" has made a fundamental change from an economy based predominantly on natural resources (land, technology, workspace, mineral resources etc.) to an economy based predominantly on knowledge.

The richness and power of the 21st century will be derived mainly from knowledge resources (intellectual and intangible) otherwise said, the knowledge capital. The result of the knowledge revolution will be the knowledge economy and a wider dimension - the society based on knowledge.

In the knowledge society, knowledge becomes the essential element of achieving high performance (productivity / competitiveness) in the economic domain.

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Human Resources Management

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Abstract

Any organization needs a good management of human resources. In this article we will refer to the ranking of managers and their main functions. The manager must have a good job systematization of all the stages of the hiring process resulting, having as a final result the job description. To obtain performance manager must provide continuous employee training and development, and for a better perform he should periodically evaluate the skills of its employees. Another important factor is the motivation without which no employee would give maximum efficiency at work.

Key words: management, human resources, performance

J.E.L Classification:

Introduction

The organization represents two or more persons who develop joint activities, in order to fulfill one or more goals and all the organizations have human resources in their composition.

The development of the organizations represents the main mechanism through which goals beyond the individual power can be achieved in a deeply differentiated society.

Managers hierarchy

Managers are situated on three levels of the hierarchical pyramid, namely superior managers, middle managers and inferior managers. Each manager, regardless of the hierarchical level on which he is, has three categories of responsibilities:

- a. of strategic orientation, by which he will orientate the organization he

directs in conformity with the established mission and goals

- b. of orientation of inter-human relations, by which he will work with people and create a climate favorable to the development of the activity
- c. to act as a specialist, having performant professional knowledge and skills.

The fact that the three categories of responsibilities have a different importance from one hierarchical level to the other and consequently the qualities and skills required from a certain manager are different, depending on the hierarchical level where he is ranged, must be underlined.

Manager functions

In the professional literature there is a multitude of points of view for defining the functions of management, regarding their number, their specific denomination and content, thus the majority of specialists considers as essential the planning or provision function, organization function, resource administration function, management or supervision function and control and assessment function.

The functions of human resources management are based on four desiderata, namely the provision of personnel, training and development, motivation for performance and continuity of employees.

Personnel provision is realized by identifying the necessary work quantity, the force of men employed and their essential qualification and by integrating the necessary personnel in the organization. The importance of job analysis has the role of helping the manager in defining the responsibilities and tasks necessary for that position, validates the methods used in making the decisions regarding the employment, offers a reasoning for the existence of the position and shows where it matches in the structure of the organization,

will allow the identification of hierarchical relations and identifies the excess of employees being reliant on the decision of supplementing/reducing the number of employees, will establish the elaboration of professional development programs, will orientate the employee on what he/she must do and will offer an estimation of the time necessary for activities.

The stages of job analysis must consider labor cost analysis, in which we will monitor the clear description of what and how must be done, on what purpose, with what resources and results, the analysis of job demands, where we will consider the level of responsibility, effort, necessary abilities, the level of training, education, experience, physical requirements, labor condition analysis (temperature, noise, pollution) and sociological data (communication availabilities, if he/she works alone or in group, promotion/gain possibilities).

We will have to gather information, evaluate the existent personnel, estimate the imbalances and seek for solutions to balance labor force, by elaborating an evolution plan of the personnel. In recruiting the personnel we will take into account the identification and attraction in the organization of a group of capable persons interested in occupying the job vacancies, these being potential candidates. During the entire recruitment we will follow a communication in double sense, which consists in the transmission of signals referring to the employment relation in order to be able to make the comparison between the interests of the two parties.

Based on the systematization of the information obtained, according to job analysis, we obtain the job description, which is very useful especially when the applicants use a standardized application form; it is annexed to the labor agreement and is signed by both parties. The component parts of the job description are realized by the detailed description of the main responsibilities and of the standards for their fulfillment, responsibility limits, special mentions, work terms and conditions, as well as the annex of the job description, which will include physical aspects, other general aspects, degree of professional training, necessary special abilities, major preoccupations, individual and circumstantial particularities, considering that the discrimination depending

on sex, ethnic, environmental, religious etc., is forbidden in our country.

Personnel recruitment is realized by various means: media advertisement, direct contact, advice office in employment procedures, interim, spontaneous candidacies, exploration of networks or internet. In personnel selection we follow two stages: pre-selection or initial "screening" and the actual selection. Pre-selection methods are curriculum vitae, letter of intent / motivation, application form, recommendation and interview by phone and in the actual selection process we will take into account the tests / psycho-tests, assessment centers, interview, group interview and test. At the end of the selection process we will get the actual post installation and integration of employee.

Any activity aimed at acquiring knowledge and skills specific to practicing a profession or achieving an operation is called training, and the development is any learning activity directed toward future needs rather than immediate and which deals more with career advancement than actual performance. Training and development are the two goals of training and development in human resource management.

Performance is the sum of the degree of fulfillment of the tasks that define the position held by the employee and the contribution that they make to the fulfillment of the objectives of the organization. Work performance will be followed by top marks in annual evaluations, exemplary work attitude and behavior, proven skills regarding teamwork, professional development and communication. Employees will profit by this evaluation through a retrospective of their past performance, it gives them ideas and guidelines for their future behavior, managers - are the basis for decisions on promotion or dismissal of personnel and human resources service through performance evaluation, provides information about the effectiveness of their own work. The utility of performance evaluation plays an important role in highlighting the effectiveness of human resources service, errors in defining the job, confusions in the circulation of information and highlighting of external influences.

Motivation is the process of selection, orientation and maintenance of human behavior and the process in which people

choose different forms of behavior to achieve personal goals. Motivating factors are represented by labor capacity, labor desire, aspirations, education, training, system of values, leadership, relationships, reward system, precision of tasks, the control system and organizational culture. Increased quality, the effort to be satisfied, positive attitude towards the organization, meeting deadlines, reducing staff fluctuation, reduced absenteeism, increased creativity, taking responsibility are the advantages of motivation, and between work performance and employee motivation relationship Victor (Vroom) relation is achieved:

$$P = f (Me, A, M)$$

Where: P = performance

Me= environment/work climate

A = ability

M = motivation

The professional literature lists several ways to motivate employees, among which the most important are: those of social type (coffee breaks), work environment (office supplies), those related to the position (increased responsibility, rotation in the activity), specific recognition (diplomas and trophies), the money ones (cash, shares, insurance), or those not directly linked to the activity (holidays congratulations).

In maintaining labor force many factors, such as inadequate wages, poor selection and integration, inadequate supervision style, discrimination, lack of promotion or too severe discipline intervene and thus some ways to ensure the maintenance of workforce have been developed. These methods, in a short list, are represented by the knowledge of employees' work motivation, good management of teams, stimulating and performance benefits for the employees, ensuring safety at work (employee health concerns), creating a pleasant climate, design a career development program, tolerating unions, etc.

The team represents any workgroup formed with a purpose.

The *primary* goal of the team is to facilitate communication between individuals and to coordinate interdependent tasks. Goals can be: temporary (project team) or permanent (patient care team). In creating the team several stages intervene: forming, norming, task execution and dissolution.

Factors involved in effective team work have a close relationship with team size, with the purpose and clear objectives (understood and accepted by all), the selection of members, roles within the team (defined and understood correctly) with the external environment, careful control of the time, listening and respect for the views and a relaxing, friendly atmosphere.

"The work team is a group of people who exchange experience and opinions, they respect one another's roles and functions to accomplish a common goal."

The team is a group of people who know each other and interact regularly and often, have a common goal or task and completing the task involves collaboration between members and coordination of their activities. Teams are formed for different purposes, adapting their form depending on the purposes: there are intervention teams, in which new leadership strategies or methodologies are implemented, or management teams consisting of senior managers, project teams responsible for projects or the operating team that has a role in the execution of various functions (surgeons, anesthesiologists, medical assistants, nurses).

Conclusions:

The features of the team must pursue a common goal, be based on the cohesion of members, coordination of activities and complementarity of skills.

The development stages: formation, eruption, normalization, functioning, unraveling are closely related to the factors that influence team effectiveness, namely: size, nature of the task, the selection of members, access to resources, 'leadership' and members' ability to successfully fulfill their roles within the team influence its effectiveness.

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Research and Development Management within SC Farmec SA Company

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Abstract

Research and development is defined as a set of actions aimed at discovery of new elements, laws, technology or services and applying this knowledge to create a product or service improved, technological processes, which responds to market demands. Current economic crisis, should have made us understand that research and development is not an option or just a fad, but an acute need for a society wishing to advance itself, in order to continue to exist. Innovation requires adaptation of our world to the new realities around us, solving the problems we face daily. Developed countries have realized the importance of this activity and significant funds are channeled towards this direction. In turn, companies have understood that within the situation of fierce global competition, only an intense and efficient research and development activity can help to distinguish from a great businesses that offer the same good or service.

Keywords: innovation, research, development, evolution

J.E.L. classification: O3, O32

1. Introduction

Scientific research management is described as all the elements of organizational nature, informational, motivational and decision with which scientific research is conducted and ensures efficiency. Scientific research also called research and development, is "a systematically and creative activity intended to increase the volume of knowledge,

including knowledge of mankind, culture, and use this knowledge for new applications." It is based on the creative potential of people who are trained in innovation, research and last but not least the researcher[1].

Scientific research produces science, which incorporates a good deal in technology products. Research, development and innovation is the engine for the economic and social development of any country. To illustrate the veracity of statements before we chose to present the findings of a research made over the best 100 companies listed on the London Stock Exchange, the study published in the "Financial Newspaper", edition of 3 November 2003 and supports the fact that companies that spend more than 4% of its turnover for research and development activities had a better performance than their average. Also it should be noted that the shares of companies that have made notable investments increased by 50%. Based on this study by the Department of Trade and Industry in the UK, investment in research leads to greater benefits than those made by buying new equipment[2].

This situation should not surprise us. If a company wishes to assert and maintain on the market, continuous innovation is a sine qua non. However, regardless of where ideas come from, how many and valuable they are, their translation into new products and technologies is the task of specialized department of the company, namely research and development[3].

2. General presentation of the Farmec company

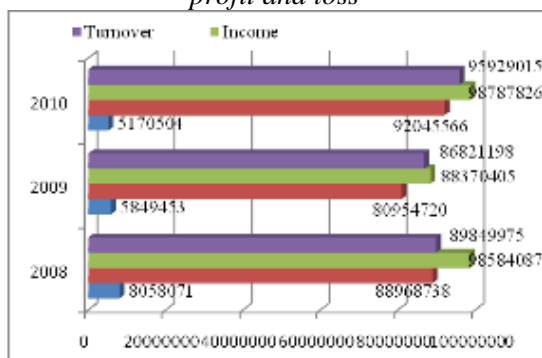
Farmec, a brand whose history began more than 120 years, is with its over 400 items, not just cosmetics market leader in Romania, but also a strong brand, presented and appreciated all 5 continents.

Today S.C. Farmec S.A. ranks among the largest industrial companies in Europe, through the quality of the products and technologies and by investing in its analysis laboratories that are known worldwide.

According to data from research agency Nielsen, in 2011, SC Farmec S.A. has been the market leader in the segment of facial care products, with a market share of 21.8% in terms of quantity and leader segment of hair treatments, with a market share of 28.35% in value and 16, 05% quantitatively. Almost half of the market and face care products eye is divided by 5 big brands (Nivea, L'Oreal, Gerovital, Vichy and Garnir), summing them a market share of 54.6%.

Below it is presented the evolution of the main economic indicators of profit and loss during the analyzed period:

Graph 1: Evolution of main indicators of profit and loss



Source: own processing based on annual reports provided by Farmec

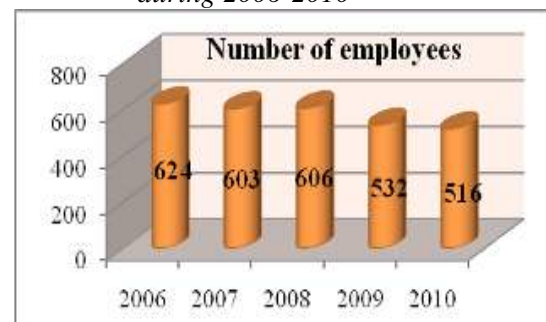
Based on the graph previously presented we can say that S.C. Farmec S.A. managed, despite the global economic crisis to keep turnover high, up from 89.85 million in 2008 to 95.5 million in 2010 and the first half of 2012 continued positive evolution, percentage being 16.9%.

Regarding the income, in 2009 there was a decrease due to the financial crisis on the one hand and, on the other hand, negative results of financial activity, a result that can be attributed to investments made, but not only. In 2010 the situation improved, revenues registered a positive trend.

Profit was down during the period taken into consideration, due to the financial loss registered in the reference years and an increase of operating expenses.

Next, in the analysis we follow the evolution of the number of employees in the Farmec company. First, it should be noted that this company is one of the largest Romanian company, a true competitor not only on the national market, but also at an international level.

Graph 2: The evolution of the employees during 2006-2010



Source: own processing based on annual reports provided by Farmec

In figure 2 we illustrated the evolution of the number of employees of SC Farmec S.A. during 2006-2010. Based on these data we can say that the number of staff has decreased continuously, even dramatically over the past two years taken into account, particularly as a result of the economic crisis and the need to reduce costs and optimize business. Thus there was an adjustment in the number of employees and better adapt to the new company on the market.

In terms of personnel structure, in 2010 the situation is as follows:

Graph 3: Departmental staff structure



Source: own processing based on annual reports provided by Farmec

Based on chart number 3 we can deduce that the largest share in total company is occupied by logistics employees and salespeople (254 posts), followed at a great distance by the directly productive staff (140 positions) and the indirectly productive (52

stations). Thus we can say that SC Farmec S.A. grant a significantly importance of the commercialization process of its products[4].

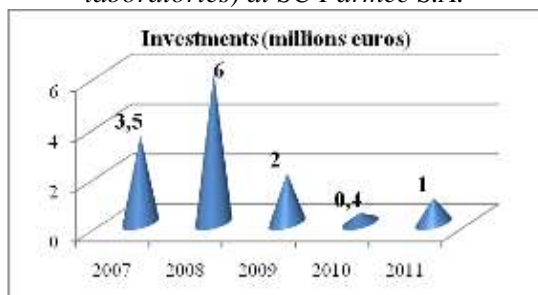
3. Research and development activity at SC Farmec SA

The company Farmec Cluj-Napoca has international quality certificate ISO 9001-2008 and boasts an advanced system of continuous development and 25 patents. Everything starts at conception, research and formulation and is based on strict adherence to the following responsibilities: strict enforcement of European legislation in the field of cosmetics and household chemical; development of new active principles cosmetics, cosmetic effects maximum efficiency proven by tests and professional; use of safer materials and environment for human use and environment; harmonization of formulations with the requirements of target markets (North and South America, Asia)[5].

Envisaged objectives are to develop a line of organic cosmetics, certified organic, achieving a range of household chemical products certified organic.

To create innovative products company invested substantial amounts in acquiring brands, licenses, equipment manufacturing, refurbishment, upgrading laboratories, purchase technological equipment, as behind the finished products reaching the shelves sit research work of the company's specialized department. Without this company could not exist, because human resource is an active and decisive factor of production activity.

Graph 4: Evolution of investment activity (patents, licenses, refurbishment, upgrading laboratories) at SC Farmec S.A.



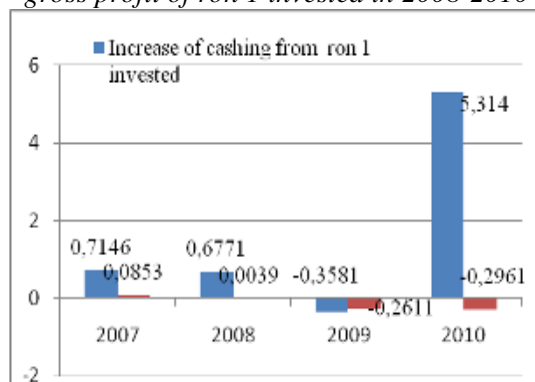
Source: own processing based on annual reports provided by Farmec

Based on chart number 4 we can deduce that in the analyzed period (2008-2011) the company has started an intense investment and modernization process, with the aim to

diversify their range of products, to purchase brands (SC Framec SA paid about 1.2 million for the acquisition Gerovital brand) to improve their technology and process, to streamline their research. In 2012, according to the general director's statements, the amount of investment will reach a value of 0.6 million euros.

In order to make a clear image of how these investments have helped increase company revenue and gross profit, we have built the following graph (figure 5) illustrating the evolution of increased revenues, gross profit at 1 ron invested .

Graph 5: Evolution of increased revenue and gross profit of ron 1 invested in 2008-2010

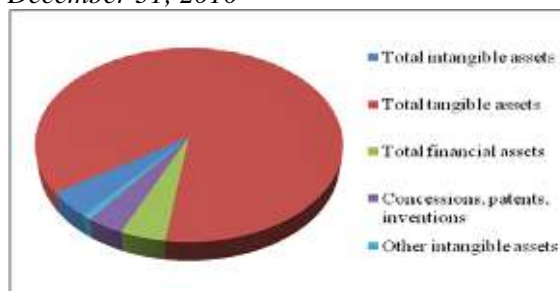


Source: own processing based on annual reports provided by Farmec

As can be seen in figure 5 both indicators registered a decreasing trend during the reference period, except 2010. This is because on one hand the global economic crisis affected the demand for goods and services in all areas of activity, due to reduced purchasing power of population, ron depreciation against the euro, but also the massive investments made by the company, from investments which have not been collected fruit at their true value[6].

Regarding the structure of gross fixed assets at the end of year 2010, it is shown in the graph below:

Graph 6: Structure of gross fixed assets at December 31, 2010



Source: own processing based on annual reports provided by Farmec

As can be seen in figure 6 at the enterprise level intangible assets share is about 4.81%(5,097,223 USD), concessions, patents and inventions represents approximately 81.2%(4,087,168 USD). This analysis should not overlook the fact that Farmec S.A. since 2008 has full rights to use the mark Gerovital, the company paid for it about 1.2 million[8].

In the company are involved directly in this work, over 30 specialists, representing approximately 5% of total staff. Three products are launched annually. The new products provide most of the success of a business. Refresh existing product ranges is an essential aspect to attract customers[7].

Annual reinvestment of 5% from the profits in research, substantial funds allocated in recent years for investment, make the analyzed society a true pillar of innovation at nationally level and is an example for other Romanian companies wishing to emerge from anonymity and to occupy a leading position in their field of activity. Without research there is no progress and no future progress. Research is not just a fad, but an acute need for a society that respects itself and wishes to endure over time.

4. Conclusions

Our country deposit serious effort to get out of the shadow cone it is found, as evidenced by its attempt to increase the percentage of GDP allocated to research, desire to limit "brain drain" and to attract foreign specialists that help reduce the gap in relation to other EU countries.

As any desert has its oasis, Romania also has a number of companies that occupy a leading innovation position, being allocated financial resources not only consistent, but also hard work, dedication, passion and soul not last. SC Farmec S.A. is a reference point when it comes to research and development, innovation in our country.

It demonstrates that, despite the difficulties, despite the gap to the world's leaders, in Romania there are still a number of oases, oases which give us confidence in the ability of this country to progress and to be competitive even at European level if not

at a global level. The large number of patents, designs, trademarks, awards both nationally and worldwide, SC Farmec S.A. demonstrates a continuing concern for improving products, a focus on consumers needs, a long-term vision of beauty. Clay, flower-of-corner are natural elements that form the basis for a number of creams and other skin care products.

Company market share (21.8%), was superior to other brands stronger financially, demonstrate that creative force, the ability to adapt to market needs and expectations, hard work and dedication is the key to success. Although turnover has fluctuated in recent years (it dropped from 89,849,975 ron in 2008 to 86,821,198 ron in 2009, but noting a positive trend in 2010 when it reaches the figure of 95,929,015 ron), the company has managed to cross safely this time more difficult. Farmec SA understands that in this contemporary economic conditions and strong competition, only an intensive investment process and a well planned research and development activity could bring market success in acting, which is why the company invested in the years 2007-2010 about 12 million in modernizing and upgrading its laboratories, in purchasing brands – Gerovital, in improving its products and creating new formulas.

Thus we can say, without a doubt that research and development is an extremely important constant of the new millennium, constant that offers our society more dynamism, accelerating the innovation process. Innovation is what will help us to overcome this difficult period through which the global economy is passing by, and therefore it is necessary to give its rightful place in the budgets of all states and companies, in this way it won't be seend anymore as a Cinderella of the society.

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The Influence of National Culture over Organisational Culture in the Globalisation Context

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Abstract

The study approaches a very up-to-date set of issues within the current globalization context that is the role the culture plays in the life of a nation and the implications of the national culture over organisations and the manner of conducting businesses.

Existent links between national culture, organizational culture and organisations management are seen through the perspective of the shifts which currently take place in the global context of trading businesses.

Nowadays organisations have surpassed the national action frames and they operate globally, being in the position to approach problems on a completely different level.

One of the issues faced by multinational companies is the one related to cultural differences which arise at the time of starting a business in various countries; they have managers and employees belonging to different nationalities and cultures.

Keywords: national culture, organizational culture, multinational company, manager, globalisation

J.E.L. Classification: M14

1. Introduction

The relation between national culture, organizational culture and organisations' management is extremely complex.

A nation's culture is a defining issue in what concerns the way in which it can be characterized. Culture is a core element, influencing everything that takes place within a nation. The way, in which individuals act, their perception over things and life in general, derive from the culture they belong to.

A nation's culture reflects upon all elements of the social life, including upon

businesses conducted by individuals in such country or in other countries.

Based on the national culture, companies build in time their own organisational culture, adopted by their members and which defines the manner of conducting economic activities within such.

In the following pages we shall try to highlight the way in which national culture influences organisational cultures of companies within a certain country and, implicitly, the management style adopted within such companies.

This study is not intended to be an exhaustive presentation of the national culture issue and its relation with organisational culture, it merely deals with certain aspects from the plurality of possible approaches, pointing out the implications which consist thereof.

2. National culture and its defining elements

Culture is a rather abstract notion, relatively difficult to define and which may be perceived from a multitude of modalities, irrespective of whether we relate to each particular individual or to the nation as a whole.

The term *culture*, with ancient origins (coming from the Latin word *cultura* = *to farm*), currently has a large variety of senses related to education, anthropology, agriculture, biology, medicine etc.

By making reference to modern meanings, from which the notion of national culture derives, we may define culture, according to The Explanatory Dictionary of the Romanian Language (DEX), as the *totality of material and spiritual values created by mankind, and the institutions required to communicate such values.*

At the same time, in the sense referring to the individual as member of a nation, culture

may be defined according to DEX, as *the fact of possessing substantial knowledge in various areas of interest; the totality of such information; (high) intellectual development level a person has reached*.

By trying to define culture, both from national culture perspective, and from that of the individuals belonging to such culture, we wish to point out its role in the life of a nation and society, the influence it has over economy and the manner of conducting business, within the present day global context.

As a whole, national culture possesses a set of specific characteristics such as language, religion, ethnic and racial identity, history, traditions and practices. National culture influences the family life, education, political and economic system, and last, but not least, the way in which businesses are conducted.

Perception of a certain culture derives from the manner in which it was established. It emerges as three overlapped layers, each displaying a set of specific characteristics which become rather difficult to detect and to understand as we penetrate it from the outside to the inside.

The exterior layer refers to cultural symbols and practices, easily noticed ever since the first contact of a foreign observer possessing a certain degree of culture (language spoken, garments, architecture, art, eating and drinking habits of the local people, the manner in which they buy groceries).

The middle cultural layer comprises the rules and values of the society which show, on one hand, how individuals of that particular nation should and actually behave and, on the other hand, their perception of what is good or wrong in their society.

The inner cultural layer is rather difficult to perceive and it refers to the basic ideas and beliefs of a nation's individuals about existence, about what is true or false in life. In order to access this cultural layer, an outsider shall have to observe for a long while such society and, in spite of all that, he may come to have an insufficient understanding of the meanings of certain mentalities.

3. National culture, premises for organisational culture

Nowadays, the concept of national culture represents a major concern. It is not only a scientific concern of anthropologists or sociologists to understand a nation's culture, but also concern of the ordinary people, willing to know members of other national cultures and, especially, a concern of the multinational companies operating worldwide.

Why is it important for multinational companies to notice the differences between national cultures? The answer to this question may be relevant within the globalisation context and giving the fact that national boundaries seem to be more open than ever before.

The expansion of businesses in various parts of the world and the necessity to operate in different economic contexts, to have employees of various nationalities, ethnicities and religions, to sell on different markets, urge the managers of multinational companies to be more and more acquainted with the cultural specificity of the nations and individuals with whom they get in contact, to build an organisational culture adapted to current requirements.

From a scientific perspective, there have been numerous concerns on behalf of specialists with regard to defining culture and identifying certain patterns, which should be able to shape some general cultural characteristics for various nations.

Edgar H. Schein defines culture in one of his works as being *a pattern of shared basic assumptions that the group learned as it solved its problems of external adaptation and internal integration, that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems* [1].

Edgar H. Schein developed a pattern by which he tries to explain the basic elements of cultures. Edgar H. Schein's pattern resembles other patterns implemented by various theoreticians of cultural approaches such as Geert Hofstede and Fons Trompenaars, and it may be used to analyse all culture types, including national and organisational cultures.

All these patterns derive from the presumption that any culture may be explained and comprehended by observing its core values and assumptions.

The core values may show the visible elements of cultures, such as behaviours, anticipated reactions, dressing code, architecture, eating habits etc. Edgar H. Schein defines these visible elements of cultures as espoused values and artefacts.

Artefacts are a culture's visible elements which may be easily recognized by outsiders: dressing code, art, furniture, labour status, legends, organisational structures etc. They can easily notice them, but they may not understand the reasons which lead to adopting such symbols. In order to understand them, an outsider should get to know the espoused values of this culture.

Espoused values are the values imposed by representative figures of a nation's culture, for example: philosophies, strategies and ways to reach the objectives. If espoused values proposed by the leaders fail to agree with the assumptions adopted by such culture, contradictions may arise.

Assumptions reflect values accepted on a large scale by the members of a culture regarding human nature, human interactions etc. However these values are sometimes insufficiently defined, thus they are not visible for all members of such culture. Assumptions and espoused values may not always be correlated; espoused values may not be rooted in current values of the culture. This fact may generate great difficulties in society, manifested as frustrations, immorality and social inefficiency.

Being familiar with Edgar H. Schein's cultural pattern, leaders shall be able to understand cultural elements, to analyse the connections between the beliefs deeply rooted in society and usual business practices within organisations.

Also, leaders may try to change the basic beliefs of a given culture and as a consequence, they may improve company's efficiency. This process may be seen as a cultural change, if basic beliefs are modified to match desired espoused values and cultural products of the organisation.

Cultural change may be necessary when the organisation's environment is changing. Competition and new regulations may impose a new organisational culture, situation in which a new set of values is needed for the organisation.

At the same time, beliefs also have to be changed, so that the organisation may survive

and develop and, as a consequence, new values proposed by leaders are accepted by all members of such organisational culture.

Beside Edgar H. Schein's approaches, other significant approaches concerning national culture and its influence on organisational culture were made by theoreticians like Geert Hofstede and Fons Trompenaars, who identified various cultural dimensions, which may be used to evaluate the differences between various cultures. They started from the premise that these differences between cultures may have an effect upon the way foreign employees are managed, the manner of satisfying expectations of external stakeholders, and the way in which managerial problems are solved for multinational companies which work with persons belonging to other cultures.

Geert Hofstede has identified culture, in his vast researches as being *the collective programming of the mind distinguishing the members of one group or category of people from others* [2].

Hofstede's concerns regarding the national culture approach and its influence on the values of organisational culture start from an empirical research carried out in the USA, between 1967-1973, which documents the attitude of employees comprised within a database taken over from IBM. Initially, such research comprised employees of various nationalities, coming from over 70 countries.

As a result of the research on a large number of national cultures, based upon a representative sample within each culture, Hofstede reached the conclusion that a national culture may be characterized by four cultural dimensions:

- Power Distance - PDI;
- Uncertainty Avoidance - UAI;
- Individualism vs. Collectivism - IDV;
- Masculinity vs. Femininity - MAS.

Subsequently, in 1991 Geert Hofstede introduced a fifth cultural dimension, perspective on time (Long-Term Orientation vs. Short-Term Orientation - LTO), by the contribution of Professor Michael Bond, who performed an international complementary study, based on the research of the attitude of a significant group of Chinese employees and managers, which later on was extended to a larger number of employees from different countries.

Power Distance – shows the perception on the degree of inequality of power between the one holding it and the one who is subject to it. This dimension shows the extent to which employees with less power expect and accept that power is unequally distributed.

Power distance may be explained by means of value systems of employees with less power, and the way in which power is distributed is related to the behaviour of members with greater power. The studies which have been conducted pointed out a ranking of several countries, on a scale from 0 to 110, which was considered the estimation range.

In countries with great power distance, power represents a defining element of the society, the ones holding it imposing a set of rules which have to be strictly complied with. In these countries authority based on constraint is manifested, while in countries with small power distance authority based on competence is manifested.

In countries with great power distance, there is a latent conflict between the ones holding power and the ones who are subject to it, while in countries with small power distance, a greater understanding can be seen between leaders and employees.

Uncertainty avoidance – shows the way in which members of a national culture react when they feel threatened by insecure or unknown situations. This cultural dimension measures a tolerance level in relation to the anxiety caused by certain uncertain future events. The greater this level is, the less the uncertainty avoidance is and vice versa.

In certain national cultures, individuals manifest the tendency to accept uncertainty as an element which is part of life and which, to a great extent, it can not be influenced. In such case, uncertainty avoidance is much reduced. In this type of national cultures, employees usually work in large organisations, take few risks, a large amount of stress is manifested in the work place, they prefer written and precise instructions, a more aggressive behaviour is accepted and unanimity is encouraged.

In other national cultures, individuals have the tendency to try to conquer the future, to fight in order to control it, thus manifesting a high level of uncertainty avoidance. In such type of national cultures, employees prefer smaller organisations, they

do not hesitate to change their job for better conditions, take more personal risks, and they do not tolerate aggressive behaviour, works under less stress conditions.

Individualism vs. Collectivism – it is a cultural dimension which shows the intensity of connections between individuals of the society. From the perspective of these connections there are two types of societies: individualized societies and community societies.

Individualism belongs to societies in which connections between individuals are chaotic, where it is expected that each person looks after himself, take care of his own family, to have a greater freedom in organising his own work and professional achievement.

Collectivism belongs to societies where individuals are integrated from young ages, in powerful groups, with well-defined relations, which carry on protecting them throughout their entire life. It becomes essential to create good working conditions, by means of which individuals may reach the objectives that were jointly set.

Masculinity vs. Femininity – shows the differences existent in various national cultures in what concerns the equality of sexes. The distribution of roles in the society based on sex criteria is not performed in the same manner, in all cultures, which leads to cultural differences.

If there is a great difference between the roles of men and women in the society, such culture is characterized by a higher degree of masculinity, in which the prevailing values are success, money and possession. If the roles carried out by men and women in the society are less differentiated, such culture is characterized by a larger amount of femininity, being dominated by values such as concern for the others, quality of life.

A large number of nationally identified characteristics may also be applied to organisations. Thus, the organisations may be permanently related to the five dimensions of organisational culture defined by Hofstede.

Perspective on time – shows the two possible approaches, a long term and a short-term one.

The long term perspective on time implies that all members of the organisation accept the idea that in order to reach the targets and to achieve high performances in business

activities, it takes a longer period of time. Also, the employees intend to have a long term professional relationship with the company, with an ascending evolution of the career.

The short-term perspective on time implies that the objectives are clearly established, and the achievement of the results corresponds to a relatively short time span. Employees regard the relationship with the company as a temporary stage of their career, frequently changing their working place, in the pursuit of new opportunities.

Hofstede assigns to the organisational culture concept a series of defining features:

- It has holistic character, in the sense that it represents more than the totality of its constituent elements;
- It may be historically determined, reflecting the company's evolution in time;
- It is connected to a series of anthropological elements (myths, rituals, practices, symbols);
- It is substantiated from a social point of view, being the result of the creation of individuals which make up the organisation;
- It is difficult to modify, due to complex human elements involved in it.

Another concern of Geert Hofstede was that of making a reference book which may solve a series of problems which arise due to cultural differences between national cultures during the leadership process, in the case of multinational companies or companies which hire personnel of other nationalities [3].

Within the same context, the author proposes several ways in which companies may homogenize their organisational culture, in the sense of regulating employees' behaviour for the purpose of solving problems which arise due to cultural differences.

Geert Hofstede considers that the differences between various national cultures are mainly found in the deeply rooted values of such cultures. These different cultural values may shape the way in which individuals expect that the organisations they belong to are managed and the way in which the relationships between leaders and their subordinates should evolve. Ideally, these expectations should balance the relations between employers and employees, but in many cases, existent great cultural differences are reflected in long distances

between the expectations of the two categories, fact that may cause problems in the management of multinational companies.

Companies with employees belonging to different cultures may benefit from the homogenization of organisational culture. Also, multinational companies may create a unique organisational culture, mindless of national borders of the countries in which they operate, despite existent cultural differences.

As a result, employees belonging to another national culture may be integrated in such organisation's culture and may internalise the practices of such culture, even though they are different from traditional practices of their originating culture.

Companies that wish to homogenize organisational culture may use a series of methods which consolidate the integration process of all employees: hiring individuals who possess a system of values similar to the organisation's values; hiring individuals that have not been yet integrated in other organisational cultures; creating a strong feeling of belonging to the group represented by such organisation.

Not all organisations shall record positive results by imposing a unique organisational culture, some of them obtaining this kind of results by accepting and using cultural differences existent within them. Such organisations shall seek to impose, not necessarily a unique culture, but rather a unitary leadership style, a standardization of product quality, a unique image irrespective of the geographical location.

Another interesting approach regarding differences between national cultures is that of Fons Trompenaars. The same, in collaboration with Charles Hampden-Turner, developed a pattern which establishes seven cultural dimensions, pointing out the way in which persons belonging to different national cultures interact [4].

The seven cultural dimensions included in Trompenaars's theory are:

- Universalism vs. particularism – What is most important - rules or relationships?
- Individualism vs. collectivism – Do we function in a group or as individuals?
- Neutral vs. emotional – Do we display our emotions, or do we hide them?
- Specific vs. diffuse – Do we handle our relationships in specific and predetermined

ways, or do we see our relationships as changing and related to contextual settings?

- Achievement vs. ascription – Do we have to prove ourselves to receive status, or is status given to us

- Sequential vs. synchronic – Do we do things one at a time or several things at once?

- Internal vs. external control – Do we believe that we can control our environment, or do we believe that the environment controls us?

Trompenaars tests this pattern in over 55 national cultures based on questionnaires, trying to illustrate the way in which the answers to each question concerning these dimensions may be used by managers in order to obtain an overview on the conditions under which individuals belonging to different cultures may act within the same organisational culture.

4. A managerial dilemma within the organisational culture

A special issue related to cultural differences within a company is the one of imposing managers. Thus, at least four possible situations may be identified:

- Appointment of a local manager, with professional training and experience acquired within the local culture. In such situation, the manager has the advantage to be familiar with the peculiarities of the national culture, making him more easily accepted by the employees, but he shall face the same difficulties as the majority of employees in adapting to the new organisational culture;

- Appointment of a local manager, with professional training and experience acquired within the organisational culture of another subsidiary of the company. In such situation, the manager has multiple benefits generated, on one hand by the affiliation to the local national culture and, on the other hand, the affiliation to the organisational structure. He has the advantage to understand why sometimes the employees do not accept certain values of the organisational culture, which are different from the values of the national culture and he might balance such discrepancies;

- Appointing a foreign manager, with professional training and experience acquired within the culture of such organisation in another country. Such appointment may

generate certain conflicts due to cultural differences existent between the new manager and the employees, which have to be settled in time;

- Appointing a foreign manager, with professional training and experience acquired outside the culture of such organisation. In such situation the company may be subject to the greatest challenges, due to the fact the employees should adapt to the organisation's culture, and the manager has to face both a new organisational culture and a new national culture.

5. Conclusions

The approach of each of the situations presented leads us to the idea that irrespective of variant where it stands, a multinational company assumes such situation and, implicitly, a series of risks. None of the variants presented display certainties for a complete success.

No theory, irrespective of its complexity, shall be able to offer solutions to solve cultural issues, but rather a frame of understanding particular phenomena.

It is the company's management ability that is responsible for surpassing national cultural differences, for imposing appropriate the organisational culture, for creating a pattern within which each member of the group may integrate as fast as possible and to the highest performance level possible.

The cultural disparities which become deeper in a tumultuous global environment should not obstruct the achievement of the company's challenges concerning management and high performances.

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Firms Development in the Romanian Economy

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Abstract

The necessity for assistance In a transition economy emerges from the analysis of the constraints which limit or slow down the process of small and medium enterprises formation and growth. The unsafe economic climate for entrepreneurs due to the low incomes, the low purchasing power, the resistance of financial blocking, and the high inflation rates, etc.

The process of companies launching and surviving takes place in a period of economic crisis and instability which grow up the environment unsafe and the risks of business actions. Moreover, they emerge many bureaucratic impediments related to the relationship with state enterprises, local administration, and governmental entities.

Key words: phase, growth, company, small and medium enterprises, approach

J.E.L. classification : M10, M20, M51.

1. Introduction

The approaches based on organisational development are the most common, providing the chances of better understanding regarding the small and medium sector rise. The starting point for elaborating the models is the fact that enterprises are confronted with common problems in the same phases of growth. By passing from one phase to another one, we will face a new enterprise, the entrepreneur having to solve the problems related to the necessary changes and crises appearing within the company. These problems' solution can be facilitated if there is an active managerial behavior, dominating compared to the passive.

2. The main approaches specific to the companies' growth in the Romanian economy

The approaches based on organisational development are the most common, providing the chances of better understanding regarding the small and medium sector rise. The basis of this analysis is the concept according which a new enterprise will pass a number of phases during its existence and the phase an enterprise is passing some time can be used as a criterion to differentiate it from the other ones. The starting point for elaborating the models is the fact that enterprises are confronted with common problems in the same phases of growth [1].

The approaches based on enterprises management consider that the company's growth may be analysed according to the managerial skills for performance and maximum efficiency, using strategic operational planning and control elements, especially in the costs area [2].

The researches have proved that enterprises, in which an efficient management is practiced, including its strategic site, show a better availability for growth. Under the conditions which the enterprises are confronted with another types of constraints excepting the managerial one it is doubtfully that the managerial problems solution will lead to the growth in conditions which the other restrictions are not solved. The approaches which try to quantify the influence of the external elements from a macroeconomic and sectoral perspective are faced to the difficulties of a rigorous evaluation of these elements 'impact.

Analyzing more than 25 typologies of enterprise's growth, Lorrain and Dussault (1987) had noticed that they vary in a significant degree depending on the number of the proposed phases. For example, Smith and Gannon – 3 phases (1987), Buchele – 7 phases (1976) and Parks – 11 phases (1977).

These models had used very different criteria for classifying enterprises within a certain phase [3].

We must consider that some of these models are pure theoretic constructions, given that they are never practically validated. For example, Smith and Gannon's (1987) three phases show that the enterprise develops from a small dimension to a fast growth, and then to maturity. According to this model, in the second stage we already deal with a big enterprise.

3. Models of growth specific to the small companies into the Romanian economy

Miller and Friesen (1984) have studied different models of enterprise's growth, identifying five common phases for different life cycles:

- birth – the achievement of a sure, stable position and the surviving after launching;
- growth – the exploitation of market opportunities;
- maturity – the structures and the activities coordination which have fast grown up;
- revitalization, rebirth – the adaptation to a more complex medium;
- decline, stagnation.

McGuire (1963) has provided a model according to which the enterprise passes through five phases during its development:

- traditional small enterprise;
- planning for growth;
- development;
- professional management orientation;
- mass production.

Christensen and Scott (1964) have focused on the development of organizational complexity in an enterprise.

Thus, they have formulated three stages:

- a managerial unit without specialized organizational parts;
- a managerial unit with functional parts such as marketing and finances;
- independent operational units which act in their own name in the market.

Greiner (1972) has proposed a model of evolution within the enterprise passes through five phases of growth and which realizes the transition from small to big,

depending on the sales and the number of customers.

Each phase is distinguished through an evolution from the previous phase and later through a crisis preceding the step to the next stage. Each evolution phase is characterized by a certain managerial style and every period of revolution by a certain management problem the enterprise is confronted with.

Kroege (1974) considers that the small and medium enterprise's cycle of life is composed of five phases, to each of them corresponding to a certain managerial role:

- initiation: initiator – inventor;
- development: planner – organizer;
- increase: development – implementation;
- maturity: administrator – operator;
- decline: successor – reorganizer.

The author underlines that these managerial roles' achievement is essential for the company's survival and increase. If the roles have been accomplished in an adequate manner, the cycle of life will continue in the next phase. Otherwise, the entrepreneur will be confronted with the fail, a higher risk existing during the early stages.

Perry (1982) and other authors recognize the limits of the lifecycle. Most of these theories claim that a new enterprise turns into a mature, diversified one. Still enterprises may survive without disappearing, even if they do not turn into a big enterprise.

Often they pass through early stages; after that, because they assure living means to the owner, they stop increasing for lack of necessary motivation. More, enterprises are going to be confronted with static periods which are necessary in order to facilitate the use of information achieved during the precedent period.

A Swedish research has underlined that about 40 % of entrepreneurs had declared that they do not intent to develop the enterprise even if market opportunities had existed. Also, in France is considered that there is a lower aspiration for the enterprise's growth than in U.S.A., one of the main causes being the differences between the cultural French model and the American one (Institut d'Etudes Bancaires et Financieres, 1989).

Many times, the entrepreneurs consider that the enterprises which have been developing are confronted with many

problems. The small and medium enterprises are characterized by a unipersonal management, entrepreneurs trying to avoid to lose the total control of enterprise under an increase determined by using professional management, under the use of external resources for financing the increase. In the same time, the enterprises' increase could eliminate some advantages of this type of enterprise [4].

It's still possible that the growth to maintain the company's entrepreneurial values. Some entrepreneurs' adversity towards growth within the companies may offer an empirical explanation of company's small dimensions advantages. Anyway, a growth model of company must be known in every phase in order to know the impact of every phase on the company.

Some of the models of growth existing in the specialty literature analyze the company's growth through the internal factors first of all, the external factors being neglected or underappreciated most frequently.

The growth has also an important qualitative side referring to the capacity to diagnose and to deal with the structural changes which appear in the external environment and with the changes within company's own values system.

4. The main development phases specific to the Romanian companies

By passing from one phase to another one, we will face a new enterprise, the entrepreneur having to solve the problems related to the necessary changes and crises appearing within the company. These problems' solution can be facilitated if there is an active managerial behavior, dominating compared to the passive. The graphic form and the speed the company passes from one phase to another one will vary from one company to another depending on different internal and external factors.

- *The first phase – The company's launching*

Within this phase, the main problems are related to the achievement of the production factors' efficient combining in order to obtain a competitive product, its launching on the market and making a satisfactory basis of customers. These elements are fundamental conditions for creating a sustainable

company.

In the same time, the entrepreneur must deal with the financial demand from this phase. In conditions which the launching takes place within rather small dimensions, the main financial sources are usually assured by the entrepreneurs and family, being a continuous pressure for investments and under these conditions the cash flow is negative.

The entrepreneur can make use of a limited market and distribution channels, the company's supply and demand being also limited.

The company's organizing is simple, the entrepreneur exerts the complete control, and the strategy of the company focuses penetrating the market. In conditions which there are not attracted enough customers, it's not achieved a successful launching of products and services and if the entrepreneur has not additional resources he will have to liquidate the company. In other situations, the entrepreneur's abdication can happen due to the pressures that business exerts over time and financial resources or due to the fact that they consider the decision to become an entrepreneur is not an appropriate one. The enterprises remaining in the market during this phase will pass to the next phase.

- *The second phase – The surviving*

By passing to this phase, the enterprise showed that it can function, the business being a viable potential one. The surviving key problem is about the relationship between incomes and expenses, the company having to generate enough incomes in order to reach to the breakeven for assuring the necessary resource to restart the cycle of production and to finance the growth until the dimensions of market opportunities. Anyway, for a longtime within this phase, the cash flow continues to be negative. Some enterprises can stay for a long time within this phase for recovering the invested capital although, in conditions which the competition enhances, they will be forced to pass to the next phase [5].

If the market has good opportunities, it may appear the temptation of an emphasized growth even in this very phase. Loosing control over the company's growth can lead to some serious financial managerial problems, emerging the risk of the company's fail. The organizing is still

simple, the company has a limited number of employers and the planning is reduced to cashing prediction. The company's main aim is surviving and the entrepreneur identifies himself with the business.

- *The third phase – The consolidation*

The entrepreneur must choose between two action options, meaning either to strengthen the obtained achievements and to prepare the growth for the next phase, or to consolidate the achievements by maintaining the company stable and profitable. Thus, the key problem is if the enterprise is used as a platform for growth or as a support tool for entrepreneurs [6].

From this point of view, we may have two possibilities:

a. Consolidation – maintaining. The company is big enough and has a good position in the market for making profit. It can stay a longtime on this stage by making sure that the environmental changes do not threaten its current position and it is not forced to pass to another phase. Organizationally, it is possible that the company has been growing enough so that it needs a professional manager in order to take some of the entrepreneur's tasks. The managers' potential and their values system are directly influenced by the entrepreneur's objectives. The fundamental strategy is about consolidating and maintaining the company. Also, we should consider that they emerge some situations in which the growth is not possible due to the fact that the market, with its limits, does not allow the increase (for example, a niche-type market with a little potential of growth, some small local markets, etc.). Thus, the option for this alternative can be the consequence of the entrepreneur's values system (subjective reasons) or of the market conditions (objective reasons) [7].

b. Consolidation – the growth's preparing. The entrepreneur consolidates the company by maintaining the actions control, but, in the same time, he prepares the growth. The cash flow is usually positive but the benefit is reinvested. Additionally to its own resources, the enterprise calls in a greater degree for attracted resources, enjoying a better accessibility to the credits market. It must develop new products and services, extended activity in the new markets, elements which will support the growth in the next phase. The managerial structures develop and they

apply a strategic management for building the future growth of enterprise. If the success is not got during this phase, the entrepreneur can use the consolidation – marinating phase of growth.

- *The fourth stage – The growth*

The key problem of this phase is about how fast to be conceived the growth to maintain a permanent control over this and how to be financed this process.

A decisive element for success in this phase is related to a managerial competence for growing having a more and more complex internal and external environment as the enterprise is getting to the dimensions of a big company.

The enterprise must focus more and more over the external factors because the increasing competition towards increasing sales and products distinguishing is possible to become stronger. In these conditions, it must be emphasized the customers' needs by adapting production. The fail's causes may be determined either by the attempt to grow too fast and by the inadequate financial resources, or by omitting authority delegation or performing an insufficient delegation. Consequently, the enterprise may face with the turning back to the third phase or, if the problems are more serious, to the second phase or even with its disappearance.

- *The fifth phase – The maturity*

Opposed to the classic concept of cycle of life, the enterprise can grow up during the maturity phase. The most important problems are about the achievements' consolidation and the controls brought by the growing up process and about keeping the advantages the small enterprise take (flexibility, entrepreneurial spirit, the lack of bureaucracy, etc.) taken that it is possible to have been attained the dimension of a big enterprise. They must be eliminated the possible discrepancies the growth had created and must be applied management modern methods which can be fully used now. The cash flow is positive and it assures the dividends for the entrepreneur and the other investors. The entrepreneur has stopped dominating the company, leaving space for managerial structures. If the enterprise keeps the entrepreneurial spirit, keeping distance from bureaucracy, inflexibility, risk avoiding, non-innovation, it will show itself as a real force in the market.

In the transitory economics, the small and medium sector is at the beginning of cycle of life (they are dominant the launching, the surviving), especially in the Romanian economy which has been started the process of developing this kind of enterprise by 1990.

5. Conclusions

The researches have proved that enterprises, in which an efficient management is practiced, including its strategic site, show a better availability for growth. From the analysis of the company's growth models existing in the specialty literature, including of one of the most known and pertinent models, elaborated by Churchill and Lewis (1983), of the concrete situations of small and medium companies from Romanian economy and form some market economies. The enterprises remaining in the market during this phase will pass to the next phase. The managerial structures develop and they apply a strategic management for building the future growth of enterprise.

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Leadership Style and Organizational Culture

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Abstract

Clearly the world is developing in new directions, social, political, and environmental. Now is the time, more than ever, for those decision makers who control training budgets to adopt a framework of practices, behaviors, attitudes and values that address every aspect of an organization's success.

We must ask ourselves: is making decisions according to situations in which we are based leadership? In practice, all those in a position of some responsibility decisions, but this behavior is leadership? In fact, leadership requires a range of skills, behaviors and values.

Secondly, in the current situation, leadership is not seen as something that is done only by the person in charge. Leadership exists at all organizational levels, regardless of the company. We need to move the focus from how the person "the top" lead and focus on how all employees can show leadership.

Key words: organizational culture, leadership, employees, globalization, influence

J.E.L. Clasification: A1, A14, D2, D22, L2, L25,

1. Introduction

"Leadership is one of the factors that condition substantially the activities, processes and psychosocial phenomena in synthetic Organisations expressing how relatively stable and a specific leader ..." [1] Leadership occurs whenever a group of people together and harmonize their efforts to achieve a common goal.

As in any enterprise there is a formal organization and informal organization,

which often vary considerably informal leaders can not identify with managers, those with leadership in enterprise hierarchy. In these circumstances it is obvious that a good manager will always be a good leader, but a leader is not always good manager. In this regard, K. Davis says suggestively: "Leadership is a part of management is the ability to persuade others to seek defined objectives enthusiastically achieve." [1] It is the human factor that ensures consistency group and motivates you to achieve goals. Management activities as: planning, organization and decision making are "cocoons" inactive until the leader triggers the power of motivation in people and guide them to specific purposes." [2]

Leadership can be defined as a person's ability to exert such influence on others through communication, directing them to meet certain goals.

Exercise influence on others is the essence of leadership. Formal leadership, which refers to the managers of an organization, formal or legitimate is their right to influence others by virtue of their hierarchical position in the organization. Informal leadership is not an official right to influence others, but lies in the intrinsic qualities of a person to exercise influence in an informal group.

Can exert influence over others on a wide range of ways that extend from the friendly to the coercive.

Thus, D.Kipnis, S.Schmidt, C.S.Smith and I.Wilkinson believe they can be identified on these types of strategies to influence people: [3]

1. Reason-use situations, events, processes and data and information that reflects the development of logical arguments.

2. Friendship-search support, use magulirii, creating goodwill.

3. Coalition-mobilizing others in the organization.

4. Fall-negotiate a deal based on the use of rewards.

5. Aggression-use direct approach and strength.

6. Superior authority-winning support higher authorities of the hierarchy to increase "weight" applications.

7. Punishment.

The study by the authors quoted on a representative sample of managers revealed that most strategies used are based on reason and aggression, and the least used refers to the use of higher authority and sanction. Also, the study showed constant concern of managers to exercise a strong influence on subordinates as their awareness that they can not be limited to traditional strategy of exercising power within the organization exclusively on hierarchical position held.

1.1. Approach in terms of leader traits

Early studies on leadership have made this approach coordinates emphasizing the differences between subordinates performance leader traits are due. Studies in this approach were based on comparison methodology representative examples of leaders and nonleaders, in order to emphasize the physical and personality traits that differentiate them on top of mates sensitive. The main features considered were:

a)-physical characteristics, age, height, weight, appearance;

b)-basic characteristics, social class, education, experience, professional mobility;

c)-spirit personality introvert / extrovert, independent, self-confident, determined character, authoritarian tendency, spirit friendly / aggressive inclinations of dominance / subordination;

d)-intelligence, knowledge, judgment, intellectual mobility;

e)-social characteristics, prestige, tact, diplomacy, cooperative spirit, charisma, popularity, management skills;

f) - "spirit work" - responsibility, initiative, spirit completed tenacity[4].

Reference in other investigations, E. Ghiselli[5] studied eight personality traits (intelligence, initiative, ability surveillance, confidence, passion for workers, the spirit decided masculinity-femininity, maturity)

and five traits of motivation (need for job security, rewards need cash, need for power over others, the need for self-actualization, the need for occupational fulfillment). Based on research conducted authoritative hierarchy of features mentioned in the following groups:

1. important features in order: surveillance ability, need for occupational accomplishment, intelligence, self-actualization, self-confidence, spirit decided;

2. moderately important features, in order: no need for security, affinity for workers, initiative, no need for cash rewards, maturity;

3. Characteristics unimportant: masculinity-femininity.

1.2. Approach in terms of leader behavior

If previous approach was focused on responses to the question: What should be effective leader? This second approach is faced with the question: What is the effective leader? In other words, how they exert influence on others.

Behavior of effective leaders enroll in antonym pairs autocratic, democratic, permissive and directive oriented toward task-oriented people. Although expressed differently, the three pairs means essentially a dominant leader behavior: behavior focused on accomplishing tasks, production[6].

Implications of his theories on leadership-D. McGregor [7] practiced in an economic organization are highlighted below, and that which reveals how subordinates assumed that a leader will act according to the assumptions of the latter on their attitude towards work.

If subordinates meet assumptions Theory X / Theory Y assumptions If subordinates meet: If the leader believes that subordinates meet assumptions Theory X: subordinates acting under provisions is dependent on leadership and creativity manifest low. Subordinates are frustrated because of leadership based on control and coercion, does not allow display of their actual possibilities and creative work.

If the leader believes that Theory Y assumptions correspond subordinates: Subordinates achieved modest success as they have the necessary maturity. High performance because subordinates realize their needs find their full satisfaction in the organizational environment.

Once again, absolutization a type of behavior or another has proven leadership does not correspond to existing methods in reality, in which are combined in different proportions, concerns Leader tasks with dedicated people.

2. Socio- organizational aspects of culture

The issue of globalization is the internationalization of social research. Acceptance Schein's organizational socialization (1986) and Louis (1980) is the process by which a person shows employment in order to assess its value, skills, behavior and knowledge expected to assume a fundamental social role in that organization and to participate its membership to achieve a set of objectives.

Economic factors that require globalization, and travel becoming increasingly of interest to knowledge management, socialization issues updated four employees (Baurer & Taylor, 2001): [8]

1. A number of employees of the organization can work in another country than the native. For example, the international company GE, only 200 of the 23,000 employees from the U.S.;

2. Investment strategies and decision-making responsibilities are excentralize, that decisions are made directly to company subsidiaries, the most involved in solving these problems. There are many companies that have branches outside a country, which raise important issues about the socialization of employees;

3. The emphasis on knowledge as the basis for competitiveness, ability to socialize employees has become a key issue for attracting and retaining talent. So, recruitment and selection gained much in importance;

4. Globalization has stimulated emigration. U.S. workforce is composed of 12% immigrants, in Germany, 8.7 in labor is not German.

Organizational leaders are those who have great emotional impact on subordinates. Their ability to channel their emotional intelligence to the direction best suited them "help" to work and act according to the highest standards, I positioned the expert level, senior leaders, professionals.

The author also notes that "emotional intelligence has applications in all areas of life as knowing how to work and communicate with people is a skill that one can not do without" and more so it is very useful organizational management level . "... For the organization to work well it is necessary to pay attention to emotional skills of its members. "

Of course, globalization issues currently receiving connotations new phenomenon has accelerated dynamics, covering areas increasingly wider labor psychology, industrial and organizational. It is estimated that the areas of application of psychology in organizations, according to experts will reshape the very first moments of the millennium when I started. [9]

3. Conclusions

Organizations that adopt long-term strategies promote stability, personal prestige, show respect for the tradition and practice a reward system based on reciprocity. This organization is the opposite, based on a short-term orientation, associated with a management-oriented resistant to change and immediate success. [10]

In terms of organizational climate, prevails an atmosphere tense work environment is pressed. Organizational environment can be likened to an extended family, and the leader is not a mentor and a role model for employees

Adopted authoritarian leadership is based on control and coercion.

Developing leaders around us, take personal leadership one step further, showing how to identify and prepare potential leaders and climate create a productive team spirit.

Manager's style or manager must help others to reach their full potential.

In terms of leadership style in the organization studied, it follows that the manager adopt a management style based on excessive authority. One of the most frequent aggressive behavior and orientation towards profit.

Of all known styles in management practice, it follows that there is no perfect driving style because effective leadership style depends on the adequacy of the management situation and the personality hand-frost.

But in this company members said they would like to driving a democratic manager, resourceful.

A leader not only practice one style of leadership and that no style is not suitable for all situations faced by a leader. Therefore, the most realistic approach is to consider leadership style depends on the situation as it is exercised, the personality of the leader and his subordinates capacity, leading to the same leader to use different leadership styles. If you want to be a leader, you must develop and other leaders around you. Must form a team. You have to find a way to make your vision seen, implemented and others increased. The leader sees the big picture, but needs the help of others to make this picture a reality. [11]

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Influence of Gender Differences on Leadership Styles

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Abstract

Studies support the idea of differences between men and women managers regarding leadership style, are quite hard to find because almost all research in this direction have been made in terms of groups of male managers. If there was evidence in the sense similarity between the leadership style of men and women managers this problem would not exist. There have been some studies, mostly in the U.S., which dealt with the nature of leadership and demonstrated that there are many differences between management styles of the two sexes.

Usually when we make comparisons between managers, the dialogue is framed by men tend to control, against the tendency of women to build a team and to reach an agreement. Women want more to consider compromises and seek advice from others, as opposed to this, men often believe that if they ask for advice, will be perceived as insecure.

Key words: organizational culture, leadership, gender, influence

J.E.L.Clasification: A1, A14, D2, D22, L2, L25

1. Introduction

In a study of men and women leaders, J. Rosener[1] found that men preferred management style and described as "transactional leadership" is concerned with providing rewards and sanctions based on performance. Men tend to use the power given their position in the company. Women behave very differently. They prefer to use "transformative and interactive leadership" [2] that encourages participation and power sharing information and creating situations to help people feel about themselves. Unlike men, who want to keep the information they

share and women prefer to seek solutions together with staff, not to act as if they have "expert." Women tend to admit I do not have all the answers, unusual behavior in overall, for men. "Transformer style adopted by women is related to organizational morale with team cohesion, commitment and measure success with the team and the organization." [3]

Another study conducted in the UK this time examined leadership style of male and female managers described the construction and for their service qualities. The survey shows that there are differences similar to those of the U.S. trial.[4]

Alice Eagly and Blair Johnson, [5] analyzed a study comparisons were 370, 289 on natural background activity in business, 56 in evaluating situations and 25 research laboratories. Examining the 370 comparisons the authors came to the following conclusions:

1. The strongest evidence of gender differences on driving style is the tendency of women to adopt a more democratic and participatory and men to adopt a more autocratic and directive. 92% of comparisons went to the observation of a more democratic style in women than in men. The researchers attributed this difference observed in firms, evaluation and laboratory situations, primarily interpersonal qualities and complexity of women.

2. Situations and laboratory evaluation made by men managers proved to be more "task oriented" being able to organize activities for them perform. However, in studies in business no differences were observed between managers on orientation tasks.

3. In laboratory evaluation studies and women managers tend to be more oriented towards "interpersonal relations", for moral and human welfare. However, businesses find that there are differences in orientation

toward solving tasks and interpersonal relationships. However, these differences are found primarily in the laboratory and by assessment centers and less in real business managers office. However there is a difference that is maintained in all studies: women are more democratic or participative style of management and a more autocratic men. [6]

1.Social aspects of gender differences in leadership

In support of the idea that women have a different leadership style of men, a study by Cranfield School of Management[7] using Myers Briggs type indicator, based on personality types described by Jung discovered that the most significant difference between male managers and female managers is that the size of intuition / reason.

Rational people tend to prefer practical problems, systems and methods are a matter of routine patient and care for details, standard solutions looking for problems.

Intuitive people prefer ambiguous problems, the routine bother, often ignoring facts and seek creative approaches. Women managers tend to be more intuitive, 70% of male managers were included in the study Cranfield rational, while 40-60% of women were intuitive, based on professional knowledge.

Gary Johns noted that in this case there are two opposed logics. "On the one hand, different socialization experiences leads men and women to learn different ways to exert influence over others. Moreover, men and women should be equally able to revolve around the most appropriate style for a given circumstance, which would result in the absence of an overall difference of style. "[8]

Image of women as more intuitive manager by nature, more emotional, more "specialist" in interpersonal relationships and emotional experiences is considered by some authors one stereotype, it also believes that these qualities are not necessary in an administrative, Furthermore, we are very undesirable. This raises the question whether these qualities are necessary in the management and I am not valued enough? I mean, if it be expressed and used in this type of activity would enhance the effectiveness

of leadership? This idea is supported by a number of contemporary studies, which states that the most effective leadership style is permeated with feminine qualities and style that suits the new types of organizations, less bureaucratic and hierarchical. In addition, this style of leadership would create a wide range of management strategies regardless of gender.

"The manager has qualities intuitively reasonable manager, but also something more. Intuitive modern leader or manager is actually a type <soft> leader who does not need to resort to brutality or <weight> power stripes to be respected, he is as good proof of technical competence, management capacity and method, and the faculty of vision, motivation and creativity. Each leadership style favors after some qualities more than others, but all must be present in it. "[9]

2. Methodology of research

2.1.General objective: to establish the existence / nonexistence of differences in leadership styles of women and men on the assumption that because gender stereotypes and prejudice, women develop their leadership style different from that of men.

2.2.Participants of study

Practical work was done on two groups-one for managers, representing main study group, which will be further analyzed and one of the employees, who had the task to evaluate the 40 managers.

The first group consisted of 40 managers, statistical characteristics of the lot is described jos.Ponderea female managers in the group analyzed is 57.5% compared to only 42.5% of male managers, subject to examination 23 women and 17 men respectively manager[8].

Variable "age" is a balanced distribution between 20-53 years analyzed, higher frequency 2, equivalent to a rate of 8%, is characteristic extreme ages 20-29 years and 53 years for the remaining percentage being constant interval of 4 %.

In terms of the independent variable "type management", it appears that the study group to show a higher proportion of middle managers, although lots are nearly homogeneous in number according to the

label. This finds its explanation in organizational reality, which meet more frequently middle managers against top managers.

The second group consisted of 40 employees who were tasked with assessing lot of managers.

2.3 Tools

A. Investigation of management is done by questionnaire of 100 items Questionary Descriptive Behavioral Leadership - leader behavior descriptive questionnaire (LBDQ) contains 100 items assessing 12 dimensions of leadership behavior

B. To measure self-esteem was used a confidence questionnaire (Filaret Santion), which measures different facets of self-esteem.

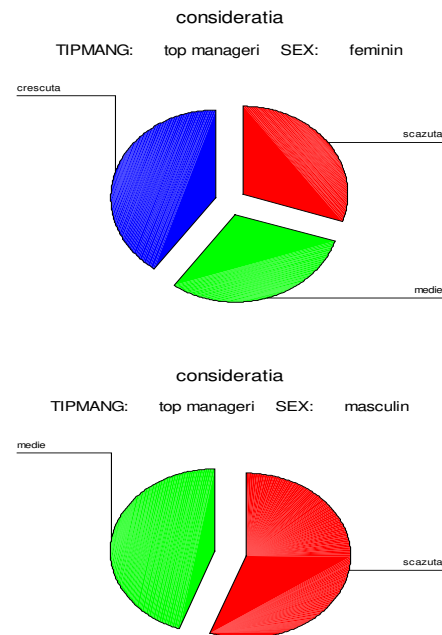
C. To measure social perception of the employees and that they develop prejudices against sex managers have built a scale with behavioral descriptors for women and men managers manager.

2.4 Data analysis and interpretation

Consideration - as to which leader is concerned about the condition and status of subordinates - is average, even lower, with the frequencies 10 and 11 to 84% of the total batch analyzed. Only 16% of managers have concerns over average employee welfare. Investigated plot we see that the average is less than the median and mode distribution is asymmetric statistics are grouped around the median.

Making comparisons of the top managers about the same distribution managers see women and men managers. Consideration is perceived differently at middle management level, especially in the percentage of female concern is double the top management feminine and masculine to any level.

Fig.1_Comparative chart variable "Consideration" to the top managers

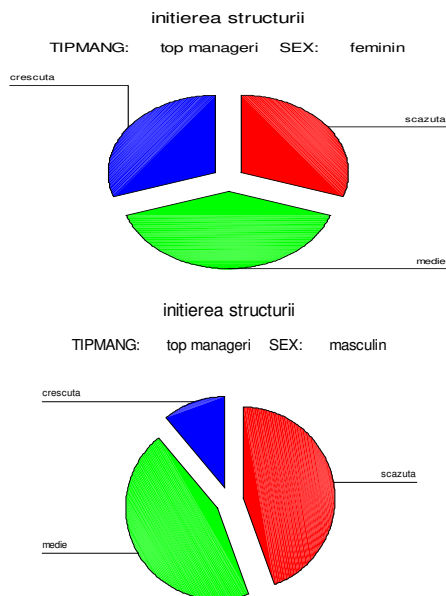


Initiating structure dimension, a number of 20 managers show an average of initiating structure, compared to 12 who have this low level and only 8 managers are judged higher levels.

Statistically speaking, a significant share is held by the average appreciation of this size (50%), while 30% of respondents were low, while 20% of managers have a high level.

In the diagram containing the weight values for the size indicator "initiating structure" prevailing average size is 56%, which means that there are concerns from management to define its leading role and also to inform employees through dialogue, information on the progress of their work. They are informed of the decisions taken by management and the organization's internal regulations are enforced and respected by employees, and decisions regarding work activity are taken at optimal levels by management.

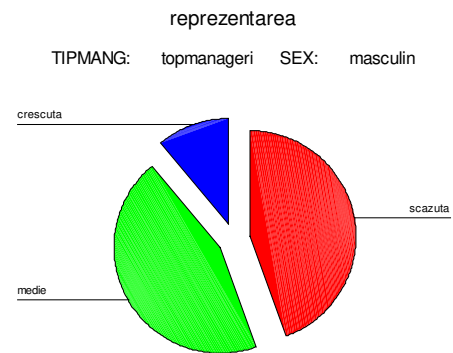
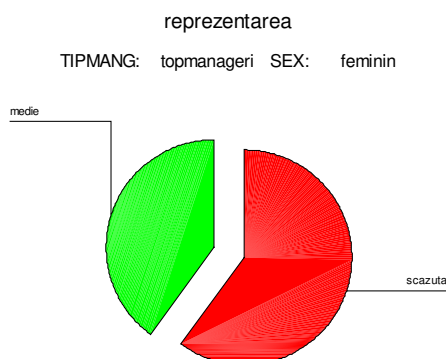
*Fig.2. Comparative chart variable
"Initiating structure" from top managers*



A total of 19 managers are perceived as having a poor representation capacity as a leader, while 15 of them are appreciated by environmental representation level, compared with only 6 subjects who are considered by employees as the best organization out.

Statistically speaking, employees are considered underrepresented in proportion of 47.5%, while average share of 37.5% consider this dimension, and 15% of them believe that they are better represented by leadership.

Fig.3 Comparison chart structure variable "representation" to top managers

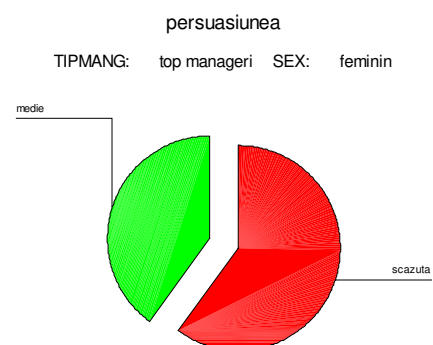


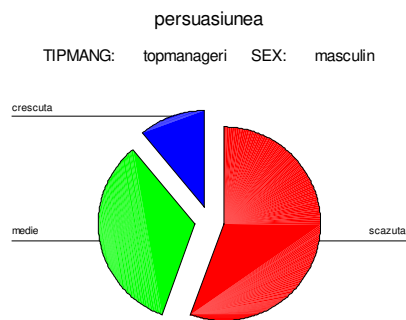
Persuasion means the action exerted on someone in order to induce him to believe or do something. Persuasion is used every day by the teacher skilfully suggesting a certain conduct, the doctor who reassures the patient or retailer who wants to sell a new product. One of the means of persuasion used in commerce is to provide a sample. Driver is talking to you "grab a finger" asking less (free use of the new product), he hopes to get more (increasing its customer).

In terms of persuasion, a total of 18 leaders are characterized as non persuasive, while 15 of them have a capacity of persuasion average, while a number of 7 managers are high this size.

Statistically speaking, prevails employees who believe that the leader has a capacity of persuasion lower (45%), while 37.5% are assessed as having an average capacity of persuasion, and 17.5% positive that it valorizes view.

Fig.4. Structure comparison chart variable "persuasion" from top managers

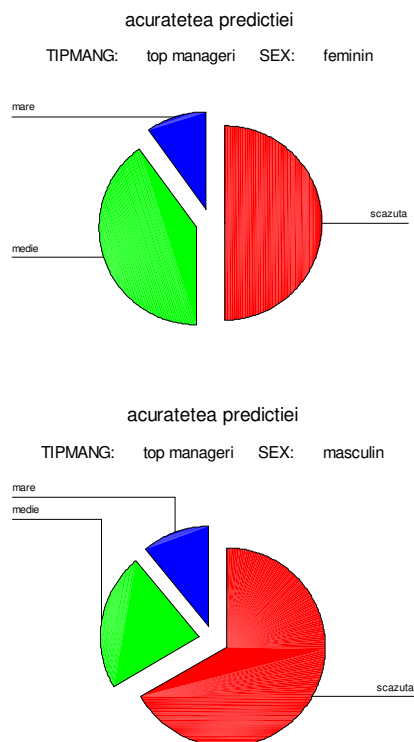




A total of 16 managers have a low level of low prediction accuracy compared with 17 managers, which employees consider it average. A total of 7 managers are considered to have a high capacity for analysis and problem solving.

Statistically speaking, 40% of managers are considered to have a low capacity prediction accuracy, while 42.5% are assessed as having a medium capacity, while 17.5% is the proportion of managers that considers that the prediction accuracy is represented at a high level.

Fig.5. Diagrama comparativa structure variable "accurate prediction" from top managers



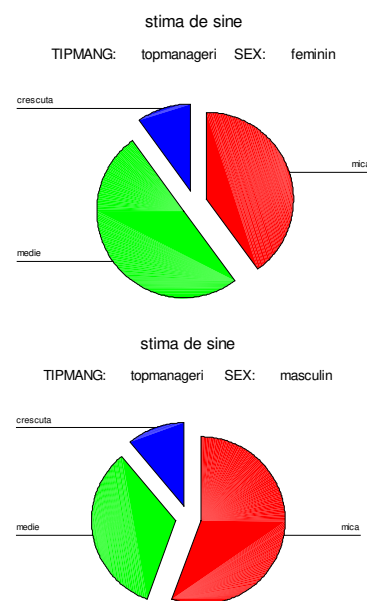
Summarizes esteem enhancement, confidence in their own resources, their use in the service of community, emotional

control, emotional, independent of others, autonomy, self-defeating bad opinions, validating their actions, their creative potential, strengths.

Of the 40 managers, 15 of them have low self-esteem, 17 self-esteem average, while 7 subjects manifested higher self-esteem.

Prevalent in the group of subjects analyzed represented a share of 42.5% of subjects with self-esteem average, compared with 37.5% subjects with low self-esteem, while 20% of them show a high self esteem.

Fig.6. Structure comparison chart variable "self-esteem" to top managers



3. Conclusions

From the following conclusions processing synthetic confirm the assumptions on which we assumed at the beginning of the research.

- consideration is perceived differently at middle management level, especially in the percentage of female concern is double the top management feminine and masculine to any level;
- there are concerns from management to define its leading role and also to inform employees through dialogue, information on the progress of their work;
- Managers surveyed lot, which thus effectively using the power of persuasion, discussion, dialogue for expressions of

strong, compelling and beneficial management activities;

- Women managers are perceived as having significantly increased self-esteem than men manager, but enjoy a lower consideration than men;

- Women tend manager to a higher status than men and are more dominant managers.

- Men are characterized by a significantly increased decisional capacity than women.

- Social tags assigned to women are related to the fact that they are smart and nondominante and men managers are perceived as aggressive and dominant.

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The Role of Business Simulation in Developing Students' Practical Skills

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Abstract

The firm possesses unique resources and capabilities. The firms have different behaviors on the real market. The analysis of firm development in a competitive environment is essential for the reassessment of the business simulation. Starting from these ideas the present paper intends to identify the role of business simulation in developing students' practical skills. The last part of the paper includes numerical simulations using TOPSIM and conclusions.

Key Words: the firm, theory of the firm, capabilities, entrepreneurial.

JEL Code: D21, D22, M13

1. INTRODUCTION

R. Coase (1937) examines in turn the natural reasons for the existence of the firm, as well as the implied contract costs, the law on transactions on the market, the costs of market use, etc. [2].

Machlup (1947) argued that firms use established routines in decision making. Alchian and Demsetz (1972) argue that the hierarchical structure of the firm's control does not minimize transaction costs, only monitoring costs. [5] [3].

The need to integrate the two approaches related to business theory – the contractual perspective and the one based on capabilities – is emphasized by some researchers focusing on the firm theory, stating that for a better understanding of the company, more attention should be paid to the problem of

knowledge distribution regarding production between companies, and especially on their character. The corporation is not only a contractual entity, it is also an entity that learns and innovates, seeking competitive advantages from economies of scale and scope based on superior capabilities[7].

Continuing the idea of knowledge coordination, a number of identify the firm with a communication network formed to minimize both the cost of processing new information and the cost of its communication between agents.

2. DECISION SIMULATION BASED ON TOPSIM APPLICATION

TOPSIM is a simulator of business management that serves as an effective platform to learn/develop business management skills, thereby enhancing the theoretical knowledge of the participants.

The simulator shows a realistic model of corporations that are competing in a virtual marketplace. The participants are divided into teams of 4-5 persons, each team representing a corporation. At certain times of the simulation they must take business decisions at group level for their company to gain a larger market share than the other participants and to increase profits. Thus, they develop the ability to make business decisions, taking into account multiple parameters that influence the success of a company.

All risk-free conditions through a competitive and dynamic game. The game sessions are divided up by theoretical "scenarios" presented by the instructor.

TOPSIM is an effective means to strengthen the participants' financial and business skills; in short - it teaches business by practicing business.

TOPSIM is a software simulation platform – interdisciplinary learning and analysis in the economic and social environment can be considered one of the best applications in the world.

The role of the TOPSIM application and of its specific working tools (strategies, decision forms, activity reports, concepts, indicators, simulation tools) resides in the understanding by the student of the functioning of the application and the learning of skills needed to use it in good conditions.

3. NUMERICAL SIMULATIONS USING TOPSIM

The research aimed at the evaluation of students of the West University in Timisoara on the participation and involvement within the TOPSIM process of simulation. The final grading took account of criteria on both the performance of the team which the student was part of (assessed by reference to the place in the final classification results obtained during TOPSIM simulation) and the complexity of the final analysis on the evolution recorded by the group during the period of TOPSIM simulation (assessed in the form of the PPT presentation, taking into account the degree of detail contained in the presentation presented at the end of the TOPSIM simulation).

Thus the assessment of the students watched the following criteria:

1. Participation in the decision-making groups, criterion accounting for 50% of the total of 10 points, respectively a maximum of 5 points, including the performance of the group assessed on the indicator Share price (Banking/ Commerce – international business) /customer satisfaction (Tourism), a maximum of 3 points (3p. 1st place, 2p. 2nd place, 1p. 3rd place, 0p. 4th place); attendance, involvement, motivation, a maximum of 2 points

2. Individually written essay by which the student describes the development (based on the calculated indicators) registered by the company which he/she was part of during the TOPSIM simulation , criterion of a 30%

share of the total of 10 points, respectively a maximum of 3 points

3. Individually written essay by which the student explains the strategy pursued by the company he/she was part of, highlighting the strong points and the weaknesses of the decisions taken in the context of strategies brought about by the TOPSIM simulation, criterion of a 20% share of the total of 10 points, respectively a maximum of 2 points
For master students, the assessment pursued the following criteria:

1. The ability to coordinate the activities of the groups of students, involvement, motivation, criterion accounting for 50% of the total of 10 points, respectively a maximum of 5 points, of which: the ability to coordinate the activities of the groups of students, a maximum of 3 points; attendance, involvement, motivation, a maximum of 2 points

2. Individually written essay by which the student describes the overall development registered at destination level within the TOPSIM Destination Management simulation. The changes induced in the competition environment due to company/ banking activity within the TOPSIM General Management / TOPSIM Universal Banking simulation; criteria having a share of 30% of the total of 10 points, respectively a maximum of 3 points

3. Individually written essay by which the student emphasizes his/ her personal contribution to the company's projects during the simulated enterprise of which he/she is partner / manager, including: website development, shaping and creating promotional materials of IS; criterion accounting for 20% of the total of 10 points respectively a maximum of 2 points.

The assessment of graduate students/ master students was made by allotting points on a scale from 10 to 0, expressed in full numbers starting from 0 points.

The research aimed at evaluating 240 graduate students and 24 master students assigned 80 for each of the 3 areas of the TOPSIM simulation: banking, trade and tourism.

The research focused on 2 assessments achieved comparatively so that the overall average of the two assessments for the master students ranged between 8.75 (banking) and 8.88 (trade), and for tourism the level was of

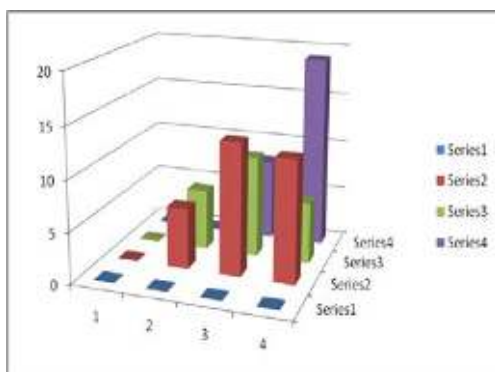
8.82. The purpose of the analysis is twofold it aimed at showing that the two assessments are complementary; therefore there is no regression between the scores obtained by the students.

The analysis was done on each domain of the TOPSIM simulation it aimed at demonstrating that the assessment was made differently, so there is a tendency for the overall average of the assessment of the three areas of the simulation to be relatively close.

The Banking field: the two average rating assessment were 6.22 (assessment 1) and 7.5 (assessment 2). The minimum levels were 3 (assessment 1) and 5 (assessment 2), and the maximum level 10 (assessment 1) and 10 (assessment 2). The regression between the two data series regarding both evaluations is 0.11 (coefficient of determination R²).

The lack of correlation of average type between the frequencies of the two assessments and the ones of the overall average is due to the reversed gliding between the four intervals. A graphical representation of the distribution relationship between the two assessments is shown in Figure 1.

Figure 1. Graphic representation of the student's distribution frequency Regarding the two assessments, Banking UVT, 2011-2012



Source: own processing

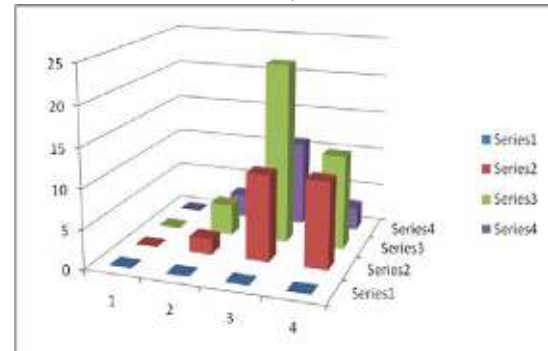
As can be seen in Figure 1 there is a strong relationship between the scorings registered for the two assessments.

The lack of correlation of average type between the frequencies of the two assessments and the ones of the overall average is due to the reversed gliding between the four intervals. For the first

interval there is no frequency for the overall average.

A graphical representation of the distribution of the relationship between the two assessments is provided in Figure 2.

Figure 2. Graphical representation of students' distribution on the two assessments, Tourism UVT, 2011-2012



Source: own processing

Figure 2 shows the existence of a strong link between the scoring registered for each of the two assessments.

4. CONCLUSIONS

Comparatively, evaluations 1 and 2 are relatively close and the coefficient of determination registered a similar level for all three areas of the TOPSIM simulation. This shows a unitary level with respect to the acquiring of entrepreneurial practical skills for students who used the TOPSIM simulation software.

The need to integrate the two approaches related to business theory – the contractual perspective and the one based on capabilities is emphasized by some researchers focusing on the firm theory, stating that for a better understanding of the company, more attention should be paid to the problem of knowledge distribution regarding production between companies, and especially on their character.

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Strategies of Risk Management in Banking

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Abstract

In the conditions of the economies globalization, the economic and financial crisis, it is amplified the uncertainty degree of banking institutions, it is widening the number of events which generates risks associated with these entities. One of the determinants of vulnerability growth of the banking activities, it is very its particularities, an risking activity by definition, operating with money drawn from a third-party, with a numerous and widespread network of high complexity and dynamism, in a comprehensive relationship with all economic, social and cultural sectors involved in the development of new products, services and techniques.

A specific characteristic of banking risks is that they can be monitored, identified and mitigated, but never removed completely. In this uncertain context the banks must be permanently concerned with the development of specific methods and procedures, and effective and rigorous risk management. The essence of this area of research is treated in the following lines.

Keywords: sovereign debt, deregulation, provisioning, prudential regulation, risk of moral hazard.

J.E.L. classification: H63, G32

1. Introduction

For economic activities in general and the financial and banking in particular, risk is a decisive factor, because any economic phenomenon has to be approached, studied and analyzed in terms of uncertainty. To act under the uncertainty it means to admit that in a specific activity there are unknown causes and effects. To act under the uncertainty it means, moreover, identifying of the risks generating events, evaluation of

their effects, in order to take grounded decisions.

2. The necessity of risk management and the factors which require protection strategies of banks

Typically, the risk connotation is negative, both investors and company managers are only interested in the risk that the results obtained are lower than expected. In a correct mean, the risk represents the likelihood that the actual results of the activities to be better or worse than expected, in other words, to be different from those expected.

Understanding risk as the probability of a result real, different from that expected, the theory considers the financial the economic operators as being willing to take risks in the hope of a win. There are, however, situations where bearing risks brings with it the possibility of obtaining a profit.

From this perspective can be identified two important categories of risks: risks that are assumed by the companies because they incorporate the probability of obtaining a gain, category in which fall the banking risks; risks that do not imply the existence of perspective a gain, but only that of a loss (case of an accident, a fire and others) also called "pure risks."

In the conditions in which the risks can be identified, monitored and reduced, but never completely removed, banks must develop a mix of strategies and specific processes of reduction, covering and management. Like banking activity, risk management activity in this a continuous process that presumes certain specific stages: risk identification, risk assessment, the establishment of specific risk management procedures; implementation procedures; reassessment of the risks after implementing management methods and techniques, the result being a residual risk. [8]

The problem of building a strategy for management of banking risks, prevention and mitigation of the adverse effects of the materialization of the risk lies in the choice of the most effective ways and means of giving a maximum and a minimum of costs. The option for specific ways to protect against the risks of the buyer must be motivated by the negative impact of certain factors on the activity of the Bank, the most significant of these are: the peculiarities of banking activity; the current state of development of the banking system in Romania; risks specific to banking institutions; the presence of foreign banks on the Romanian banking market; increase considerably the role of the State in the banking sector during the economic and financial crisis; the process of Europeanization and globalization of economies with major impact of diversity on the bank financial; the political factor that can have a marked influence in taking risk management strategy. [7]

Risk management strategies should correspond to specific requirements, as follows: to include in their architecture a full range of methods, procedures, and others; the components of risk management strategies to provide the necessary degree of efficiency, so that through their application to contribute to minimizing the likelihood of risk and potential exposure of the credit institution; the strategies constituents must be selected after the viability criteria, taking into account the probability of materialization of the risk related to the future; risk management strategies should be reviewed from time to time, the requirement imposed by the mutations involved in the banking business: (restructuring, modernization, operation of new markets, changing the political situation, the increase in competition, the emergence of new risks and others)

3. The main components of banking risk management strategies

Risk management strategies and its various components of regard the quantifiable risks, such as those in the "financial" category. The "non-financial risks as well as operational risks arising from internal malfunctions presents difficulties

related to management because the measurement it is not suitable. [9]

There is no a "universal" risk management but a plurality of them, so each bank assumes both the risks and the appropriate management strategies.

In the following lines are analyzed the main components of risk management strategies utilized in the most banking institutions in Romania.

➤ **The restructuring of the banking system** is a strategic measure of national and international importance, initiated by the European Central Bank (ECB), having as its objective the creation of banking systems safer and healthier by using, among others, to the current economic crisis and lessons. In essence, the restructuring of a bank involves the organization on new bases in order to increase the Bank's performance and goals aimed at increasing performance, and optimization risk - profit relationship. [2] The restructuring of a bank involves the following two areas: area regulations area aimed at creating the legal framework of banking operations and the organizational structures area that provide among others, departments, services, involved in the supervision and monitoring of risk.

For European banking and financial systems, including the Romanian, there are imposed long-term reforms generating mutations. [1]

This goal can become a reality through: policies to control the risky behavior of the big banks; policies aimed at reducing the moral hazard and fiscal costs of caution of banks in difficulty; higher capital requirements and liquidity for financial and banking institutions; the future role of central banks to control and defuse the speculative bubbles; more radical reform of the international monetary and financial policy that contributes to the prevention of future crises; the degree of State intervention in the economic and financial affairs; the interconnection reduction of the financial system in order to be less vulnerable to the systemic effects in the chain, which can ultimately result in a wave of bankruptcies; multidimensional adaptation strategy banks to the new context of economic and financial crisis. [5]

➤ **Recapitalization of banks** is a problem whose importance goes beyond the

interests of risk management within certain sectors of the National Bank. The European Central Bank (ECB), not so long ago, associated the need for recapitalization of the banking crisis with the systemic nature of the Europe. The high degree of interconnection of the financial system of the European Union has led to the rapid growth of the risk of contagion that may threaten the financial stability of the EU and beyond its borders. In this context, the European Central Bank urged Governments and European authorities to act to solve the problem of banks' recapitalization, after first they will be subjected to the stress test. [3]

There are two ways of financing the recapitalization of banks: funding from national budgets or obtaining financing from the European financial stability Fund (FESF) at which Governments can call in case of lack of financing from own money.

Funding from national budgets to increase the Bank's capital would lead to a worsening sovereign debt to increase them significantly as a percentage of GDP. If you use the capitalized banks, FESF eliminate moral hazard but there will be a socialization of losses at the European level, Germany will take over part of the costs.

Development of business environment it represents the economic support of the banking activities, between this and the micro and macro activities being a tight interdependence. Only in an economic healthy environment, especially banking institutions that have experienced losses in the crisis period can strengthen the work; ensure the profitability and optimization methods and processes to optimize the risks. [4]

➤ **Risk management**, component of the Bank's management, has a decisive role in the banks' strategy to minimize risks and capitalize on opportunities. [8]

The major aim of performing management lies in the location of the banking entity within an area between those limits in which the risk is tolerable and the cost is reasonable. According to international standards, risk management, considered "Science of risk, must meet the following requirements: to be permanently integrated into the strategy of the institution; to include all risks faced by the banking entity; to

translate the strategy into tactical and operational goals of risk management. [6]

The concept of risk management at the global level is dictated by two main requirements: the need for any entity to monitor and manage in a holistic manner all the risks they face; the need to ensure that the methods and techniques of risk management must take into account not only the probable risks or recurring, but also the risk of catastrophic events.

As a whole, risk management in the Romanian banking system has evolved to a profession with authority which has proved its viability and competence. However, banks have registered and some cases of mismanagement, especially at the beginning of crisis.

We can mention some errors of banks risk management: the acceptance of a high degree of indebtedness, with the consequence of excess lending and the trend of bad loans; tracking by most banks, to gain the short term profit, under-evaluating the longer term risks at which were exposed to; stimulating consumption by banks, which itself it is not a bad thing, under the condition not being encouraged the request of those who not permit; oversized network of some banks, ready only for retail; establishment of delayed provisions, which could generate a sudden depreciation of the Leu; substantial reduction in the number of deposits as a result of multiple causes which is reducing interest on deposits in correlation with taxation; the disincentive character of new products and services; the lack of transparency in dealing with customers, and unfair terms, interest increased in excess and others; keeping unjustified at a high level, the monetary policy interest by BNR, followed of harmful effects, such as: the appreciation of the national currency which encouraged excessive lending in foreign currency, attracting speculative investors by the good yields offered by Leu.

➤ **Measures of monetary policy adopted by the National Bank of Romania (BNR)** between the high importances is keeping key interest to 5.25% per annum as well as "repo" operations, represents among others effective ways of prevention and in particular the liquidity risk and the currency risk.

➤ **Monitoring of the banking institutions**, is a necessity in the context of the risks management and follows the achieving of the main objectives: limiting the liquidity risk, according to the procedures of the European banks; reducing vulnerability in securing liquidity and capital adequacy; maintenance by each credit institution to an solvability pointer threshold of 10%, the limit required by the regulations in force is 8%; diminishing operational risk.

The situation of the Romanian banking system is kept under control being monitored including the channels through which sovereign debt from Greece would be able to expand in Romania.

For the monitoring of banking institutions, particularly complex, especially as regards the management of the risks those entities are faced, some optimizations, of which the following are deemed to be representative: the launch of the trading operations of the securities that allow them to convert a portion of the Receivables in negotiable securities and illiquid; the location of the higher level of surveillance and operational risk management; prioritize risks within each institution; subjecting all banking institutions stress test after test the European banks; adaptation strategy of the supervision of credit institutions to the new realities resulting from the financial crisis and Stockholm. [7]

➤ **Optimization of the legal and regulatory framework for credit institutions** is the way with the highest scope in the field of banking risks management, given that all sides are subject to banking regulations. In the literature there are many opinions regarding the importance of the appreciation of the rules as a way of managing risk. In this respect, the opinion of the American economist Ben Bernanke, recorded in early 2010, reflects a great truth, that a more strong regulation could prevent the crisis. Are also founded the allegations of those economists who considers that deregulation of the financial activities may contribute to the development of a banking system more flexible and more adaptable to the economic cycle.

In Romania, the behavior of relative stability, specific to the Romanian banking system during the recent financial crisis is largely the result of **prudential regulations**

and monitoring of the risks taken by the Central Bank, mainly with reference to: capital adequacy at the risks incurred by credit institutions in accordance with the provisions of the Basel II Agreement; large exposures of credit institutions and investment firms; reporting exposures to persons in special relationship with the credit institution; mitigation techniques credit risk used by credit institutions and investment firms; treatment of credit risk related to securitized exposures and securitization positions; technical criteria concerning the organization and treatment of risks, for verification and evaluation; provisions relating to the management of the liquidity risk; preventing and combating money laundering and financing of terrorism; pursuit of and prudential supervision of the business of electronic money institutions; the formation of credit risk provisions.

➤ **Determination of specific risk provisions** has a high importance within the framework of the strategies of managing banking risks, the constitution of these provisions by the banking entities having as goal to cover eventual losses recorded from the loans. Reduce costs with the provisions are reflected directly in the profit of the bank institutions.

➤ **The security of Bank Information represents in the present and in the future** one of the important ways of prevention and mitigation banking risks that can be posed by certain endogenous or exogenous factors, including theft by skimming (stealing from ATMs), the new computer virus Trojan, internal fraud, money laundry and others.

4. Conclusions

"Moral hazard" management of the risk has in view the morality of banking institutions and imposes the State intervention in the management of this risk especially during periods of economic and financial crisis. The moral hazard refers to the availability of bank to take excessive risks that normally you would have be avoided if it had known that someone else (the State) it will help her or even to a rescue by the negative consequences of the risk. The financial sector in most countries develop some problems of moral hazard which can

amplify the expected risks ignoring and even lead to new risks.

It is well known the way of solving by USA the risk of moral hazard in September 2008 when they refused to rescue Lehman Brother letting it to collapse with a view to enforce discipline on the financial market.

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Energy Efficiency in Supply Chain Management

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Abstract

The paper is focused on the issues of optimization of the activities in logistics channel, considering reducing energy costs. Although a number of studies have been made over time regarding the optimization costs in the supply chain, few of them were directed towards reducing energy costs or increasing energy efficiency in logistic channel.

The study highlights that increasing energy efficiency in the supply chain knows a variety of ways given that, on the one hand, the large numbers of activities and, on the other hand, the variety of forms of energy carriers and logistics channel.

Key words: logistics, energy, costs, supply chain

J.E.L. classification: R41, M21

1. Introduction

Even though across the logistic channel there are involved a large number of energy consuming activities, as well as a variety of energy forms, there are however quite a few studies dealing with the problem of reducing costs in the logistics channel.

Need to find solutions to reduce these costs is justified by the fact that in some fields an industries the energy consumption in supply chain equals and even exceeds that of production activities for delivered goods. Therefore, the design of a logistics channel has to take into account, besides other categories of costs, the costs of energy.

In last few years in Europe has been developed several projects in the field of energy efficiency of logistics channels, such as 'Dryport' project, funded under the INTERREG IVB North Sea Region programme, involving stakeholders from

Sweden, Germany, the Netherlands, Belgium and the UK which has as objectives increasing energy efficiency and reducing costs in supply chains.

Logistics of distribution comprises a set of activities necessary for physical transfer of goods, such as packaging, handling, storage, transportation, each of them requiring at least a category of energy expenses. Among them, the most energy consuming are transport and warehousing activities.

Global optimization of freight distribution supposes, therefore, the management of distribution centers by optimizing locations of spaces with different functions within them, organizing transport flows, handling and picking operations, assembling orders and packaging.

2. Energy efficiency in transport of goods

In freight distribution, energy efficiency of transportation activities can be expressed in different ways:

- consumption per ton-kilometers;
- consumption per shipped parcel;
- consumption per kilometer per vehicle;
- distance per vehicle per consumption weight.

The share of fuel costs in total costs of a transport company is on average 25 – 35 %. Consequently, an increase of fuel prices, e.g. 10 %, causes an increase of about 3 – 4 % of total transportation costs.

But, transport companies can work towards reducing energy costs by investing in more efficient vehicles, with lower consumption and by optimizing transport routes. Thus, a reduction in energy costs by 20% results in about 5– 7% reduction in transport costs.

In 1994, Demker et.al [3] reveals the effect of load on energy consumption. It shows that energy consumption increases linearly with increasing load, while the effect

of vehicle speed on fuel consumption has a parabolic shape.

Reducing empty trips increase energy efficiency, but for small transport companies it is difficult to ensure load vehicles flows on all routes. For a large company, the large number of customers and their diversity, the load factor is much higher, which can significantly reduce fuel cost per ton of cargo.

Routes optimization leads to a reduction of a distance traveled by trucks, but in addition, also to a decrease of the emissions determined by vehicles.

Also, the reduction of the fuel consumption can be achieved by using of intelligent transport planning.

More, it is necessary to train drivers for use driving techniques to reduce fuel consumption, such as anticipation or smooth acceleration.

Energy efficiency in freight transportation across the supply chain can be achieved also by a modal shift to a more energy-efficient means of transportation such as rail and shipping.

3. Ways to reduce energy costs in warehouses

In some warehouses or distribution centers energy costs represent more than 20% of the total costs, which mean that a 20% decrease of them determine a reduction by about 4% of total costs.

On average, electricity consumptions are between 60 - 80% of total energy consumptions. Consumptions of electricity in a warehouse are primarily due the need to ensure lighting, ventilation and cooling, refrigeration, space heating, for operation of office devices and packaging equipments. Electricity is used also in operating the electrical driven forklift trucks and conveyors.

But taking into account that the price per unit of equivalent energy (kWh) for electricity is about twice the thermal energy, the amount of electricity cost is significantly higher than the heating energy costs.

Therefore, in designing a warehouse or a logistics platform it is necessary to choose cost effective solutions. Also, buildings and facilities should be made on energy efficiency principles.

Regarding the lighting, it can be considered solutions that can better value natural light over a longer period of the day. Also, it will be taken into consideration energy efficient illuminators.

Optimizing the lighting of different spaces can be achieved, also, by setting the correct, optimal position for lighting devices.

Dimensioning the number of lighting fixtures has to take in account national standards for lighting of spaces and requirements for storage spaces. There are analyzed their location, the light intensity, the direction, reflection and color of light.

Lighting control systems can reduce energy consumption in some cases up to 20%. It may be taken in this regard one or several control modes: light sensors, motion sensors, working hours based control.

The amortization period for such investments is relatively lower, up to 3 years.

For existing buildings solution is to modernize the existing lighting systems. For lighting shall be considered energy efficient lighting systems.

Regarding costs in storage systems, internal transport and handling of goods are important factors in the total costs associated with storage space. Operating costs for collecting orders for dispatch is approximately 45-55% of the total operational costs of a warehouse [5].

Basic functions of internal transport consists in moving goods within the warehouse, decomposition of the arrival flows in multiple flows of different components and composition of flows of goods in batches for shipping delivery.

The variable costs determined by these activities include energy costs and fuel necessary for the operation of such vehicles and equipment.

Determining energy costs can be achieved by using computational relations emphasizing the dependence on the number of hours of operation, and technical parameters of these vehicles and handling facilities.

Optimization of energy consumption for AS/RS systems can be achieved by automating the processes, through a speed control and a reduction of it during periods with a lower level of activities or even turning them off.

In warehouses, use of energy saving

technologies for handling equipments represents a solution that enables also the optimization of processes.

Reduction of electricity consumption can be achieved, also, by using energy retrieving brake systems.

Intelligent forklift guidance system is another solution that can be used for routes optimization in warehouse, increasing load and reducing empty trips of handling equipment.

An example in this sense is SmartKanban system, which based on correlation of forklift position and material position provides an optimization of the forklift routing. SmartKanban system is characterized by an efficient ultra low-power wireless network technology, as well as an ultra low-power sensor technology [1]

Packaging supposes a series of fixed costs and variable costs proportional to the quantity of goods subject to this process. Between them there can be highlighted the fuel and energy costs for packaging equipments.

Characteristics of some types of products determine additional consumptions. For example, distribution of frozen or chilled food products requires special packaging for transport and storage. In these cases, an increasing energy efficiency of containers can be achieved by using scroll compressors which use about 35- 40% less energy than other systems.

More, for warehouse spaces, using natural cooling systems based on lower temperature during the night which can provide cooling during the day can reduce also the energy costs.

In case of high power equipments, to reduce their load and to increase their energy efficiency it can be compensated reactive power by installing an automated equipment.

To avoid energy losses, another solution consists in doing the repairs and maintenance operations on time for heating, ventilation, refrigeration and cooling systems, as well as for handling equipments.

Heating energy is provided, in general, by natural gas, used also for hot water.

To ensure heating can opt to use heat pump solution, whose electricity consumption is about one third of the energy consumed by a conventional heating system. Furthermore, it has the advantage of a double

function, depending on the ambient temperature in relation to soil temperature, in the summer being able to provide cooling function in the warehouse.

But the investment is still expensive for Romanian business environment. For example, taking into account a warehouse with a surface $S = 10.000 \text{ m}^2$ and taken in account the heating requirement for such a building, the heating pump is about 400.000 euros more expensive than a classical solution. The long period for investment recovery, about 10 years or more, makes it a solution difficult to be implemented by a Romanian logistic company.

Another solution of using renewable resources consists in installing photovoltaic panels on the roofs of the warehouses. High initial investments, with a relatively long period of amortization, more than 10 years, makes this solution still extremely expensive for many Romanian companies.

Use of renewable energy can reduce electricity or heating bill, but it is effective to adopt such a solution only when the initial investment can be recovered within a reasonable period, not exceeding 5 years.

Elimination or reductions of heat losses are among the solutions that can be considered, to diminish the effect of air infiltration during the loading and unloading operations. In this regard a good insulation, seal closure systems, their automation, use of the quick locking/unlocking devices are possible solutions adopted in the case of a warehouse.

Furthermore, in the case of use of the radiant heaters they should be controlled by timers or occupancy sensors to minimize their operation when areas are unoccupied.

One of the solutions that can be adopted by companies operating in logistics field is the use of an energy management system.

Energy management system is based on measuring, monitoring, controlling the energy consumption.

Introduction of an energy management system allows tracking the values of consumption, identifying areas of inefficiency and optimizing these operations, which can reduce energy costs up to 10%.

Such a system consists a set of tools to measure different energy consumption: electricity, heating, gas consumption and an energy management software that facilitates

storing and processing the data collected and their analysis.

For example, in the case of electricity, the main elements that have to be managed are: the consumption in kilowatt-hours, load factor, reactive energy usage, real power and apparent power demand.

To obtain a first set of data it is required an energy audit [6]. Making an energy audit for a logistics company, create the opportunity to reduce its energy costs, and consequently, the total cost in supply chain.

A production company that realizes, also, the freight distribution, with its own facilities, when it makes energy audit for its production activities, can include also the distribution activities in this analysis.

Based on collected data it can be made forecasts of future energy consumption and estimations of energy costs of different activities. An analysis of consumption data offers the possibility to take some corrective measures to optimize energy consumption and increase energy efficiency.

Use of the energy management system offers, in addition, the possibility to track the qualitative characteristics of energy and to quickly identify any electric disorders and, as consequence, taking immediate measures to eliminate them. Thus, it can be avoided disruptions in operation that can lead to energy losses.

For successful implementation of such a system management has to imply and motivate the personnel to apply the measures for reduction of energy consumptions.

In developed countries, increasingly, those that operate in logistics field are viewing energy management as a potential strategy for cost savings.

In analyzing the energy efficiency of a warehouse it can be used some specific indicators:

- total energy per warehouse;
- total energy per 1000 shipped parcels;
- energy cost per warehouse;
- energy cost per shipped parcel.

To summarize, energy saving methods can be grouped in four categories [4], obviously with certain features in logistics channel:

- a) Housekeeping measures, when energy savings result from better maintenance of equipments and vehicles and their operation;
- b) Equipment and process modifications –

e.g. vehicles design or routes; handling equipment;

- c) Better utilization of equipment;

d) Reduction of losses in the buildings shell – e.g. in warehouse or in a logistics platform.

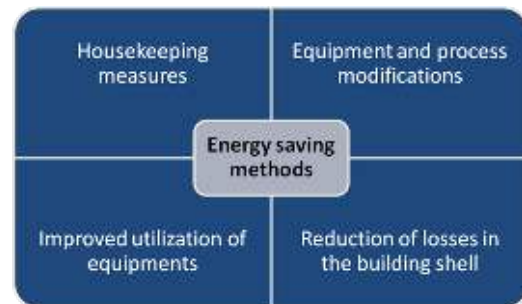


Figure 1 Energy saving methods

4. Conclusions

Increasing energy efficiency throughout the entire supply chain can be achieved by using and combining the most effective transport modes and a wide range of measures for reduction energy costs in warehouses and other facilities.

Among passive measures for increasing energy efficiency there are building insulation, use energy-efficient appliances and equipments that can reduce consumption, selection of the most suitable electrical equipments.

It can be taken into account, also, a series of active measures automation of processes, adjustment of heating, cooling systems or different devices, optimization of equipment and devices, their interruption when they are not used.

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Human Resources Audit. Is It Significant in Evaluation of Management Performance?

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Abstract

Human Resource Management can be defined as a set of measures designed interdisciplinary regarding recruitment, selection, employment, ergonomic use of the organization of labor, material and moral stimulation of employees.

HR audit should be considered a diagnostic tool for identifying strengths and weaknesses of an organization. An effective audit can be useful in stimulating constructive thinking, identifying positive aspects and organizational deficiencies and providing recommendations for improvement.

The HR audit is defined as a complex activity monitoring and information collection manager assures that activities are carried out according to plan, measuring progress towards objectives and detecting deviations from plan to take corrective action.

This paper aims highlighting the importance of human resource auditing in today's working environment as a factor in maximizing the efficiency of activities performed by employees of an enterprise.

Key words: management, performance, human resource, auditing

J.E.L. Classification: M12,M41

1. Introduction

"Man is the measure of all things," said the Greek philosopher Pretoqoras. This means that man is able to integrate any current or future applications in his work.

Human importance in managing a successful business is what makes human resource management, a set of competencies,

skills and attitudes essential for all managers. This is directly related to the supreme values of the company / organization.

This responsibility is not only related to providing services to people, guide them how to work and record their performance, although managers must do so. On top of that human resources management is considered to be an investment having as purpose: *giving people the power to work efficiently and effectively.*

We consider we are not mistaken when we say that man is the most valuable asset of an organization.

A company's success is determined by the quality of human resources, the procedures to attract and retain the brightest employees capable to make the most difficult tasks with the same enthusiasm they make the easy ones.

2. Concept of HR audit

The Management function has emerged as a necessity for people to organize their working time and activities, taking into account the magnitude of activities in an organization so that processes within an organization to give maximum of efficiency, following the main objective. [4]

Human resources have become a strategic production factor, and at the same time the main component of performance for all domains and all organization levels. Such evolution allows us to appreciate that human potential is extremely important for the management of the organization both according to the efficient use, and quantitative and qualitative assurance. [1]

Amid continuing economic change, HR function has evolved to complex tasks with a direct impact on organizational strategy.

Why it is necessary to perform a HR audit?

First of all we have to point that human resources are an important source of increasing the quality of organization, of the company's performance. The company's efficiency is crucially related to the quality of the human resources in the company.

Other factors proving the necessity of a HR audit are given in the following lines.

A Human Resources Audit is a comprehensive method to review current human resources policies, procedures, documentation and systems to identify needs for improvement and enhancement of the HR function as well as to ensure compliance with ever-changing rules and regulations.

Human resource audit in its scope is beyond the conventional audit. The human resource audit is more clearly defined as "a method to evaluate the efficiency of human resource at all levels throughout the organization, in order to ascertain whether sound management prevails throughout, and to recommend its effectiveness where such is not the case" [7].

Derived from monitoring the output of human resources, auditing has evolved over time and has become a basic function of human resources management. Besides being able to reveal the true dimensions of human resource activities, auditing helps the manager in all stages of management decisions from information provided by a well-founded audit.

HR audit should be considered a diagnostic tool for identifying strengths and weaknesses of an organization. An effective audit can be useful in stimulating constructive thinking, identifying positive aspects and organizational deficiencies and providing recommendations for improvement.

HR audit is not mandatory, but it is undeniable the need for such an audit for an effective management of human resources.

Evaluation and critical review of HR is no less important and significant for the company's management than that of accounting and finance function.

3. What is involved in an HR audit?

There are a lot of elements that reflect why is important a HR audit. One of the most important is the following:

- Routine can be a negative factor.

Performing some operations over and over (repeatedly) ensures not only a good fluidity and knowledge of the activity, but also a tendency to error because of these habits. The employee may get overlooked certain things, being sure that he is not mistaken, based on I did this many times, I know how to do it, I cannot be wrong. Still, sometimes the habit turns into an enemy, because self-confidence can sometimes lead to inattention, hence to mistakes;

- aligning HR objectives to business objectives;
- ensure consistency between the rules established and legislation.

A HR audit involves summing up and analyzing all the skills, abilities and limitations of the employees. [2]

A human resources audit usually involves review of all HR policies, practices, and procedures, whether or not they are formal. It includes reviewing documents, interviewing human resources professionals from different areas of the organization, interviewing some managers at different levels of the organization, and possibly interviewing in-house employment counsel. [8]

The purpose of an HR Audit is to recognize strengths and identify any needs for improvement in the human resources function. A properly executed Audit will reveal problem areas and provide recommendations and suggestions for the remedy of these problems. [9]

Audits must be performed in order to determine whether different elements of the subsystem are effective in achieving the objectives set by management. The basic idea of concern in formulating a model in the field is that human resources audit evaluates the work of human resources in an organization in order to improve activities. Audit provides feed-back regarding personnel function.

Concisely, HR audit is a qualitative control, a review of the human resources activities of a department or entire organization, as well as how these activities support the organization's strategy.

HR audit must cover the activities of the department and extend beyond, because the people's problems are not confirmed to the HR department alone. Thus, the audit should be broad in its scope. It must evaluate the

personnel function, the use of its procedures by the managers and the impact of these activities on the employees.[7]

Specifically, a HR audit covers the following areas:

- Audit of human resource function
- Audit of managerial compliance
- Audit of the human resource climate

HR audit methodology requires numerous sources of information to be verified, such as policies and procedures, employee records, job descriptions, job specifications, internal reports, individual and collective labor contracts, relationships with unions, relations with government bodies, professional accident statistics, interviews with staff, and interviews with human resources staff.

A HR audit must be:

- proactive
- reactive
- informative

A human resources audit evaluates human resources activities performed in an organization.

Leading audit team will need to use a variety of approaches, methods and tools to assess human resources activities. Along with internal comparisons, the audit team will have to compare the efforts of the organization to other companies or standards developed by national authorities and statistics. In other cases, the approach will need to assess integration and strategic objectives set by management tactics.

Data are obtained through interviews, questionnaires, checking internal documents, external sources, experiments or target groups. Using these sources, the audit team will be able to prepare an audit report.

The audit report provides feedback to senior management, executive managers, human resources specialists and human resources manager. With this information, human resources manager can develop plans to ensure a better contribution to human resource activities to achieve organizational goals. [5]

As it regards the steps used in a mission of HR audit we present on short how a HR audit is developed.

The auditor begins the HR audit project through detailed analysis of human resources functions, existing procedures within the

company. One after another, are checked all the procedures that refer to planning human resource needs, developing job descriptions, recruitment and selection of candidates, system performance evaluation, wage policy and rewards system / non-material, training policy of the company, planning elements and career development of employees.

A special attention must be directed to an analysis of the company's organizational chart seeking to discover and identify the so-called "overlapping responsibilities" or "false responsibilities."

An important indicator in HR diagnosis is represented by motivational level of employees. Employees can be motivated or demotivated by certain factors, decisions.

4. HR audit. Advantages

Some of the advantages offered by human resource audit are as follows: [6]

- highlights the contributions of human resources within the organization;
- enhances the professional image of the department of human resources;
- encourages assume greater responsibilities within the same department;
- discover critical issues of human resources;
- reduce the cost of human resources through effective personnel procedures.

5. Conclusions

HR audit can be a powerful lever in departmental and organizational change. In time, the HR audit will be enriched by a better definition and a higher level of performance expected.

Employees are an asset to a company and play a vital role in the achievement of the goals and objectives.

The senior management, therefore, needs to understand how efficient its human resource department functions are. Most companies work to ensure the minimum employee turnover. The retention of employees is a key role played by the human resource department. The human resources department should ensure that skilled employees are recruited, trained and

developed. An audit of human resources brings to light the success or the weaknesses of the human resource department in an organization.

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The Necessity of Risk Management Programme in Organizations

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Abstract

In the current economic context, risk management is very important, because the risks are becoming more difficult to identify and especially to control. The company objectives achievement requires the knowledge and multiple risk taking.

Risk management is a process conducted by the management organization and consists in identifying and assessing risks that may affect the organization and activities taking place therein as the business environment changes are taken into account. Risk management also involves defining the strategy to be applied and control the risks so that they fall would within the limits of risk tolerance. Monitoring, reviewing and reporting the continuous risks situation, regardless of their nature ensures that the organization's objectives will be met according to schedules made.

Key words: risk management, organizations, strategies, risks.

J.E.L classification: D81, G3

1. Introduction

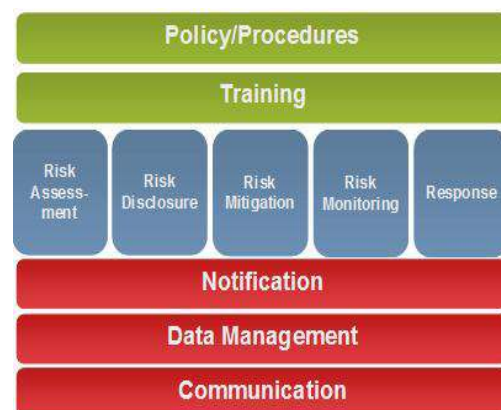
Economy is a complex game where the players' expectations influence their future events and probabilities. The issue of risk analysis enables the proof of experience, a better understanding of the socio-economic context and it especially reveals challenges that the company must meet if it wants to remain on the market. Zero risk doesn't exist.

2. Why a risk management programme?

Risk is the condition of success in all its stances.

Risk management may be defined as a very similar process to a medical examination: patients exhibit symptoms, physicians diagnose, recommend treatment and after cure, the patient comes back to the medical examination.

Figure 1. Risk management programme



Source: marsh.com

There are some reasons to implement risk management in an organization, such as:

a) Risk management requires the management style change

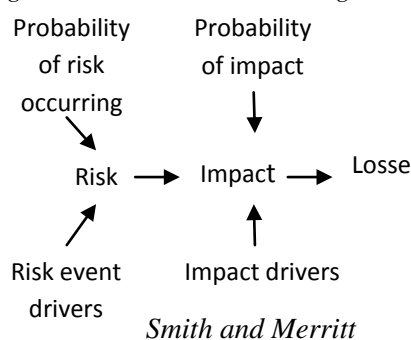
The managers of an organization should not be limited to always treating each time the consequences of events that have occurred. The treatment consequences do not improve the causes and therefore the already materialized risks will also occur in the future, usually with a higher frequency and a high impact on objectives. Managers must adopt a **reactive management** style, which

means that it is necessary to design and implement susceptible measures to mitigate likely risks manifestation. Future oriented response allows the organization to master the listed risk, within acceptable limits, which means increasing the opportunities to reach the goals.

In the terminology adopted in some countries, the above mentioned yet improperly managed risks may occur in the future and are called **real risks**. These risks are easier to identify, but that does not mean they are as easy to treat. Mastering real risk is a guarantee that internal control systems are effective. In other words, the real risk treatment allows the organization to avoid facing the previously encountered risks in the future. Unfortunately, it is a quite common concept that the action of effective risk management is to limit the effects of materialized risks.

Limiting to the reactive management is still insufficient for management. No organization can be conducted only according to the "*seeing and doing*" principle. Equally important is the identification of possible threats before they materialize and cause adverse consequences on the objectives. This means adopting a **proactive management** style. Proactive management is based on the principle of "*it is better to prevent than to realize a fait accompli*".

Figure 2. Proactive risk management



The organizations that benefit from good management, "*observation horizon*" is not limited to the immediate future, but considers

more distant perspective. In these situations, proactive management becomes a **prospective management** where management attempts to identify those risks which may arise as a result of changes in strategy or environment. The organization must be prepared to accept the change.

In the terminology adopted in some countries, risks that have not occurred yet, but that may materialize in the future are also known as **potential risks**. Identifying these risks is not quite easy, yet it is somehow approachable.

Initially, for any organization is its handy the experience of other organizations which already faced such risks. There are also specialized studies developed by specialized organizations on "*observation of the horizon*."

In conclusion, risk management rules expectation and promotes action and foresight.

b) Risk management facilitates the efficient and effective organizational objectives

Naturally, the threats acknowledgement allows their classification according to their materialization event, the extent of the impact on the objectives and the costs involved in measures designed to reduce the chances of developing or limit undesirable effects. The establishment of hierarchies is introduced as support an order of priorities in resource allocation, in most cases limited by analysis the "*cost-benefit*" or, more generally, the "*effort-effect*". It is essential for the organization to focus its efforts on what is really important, and not to disperse resources in irrelevant for its aims. However, regular review of risks, as set out in standards leads to reallocation of resources according to changing hierarchies and hence priorities. In other words, risk management requires concentration on the resources in of current interest areas.

c) Risk management provides the basic conditions for an healthy internal control

If internal control is a whole set of management measures to obtain reasonable assurance of the objectives achievement it results that risk management is one of the important means to accomplish this as risk management targets precisely the threats administration that could have a negative impact on objectives.

In conclusion, if they aim strengthening internal control, is essential to implement risk management programme. The action plan (activities to be undertaken to achieve the objectives) must be assisted by the plan that includes the measures to mitigate risks and the plan to handle the difficult situations (materialized risks).

3. Conclusions

Risk management is a necessity for every organization. Although it may seem complex and time consuming, developing a comprehensive risk management plan is essential in any organization.

Companies face various types of risks. Some may be external in nature, which are not under the direct control of the management, like the political environment, the changes in exchange rates or the changes in interest rates. The others may be internal in nature which the management can control to a great extent, for example risks associated with non-compliance in financial reporting or non-compliance with labor laws.

A company would need to identify the risks that it faces in trying to achieve the objectives of the firm. Once these risks are identified, the risk manager would need to evaluate these risks to see which of them will have critical impact on the firm and which of them are not significant enough to deserve further attention.

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Evolution and Trends of Logistics within the Economic System

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Abstract

Modern logistics integrates the strategic planning of companies together with functions of marketing and sales, with the growing support of information technology. Thus, a management field that is currently under intensive and extensive development appeared – Supply Chain Management-SCM.

Keywords: evolutions, trends, logistics, economic system.

Classification J.E.L : M21, M10.

1. Introduction

In order to understand the function of logistics, as it is perceived nowadays, as well as the trends in this field, knowledge of its framework of development, respectively knowledge of companies' evolution is necessary. In the last 40 years there have been significant changes in the orientation and functioning of companies that activated on the market economies.

If by the 60s of the last century, the main issues companies paid attention to were the production and sales, the study of work and its efficiency increase possibilities, by the 80s, the main preoccupations were the extension of markets, the increase of technology's role and the development of logic rational approaches of management.

Later on, the interest moved towards market globalization and implementation of information technology in all the procedures of a business. This took over and supported part of the modern management responsibilities, and tends, through the expert systems and holistic approaches, to standardize business management and to replace, for cost reduction and efficiency increase, more and more productive and managerial processes of the business, and

human force labour.

2. Theoretical Groundworks

Obviously, the logistic function developed together with the companies it activated in. If by the 60s, the logistics functions were fragmented, they started to integrate within the materials management and the physical distribution. After the 80s, one can observe the total integration of these two fields into what logistics represents, both theoretically and practically (figure no. 1).

Furthermore, modern logistics integrates the strategic planning of companies together with functions of marketing and sales, with the growing support of information technology. Thus, a management field that is currently under intensive and extensive development appeared – Supply Chain Management-SCM.

3. Method and results

We will insist upon two categories of trends that are currently dominant the theoretic and applied research in logistics:

1. Internal and external integration of logistics and its impact on logistic systems

2. Development of information technology and its impact on logistic systems

Our researches show that we cannot speak about them as uniform and complete yet. However, they represent, in our vision, two great trends in logistics, which are not divergent but they support mutually in the role that logistics has and will have in economic systems. The factors mentioned above are just a few of the ones that support the above mentioned.

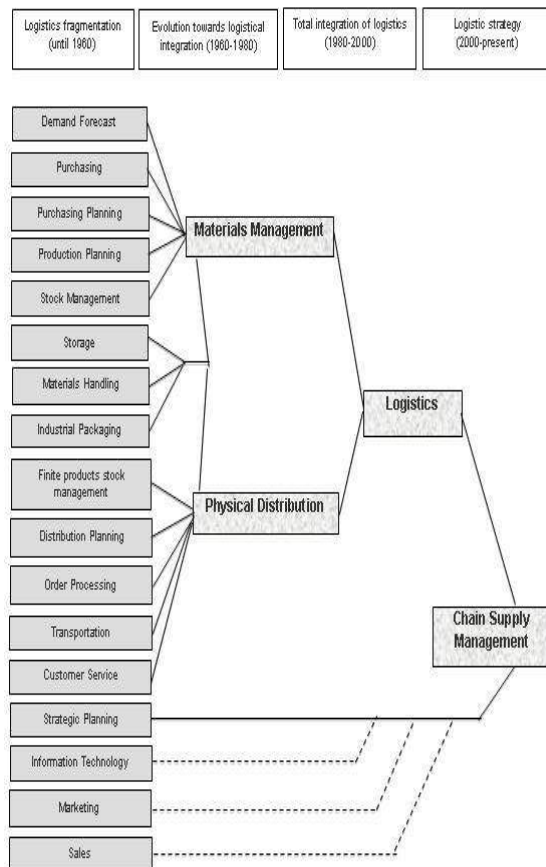


Figure 1 – Evolution of logistics within the economic systems (abridged after WILSON, Rosalyn, DELANEY, R.V., - Managing Logistics in a Perfect Storm. 12th Annual "State Of Logistics Report", National Press Club, Washington, D.C., June 4, 2001, p.35)

Besides these factors, integration in logistics is supported by a series of endogenous factors at company management level.

The subdivisions of materials management (purchasing, stock management, distribution and logistics) integrate in SCM and allow the valorisation of advantages of combining a centralized management:

- Avoiding issues regarding responsibility dilution;
- Avoiding conflict between objectives and priorities;
- Avoiding double efforts;
- Improving communication within the organisation;
- Improving the representation of materials management functions in order to comply with the company's policy;
- Increasing professional development

opportunities;

- Cost savings;
with the advantages of a decentralized management:

- Valorising opportunities regarding functional specialization;
- Valorising opportunities regarding the geographic specialization;
- Increasing flexibility.

In such conditions, the integrated organization and establishment of the materials management functions and of the physical distribution within the SCM suppose the derivation from the company's general development strategy and the definition of the integrated strategy of logistics, the choice of the strategy's implementation framework, the management of system restructuring and of organizational change, the identification, monitoring and control of logistics performance criteria.

4. Discussions

The logistics and distribution management from the SCM perspective integrates, in our vision, the logistics and distribution field, on the one hand, with purchasing, exploitation active and passive assets management (stocks, debts) and on the other hand, as a strategic vision, the interferences with production and financial management and marketing, and as a method of designing, monitoring and decision support with the information technology.

This integration trend corresponds to a holistic approach to logistics. This approach together with the fields integrated by a logistic system and the interferences of logistics with the other fields of management, as well as the role of IT.

As a first big category of trends, this integration is already a reality for many international companies. For others this concept is on the way of being implemented, while in the case of Romanian companies it is rarely met.

It is certain that this approach proved feasible and efficient and thus we can state that sooner or later the majority of companies, international and national, will follow this trend.

Further more, developments or extensions of this integration concept take place in other directions too :

- Internal integration
- Upstream vertical integration
- Client oriented vertical integration
- Performance assessment integration
- Technological integration
- Relational integration

Of these integration forms, the partnership marketing (a vertical integration form), the inverted logistics (a form of flux integration from the consumer towards the producer), the visibility of the logistics system (a form of relational integration) are concepts that are already successfully implemented by transnational companies.

The second major trend category in the evolution of logistics is the one related to the impact of the information technology on logistic systems. Evolutions occurred on three main directions:

☐ Systems for operational support that provide:

- Physical operations
- Registered operations
- Accounting operations

☐ Systems for decision support that provide:

- Decision support
- Assisted planning
- Assisted system design

☐ Systems for electronic data exchanges.

Certainly these systems have evolved in time and will evolve in the future as well. Table 1 briefly presents the evolution of information systems for the support of logistic activities, from the point of view of the main characteristics for each generation, of the application types they generate and of their functionality for the logistic and distribution management.

5. Conclusions

If at an international level, companies have implemented 3rd generation information systems or try hard in this direction, a wide offer being provided by hardware and software companies, in the Romanian economy the 2nd generation systems predominate, being either imported or created by specialized companies. Most of the times these systems have integration dysfunctions, many times being used as 1st generation systems.

Table 1 - The evolution of systems for the logistic management support

GENERATION	CHARACTERISTICS	APPLICATION TYPE	FUNCTIONALITY
I	Primary applications	Stock registration	Operational support
	Post-factum registries	Debt registration	
	Accountancy	Account book generating	
	Extended applications	Automated generating of accounting functions	
II	Transaction processing systems	Client reliability verification	Operational support Decision support
	Real time registrations	Generating information for lower and medium management	
	Integrates the operational support with the decision support	Simulators of decision effects	
	Integrated applications	Applications for all logistic functions	
III	Adapted to electronic data exchanges	Applications for resource planning	Operational support Decision support Tactical support Strategic support
		Applications for budgets, cost calculation	
		Applications for logistic systems design	
	Real time integrated operation	Applications for optimizing decisions through mathematical methods and optimization techniques	

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Principles of Modern Logistic Strategies

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Abstract

Logistics has a growing role in companies' activity, being in permanent connection with production, sales, marketing and customer service.

Keywords: principles, strategy, logistics.

Classification J.E.L : M21, M10.

1. Introduction

There are numerous factors that transform logistic operations into maximum importance operations. Each company has its own methods of increasing its logistic operations efficiency. Production and distribution cost cutting, together with improvement of quality and services offered to the customers, makes an objective of the majority of managers.

Visible improvements in the cost, quality and services field are essential for the contemporary competitive market. In the present globalized market economy, such improvements often determine the survival of a company. Logistics can be vital in the implementation of integration strategies that should create this advantage.

2. Theoretical groundworks

More and more top level managers are aware of the importance of logistics for the success of the company's strategies. John L. GATORNA identified ten main principles common to all efficient logistic departments.

3. Method and results

We present below these principles that, applied together, can create the premises for the successful deployment of the logistic activity:

1. Providing a connection between logistics and corporation strategy – all

aspects of the logistic operations must be directly connected to the company's strategic plan. This is the first and most important rule in order to attain the profit increase potential that logistics provides. Managers coordinate the logistic function in order to support the company's strategy to gain competitive advantage either through cost supremacy, through services differentiation or both.

In order to gain the competitive advantage, the company's activities must be synchronized. Thus, on schedule delivery imposes the coordination of activities grouped in operations, external logistics, services and sales. Since the same task can be accomplished in several ways, with different costs and performances, the assessment of the activities and of the connections between them is essential for the understanding of the impact of logistics on the company's profitability.

Cost efficient logistics has a great impact on maintaining companies' position within the consumer goods production sector, where even a small advantage regarding costs is essential.

One of the most frequent approaches concerning the gaining of the competitive advantage is the creation of a superior service provider reputation. The emphasis on client orientation and quality in operations represents a decisive element for this trend. Also, innovation in logistics contributes to holding the supremacy in the cost field and the differentiation through services. Certain companies prefer to come up with new approaches than to become competitive through traditional methods. Once these approaches succeed, the management will use them as a competitive advantage.

2. Establishing a global organization – the second principle supports a global organization of logistics, through which all logistic functions can be controlled by only one department within the company. The materials management, transportation, storage, distribution, internal logistics must be unified through an adequate combination of centralized and decentralized management.

Providing adequate logistic services needs a careful coordination of all operations with the company's strategy. Despite the advantage given by the centralization of all logistic functions that are connected, there is a relatively small number of companies that apply this strategy.

It is encouraging that companies start to integrate two important fields – materials management and distribution. These companies run the entire logistic channel as a unique integrated flux that uses a complete range of support structures and available assets. Companies recognize the essential interrelations between logistics, production, marketing, sales and finances. They seek to stimulate cooperation for the accomplishment of common objectives, by using the synergetic possibilities to the utmost extent.

3. Valorising the power of information – the logistic departments fully benefit from the advantage of information and of information processing technologies. These departments perceive the systems based on transactions, as well as the ones based on decisions, as essential resources for the obtaining of the potential profit of logistics. For example, the electronic data exchanges with the customers can be a source of competitive differentiation and of increase in the company's market share.

As a consequence of the fact that information is one of the few business sources to have significantly dropped costs, companies invest more and more in information management systems as an alternative to the expenses for other more conventional logistic resources. Certain managers research those systems that provide support for decision making. The networks for the support of decision making will evolve towards „expert systems” which will have an important role in decision making regarding logistics.

A number of companies already use sophisticated computer patterns meant to provide help with tactical and operational decision making. For a maximum efficiency, these systems must be regarded as an evolution process rather than a revolution one. Companies start exploiting considerable facilities that the information systems provide. The companies' knowledge in this field is rapidly improving, while in the future the rhythm of innovation and implementation will be expected to accelerate.

4. Emphasizing human resources – human resources management is vital for the obtaining of superior logistic performances. These performances are obtained within an environment that admits that people are the most important resource of the department. The management must repay the personnel for productivity improvement, and in certain situations, it must establish incentives which should encourage the accomplishment of the logistic function in good conditions.

The logistic departments need a new type of managers, and recruiting could become a real problem for the department management. As more and more companies close long-term strategic alliances with other companies, human resources management becomes a common preoccupation.

Quality is closely related to human resources. If the company does not impose a quality-based orientation, its products and services will remain behind the competition; that is why quality must represent a daily priority.

Many companies send their managers and the personnel of the logistic department to do training courses that are meant to improve their knowledge and allow the introduction of new concepts and techniques. Nowadays, well-known companies see the investment in personnel training in a new light. These companies have had important cost reductions and increased the number of services by the improvement of operations and the way they have been preoccupied with human resources management.

5. Establishing strategic alliances – this principle refers to the establishment of partnership relations with other participants within the product or channel chain.

Generally, companies change their

perception on business alliances. They stop considering these relations as short-term efforts meant to provide cost control. They try to cultivate strategic alliances with suppliers, customers and transporters more often – even by including these alliances in their plans for the establishment of new companies.

Planning and concluding advantageous alliances is not easy, especially with transnational companies. It is an objective that requires a careful approach, coordination with customers and suppliers, support from the employees and their previous training. Alliances can have expenses for the support of operational changes. But the most necessary thing is the active involvement of the company's management. However, the reward can be significant. Certain companies gain cost savings from the improvement of the operational process and the increase of market share because they become their customers' favourite suppliers.

Companies that will best cultivate strategic alliances with the suppliers, transporters, distributors and customers will obtain higher profits than the companies that do not take into consideration such alliances.

6. Emphasizing financial performances

– in order to measure its performances, the logistic function should use indicators such as the efficiency of using assets, the added value, the operation costs and standards. Knowing the financial consequences of the logistic activity is essential for planning.

In order to reduce its investments in logistic active assets, more and more companies address outsourcing logistic services providers like using public storehouses. At the same time, activities like transportation, storage and customer service will be managed as profit centres. Thus they encourage entrepreneurial attitude among the managers of logistic departments.

7. Establishing the optimum level of services – companies that want to establish the optimum level of services will improve their profitability. In order to establish the optimum level of services, companies must quantify the extra income obtained from the provision of quality services for the customers and to measure the proportion cost-profit in order to establish different

levels of service. This implies understanding the expectations of customers and the types of services they are willing to purchase. This can lead, for example, to the establishment of layered prices where the different levels of services should be associated with prices adequate to the necessary costs (for example, delivery period).

Most big companies recognize the competitive importance of customer service. They have established service parameters and closely monitor the accomplishment of services.

8. The importance of details solution – the fluidization of operations and procedures is important for the companies' profitability, but the attention paid to details may lead to significant savings. When they pass to operations' improvement, the simple solutions will give the best results.

A key element of fluidization and simplification of logistic operations is represented by the valorisation of the workers' knowledge, experience and creativity. Much progress made by companies in the product field is due to the active involvement of the employees.

The attention to details is not the sole condition for obtaining quality and profitability. Without an efficient control of minor daily problems, all other effort will be thrown away. When everything goes well and every detail is under control in a company's logistic department, then the company's services will be of high quality and the profit satisfactory.

9. Optimizing the merchandise volume – the successful logistic operations will have to unitarily manage the transported merchandise volumes, the stocks and so on for service improvement and cost reduction.

One of the most known optimizing methods is the loading arrangement. In order to dynamically unify transport services they have come to use state-of-the-art software applications.

Another element would be the reduction of the number of transporters and the conclusion of regional strategic alliances with the accepted transporters. Also, there must be good coordination between the volume of the merchandise sent inside and outside the unit.

Lately, the concept of third party or of contracting logistic operations has won popularity. It has become common practice for companies in Europe to contract third parties for transportation and storage services. Third parties that provide logistic services, like public storehouses, can often provide better and less expensive services than the ones provided by the producer company.

10. Assessing and exceeding performances – the logistic activity efficiency will have to be supported in order for performances to be long-term. The companies must measure their logistic performances and dynamically react to the obtained results.

4. Discussions

The most efficient logistic operations are the ones that directly connect the operation methods and the overall logistic strategy. The logistic strategy is obviously connected to the company's strategy.

Without a permanent attention and preoccupation for accuracy, performances measurement will not give the expected results.

When discussing performances measurement with the logistic departments managers, two essential objectives are established:

- coordination of logistics with the company's strategy so as to fully support the company's objectives and to allow the accomplishment of the objectives in the most profitable manner
- concentration of logistics on the efficient customer service so as to obtain an optimum profit from the alternative service strategies.

Regardless of its origin – external or internal – the more and more intensive competition has become a reality. Therefore, all companies must use their energy and resources in order to purchase information and make progress in the current competitive conditions.

5. Conclusions

In order to accomplish the objectives reflected by these principles, companies will

have to implement global management. In the current business environment, as well as in the future one it is not recommended for companies to apply and execute those strategies that intend only to accomplish the marketing plan with the lowest costs possible.

Logistics has an increasingly important role in the companies' activity, being in a permanent connection with production, sales, marketing and customer service. The challenges that companies have to cope with refer to the obtaining of a full advantage from using logistics as a competitive weapon.

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Certified Quality – Guarantee of the Romanian Companies’ Competitiveness in Tourism and Hospitality Industry

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Abstract

Quality is a component of organisational culture that is expressed by positioning, competition, cooperation and satisfaction. The industry of tourism and hospitality can become a driving force for the Romanian economy through the level of services quality. Together with the practical experience it is aimed to adopt, implement and enforce the codes of good practices, of international standards for quality, safety and environmental protection.

In a competitive economy, the differentiation of the tourist performance is made by the “Q” mark - the guarantor of reaching the level of excellence and of the existence of certain modern management systems.

Keywords: tourism, quality management, certification, guarantee.

J.E.L. classification: L83

1. Introduction

In the context of the insufficient promotion of the Romanian tourism and of the non-compliance with the quality and safety standards by some tourist services providers, the desire of many Romanian tourists to choose destinations abroad stands out.

Therefore, the approach of quality from a new perspective imposed itself as an objective necessity. The respect for the client, the attention for his/her health and safety are guaranteed by introducing a set of requirements concerning the quality management system in tourism.

2. Defining elements on quality in tourism services

In a competitive economy, a company’s success depends on the management’s ability to harmonise the quality of the services and products offered with the dimension of the allocated costs.

In the field of tourism and hospitality industry, quality represents the compliance with the standards and with the customers’ requirements. It is to be noted that this concept has two aspects:

- the objective quality, as emphasised by the quality of the serving process;
- subjective quality, result of the client’s satisfaction level [2].

In quality management, the human resource is a top concept. The relationship between the staff’s behaviour and the customer represents an important criterion for assessing the quality of the performance. The relational quality becomes a competitive advantage whereby all the staff of the organisation performing services must work for the people in the front line, the customer [2].

The strong competition on the specific market, the changing of the laws and regulations in the field, the increase in the customers’ demands, as well as the developments of the tourism companies’ strategic objectives represent improvement factors for the quality of the processes, activities and outcomes obtained by these companies (fig. 1).

In this context, the Tourism Ministry Order no. 1051 of 3 March 2011 stipulates the classification criteria of the tourism accommodation structures with accommodation functions on certain

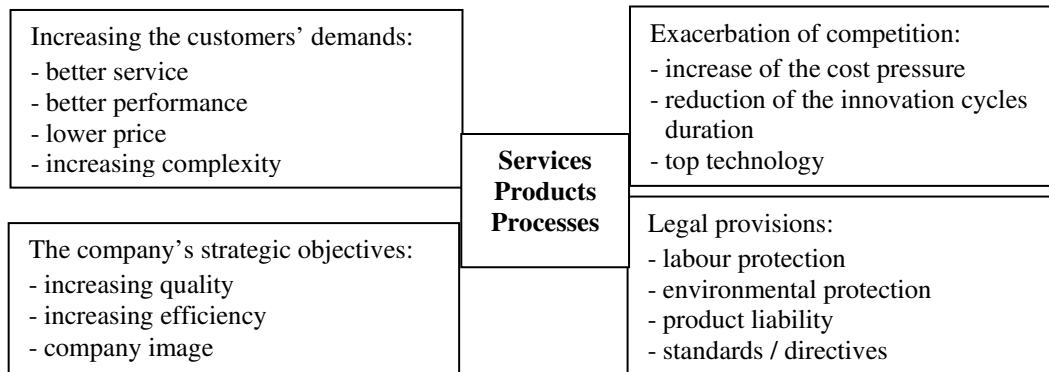
categories (stars or flowers or daisies), according to:

- constructive characteristics;
- facilities;
- quality of the services.

By virtue of the same order, managers must ensure a wide range of additional

services included in the accommodation price or paid separately. While for the 4-5-star hotel units the insurance of at least 15 services is required, for the 2-star hotel units the provision of at least 8 services is required.

Figure 1. The causes of increasing the quality requirements



Stănescu, D., Voicu, O.-L., Sztruten Gilet, G.,
Particularități tehnologice în serviciile de alimentație
(*Technological characteristics in catering services*),
Ed. Universitară, Bucharest, 2008, p. 91.

3. The strategy for improving the service quality in the tourism and hospitality industry

The improvement of quality aims at achieving higher levels of performance as compared to the ones provided by the standards. In an organisation the implementation of this strategy depends on a number of factors:

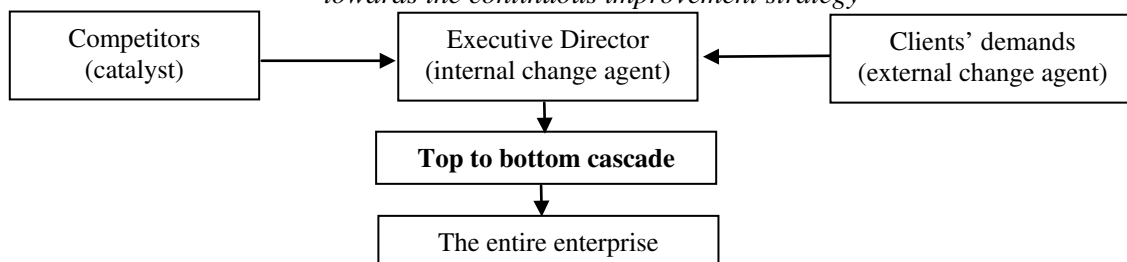
- orientation towards results;
- management through processes and facts;
- staff involvement and creating an appropriate culture for each employee's

participation in quality improvement;

- training-innovation and development of partnerships;
- public accountability by using an “ethical approach” which involves the long-term satisfaction of the organisation and of its staff [4].

If the strategy of continuous improvement becomes a state of mind for each employer, the high level of tourism products quality will be felt in a relatively short period of time [1].

Figure 2. The role of the market in directing the organisation towards the continuous improvement strategy



Ciobanu, V., *Cum îmbunătățim calitatea. Ghid practic*
(*How to improve quality. Practical guide*), Ed. Economică, Bucharest 2009, p. 13

On a strongly competitive market, the tourism service organisation is motivated to adopt the continuous improvement strategy (fig. 2).

The satisfaction degree felt by a tourist while using travel services depends to a large extent on:

- the skill of firms in the tourism and hospitality industry to offer and perform services at the right place and time;
- the serving staff's professional ability to distinguish the tourist services through an individual mark;
- the existence of the adequate conditions for performing the services required (natural conditions, material basis, equipment used);
- creating the conditions to facilitate the active participation of tourists in the consumption of services.

The national programme of increasing the quality of hotel services and of launching the “Q” mark had an important role in fostering

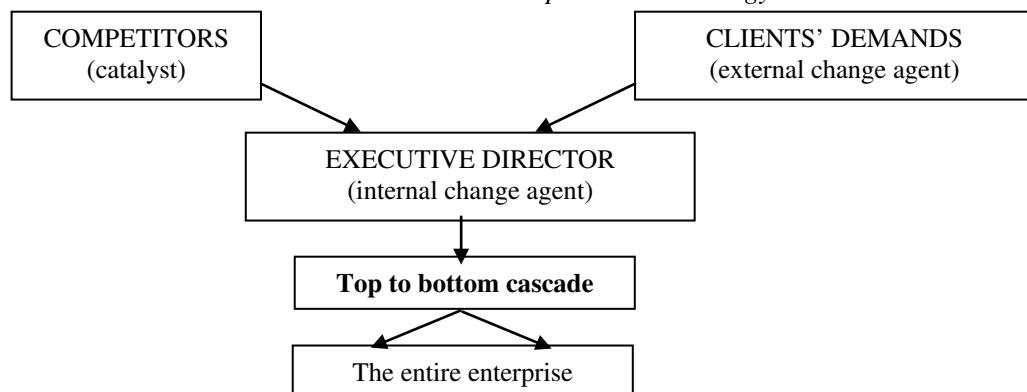
the improvement of the tourist services quality.

The actions included in this programme implemented in 2004 by the Ministry of Tourism were directed towards:

- printing the quality certification criteria for the hotel services and their dissemination towards the economic agents;
- preparation and printing of the good practice guides in order to implement and certify the quality of tourism services;
- empowering the structures necessary to grant technical assistance to the economic agents working in the hotel industry in order to obtain the “Q” mark.

The implementation in Romania of the hotel quality certification system aimed at increasing the competitiveness of the respective companies and achieving a high level of customer satisfaction.

Figure 2. The role of the market in directing the organisation towards the continuous improvement strategy



Ciobanu, V., *Cum îmbunătățim calitatea. Ghid practic*
(How to improve quality. Practical guide), Ed. Economică, Bucharest 2009, p. 13

4. Qmark – method of certifying the excellence level in the hospitality industry

AJA Registrars Romania, certification and training body in the management systems, accredited internationally, has directed its efforts towards developing new standards, namely “Quality marks” in various fields [7]. The standards are designed for the companies

which want to reach the level of excellence in terms of their own management system.

Thus, we notice the importance of granting the “Q” mark to the hotel units that prove management, technical and financial abilities, but also dispositions for qualified and competent staff that shows respect for the client (fig. 3).

Figure 3. The graphic image of the quality certification mark for hotels and accommodation in hotels



<http://www.qmark.ajaregistrars.ro/turism/>

The principles underlying the granting of the Qmark take into consideration:

- consumer protection against practices that place first the price and then the quality;
- health and social responsibility;
- safety and concern for the natural environment.

Moreover, quality brands in tourism exist throughout the world: *Qualmark* (New Zealand), *SATSA* (South Africa), *Qualité Tourisme* and *Hotel Cert* (France), *Quality Rose* (UK), *Q Calidad Turística* (Spain), *Authentic Bulgaria Quality Mark* [7].

In Romania, hotel units must meet a set of requirements applicable to their own management systems in order to obtain the "Q" mark, namely: very critical requirements, critical requirements and uncritical requirements. These requirements are expressed and ranked in relation to the definition and implementation of the following elements:

- management (planning, organisation and administration of resources, marketing, quality control and quality continuous improvement);
- accommodation (general and specific requirements, human and material resources, booking, permanent relationships with the customers, billing and departure);
- food services (catering supply planning, handling, preparation and serving);
- events and entertainment;
- maintenance and cleaning;
- supply.

Thus, in order to meet the requirements at least in a minimum of 85% out of the maximum score the *QMark Approved* is granted, and in order to meet the requirements between 70% to 85% the *QMark Applicant* is granted [7].

5. Conclusions

Tourism and hospitality industry can become an important part of the Romanian economy if a level of awareness directed towards the selection of the local services is created.

The positive feedback and the tourists' satisfaction may represent key elements in promoting the Romanian tourist products. The consumer will knowingly choose the services package that will meet his/her standards and that will even exceed his/her expectations. This becomes possible in the context in which the operators from the tourism and hospitality industry agreed to implement an efficient quality management system in which all activities are focused on quality and continuous improvement.

Qmark, guarantor of the management system certification, reflects the tourist's requirements and demands, policies of quality, environment and safety, responsibility of the service provider and the awareness of the law enforcement bodies that tourism must become a driving force of the national economy.

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Directions for Improving the Quality of HealthCare Services in Times of Economic Instability

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Abstract

At international level, the economic and financial crisis has created strong imbalances in any activity field. Just like the rest of the developing countries, Romania has felt the most negative effects, especially that failed to develop a coherent anti-crisis strategy. In this context, the services had registered a significant decline, becoming one of the most affected sectors.

Unfortunately, no area of public services has been spared by the financial problems, the most serious deficiencies were recorded in the healthcare sector. Superimposed over an existing financial deficit, the economic crisis has accentuated the old problems and created new ones. Therefore, we consider it is essential to draw attention over the directions for improving the quality of health services to prevent the collapse of the Romanian healthcare system.

Key words: economic crisis, health care services, sanitary system, the healthcare quality improvement.

J.E.L. Classification: I12, I15

1. Introduction

Strongly affected by the economic crisis and weakened by political tensions in recent time, the economic situation of Romania has serious signs of instability. National currency depreciation is one of the most important indicators that show that the financial sector is in a down trend. Economic forecasts for 2013 are not at all encouraging, most analysts think that the real

economic growth prospects have diminished in a considerably way. In the context in which the direct investment decreased from the same period last year, even the most optimistic economists dare not to hope for relaunch and economic progress.

There are some sectors of the economy that still feel the repercussions of the economic crisis and facing financial difficulties. The drastic situation will be prolonged by inability of the National Bank to make substantial capital inserts in these sectors. It is noted that the services field still has time to suffer. The end of 2012 is characterized by restructuring the budget, but funds are insufficient even for key sectors of the economy. Unfortunately for the population of the country the health sector is by far the worst affected.

For the medical field, financial and economic problems have become a real stress factor. At the macroeconomic level often appear many warning signs of a possible crisis of the health system. Financing beneath the system necessities, the current personnel deficit, labor migration or overloading the health professionals, are just a few elements that show us the possibility of a crisis in the health system.

2. Impact of economic crisis on health systems of the European Union

The global economic crisis has created a series of financial setbacks that have hindered the proper functioning of health systems. Shortly after beginning, the crisis has been a strong threat to health systems, especially for the countries with emerging economies. No country from the

community space has escaped from these repercussions.

Romania is not the only country member of European Union affected by imbalances from the system. Just as the analysts from the medical field had anticipated, in countries with low-income, where a devaluation of the national currency has been registered, there was an increased risk of onset of medicinal products crisis because of high prices of imports. The states where the population has a high aging level, have registered higher spending in the health sector.

Many other countries, including those with sustainable economies, have been forced to make significant efforts to respond to the financial pressures in the health system (Table 1).

Table 1: The main effects of the economic crisis on the health system in some EU countries

Countries	Effects
Austria	overall decline in financial resources
Belgium	appeared the need to save funds
Estonia	lower wages: negative impact on the collection of contributions for health (98% of revenues of the Health Insurance Fund are from wages)
Denmark	health budget showed the smallest increase in three years
Finland	effects of the crisis were very small because the budget was built largely from taxes
France	the lowest budget for social security
Hungary	negative impact on health determinants

Source: Report of European Hospital and Healthcare Federation. 2011. *The Crisis, Hospitals and Healthcare* [6]

Rising unemployment and the pay cuts have reduced the contributions for the health budget and the number of private insurance.

The shock was quite high especially since it came after a period of growth and economic stability, in which the health funds were designed to ensure the sustainable development of the sector.

Therefore, a fast intervention of National Governments was required to reduce the risk of some vulnerabilities of health systems (Table 2).

Table 2: Measures taken to reduce the effects of the crisis in the health system

Countries	Measures
Austria	lower expenses for the healthcare sector of approximately 1.7 billion euro
Belgium	healthcare budget was not reduced, but increased by a rate equal to the rate of inflation
Estonia	orientation to primary health care services
Denmark	reducing healthcare expenses
Finland	improving management of health system
France	limitation of healthcare expenses
Hungary	particular attention in using the EU Structural Funds on "New Hungary National Development Plan"

Source: Report of European Hospital and Healthcare Federation. 2011. *The Crisis, Hospitals and Healthcare* [6]

However, a retrospective look at the health systems of the European Union show us that the measures taken to overcome the difficult situation had some negative effects for the community space citizens (the cost of hospitalization and care significantly increased, medicinal products prices became higher compared to previous years, direct payments for different treatments have increased, the co-payment for some services was introduced, etc). European countries with strong health systems had approached economic crisis in a strategically way. Long-term vision comes from the fact that these countries were not quick to implement austerity measures in the health system, but have tried wherever possible to reduce the expenses and improve management processes.

Basically, those countries adopted an opposite strategy from that adopted by Romania. Recent research has shown that the main causes of the crisis deepening in the Romanian health system were too small amounts allocated annually for health and inefficient management of the whole

system [4]. These had started from the idea that the health of the population is extremely important and is directly reflected in the remaining areas of activity. Some researchers see a relationship of mutual conditioning between health and economy of a country which means that *"whereas economic development determines the development of new sanitary objectives while medical units contribute to improved performance in production processes by providing work capacity"* [1]. During the recession, all countries above were mainly directed towards identifying ways to improving the quality of health care services provided to patients. With more or less both reaping of the negative effects of economic crisis, developed countries have realized a fundamental thing, that some authors do not cease to sustain: *"our needs have diversified in a continuous technological development and it became more and more difficult to satisfy them with the help of traditional means"* [2].

It is obvious that this way to approach the difficult situations will give a lot of benefit in the long run in a so sensitive field, in which non-quality means important losses.

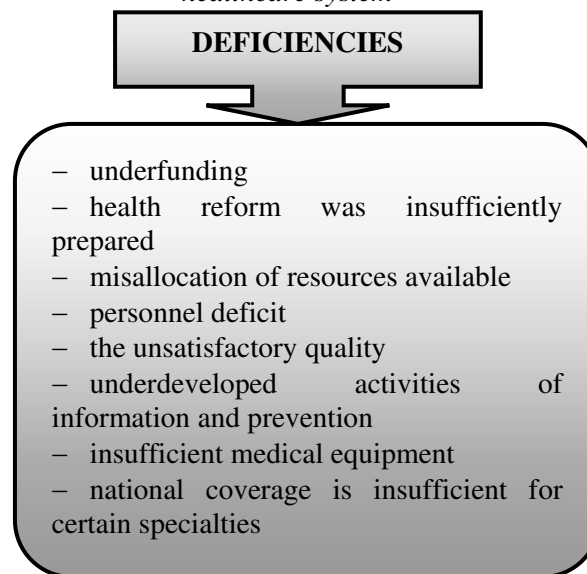
In the new economic context, attention was directed to the hospitals, the largest consumers of system resources. Thus, the legislative changes and most current reforms were aimed at a clear goal - efficiency of the activities. Pressure on hospitals has increased considerably, being forced to provide superior health care services in terms of quality (to meet the needs of patients), but with the lowest cost (to be able to budget).

Some analysts of the Romanian health system believe that the repercussions of the economic crisis on developed health systems from the EU were presented in an exaggerated form, since all these countries are over Romania in any statistics related to services quality, supply funds, working conditions, medical equipment, etc ...

A comparative analysis of the EHCI Index (Euro Health Consumer Index) achieved annually at a European level, focused on the respect for patient rights, accessibility to health services, the results of the health system (number of deaths from heart attack, infant mortality rate, number of caesarean operations, etc..) and on the preventive medicine, etc... Following the accumulated score (489 points), Romania ranks 32 of the 34 European countries analyzed [7].

It was impossible for the Romanian health system to occupy one of the top positions since we have a large number of deficiencies (Figure 1).

Figure 1: Deficiencies of the Romanian healthcare system



Source: Academic Society of Romania: Report *"Crisis and reform in the healthcare system"*, 2010 [8].

Whether it was the programs or projects initiated by the Ministry of Health that were not carried out successfully, or the goals of the last years reforms have not been met, but it is certain that in order to reduce the deficiencies, those were further strengthened. So, a quite legitimate question in this context arises: What can we do to reduce deficiencies in the system?

3. The Romanian healthcare system - Directions for improving the quality of healthcare services

Statistics show that in Romania there has been a decrease of 18% of funds from compulsory health insurance, that affected the health budget which was anyway below the European average. Due to limited resources the hospitals were left without a large number of beds, employment was blocked for a period, patients had to buy themselves their medicines or medical supplies that should have been received freely way in the hospital. President of European Health Forum Gastein, an institution which is oriented to the implementation of health policies and cross-

border exchange of experience in the medical field, said recently that there is not a viable solution to reduce hospital budget and the measures should be aimed to a better use of existing resources, rethinking structures and creating of a more efficient system [5].

Even in this period of economic instability, we can apply various measures to improve the quality of health services:

➤ **standardization of medical practice** – to improve the hospitals' activity. Personal deficit correlated with the increasing complexity of medical cases require the standardization of medical practice, where possible. Internationally, the most used standardized tools are the medical practice guidelines and the therapeutic protocols. The medical practice guidelines contain recommendations that help the doctor to decide which healthcare and treatments are the best. Some authors define the guidelines as a *"set of rules about the diagnosis and treatment of certain diseases"* [3]. Therapeutic protocols are more standardized and include registration in time *"of some processes (medical exams, medication, treatment) needed to obtain a desired outcome from a patient who has undergone a particular procedure or treatment"* [3]. For our country the efforts to standardize activities officially began in 2005, quite late compared to developed countries. Methodology for developing the medical practice guidelines is quite complex and must follow a series of well determined steps. A quite large period of time was necessary until the Ministry of Health was able to provide the necessary guidelines for practitioners. Regarding therapeutic protocols, the situation is slightly more complicated. Most times, our protocols are different from those used by developed countries, being confused with the medical practice guidelines. The protocols content, instead of being very strict and with a clear evidence of treatment, is designed just for guidance, that means a low efficiency. Preparation of clinical protocols in a similar way with those used by countries with strong systems will significantly contribute to the activities efficiency and quality improvement in hospitals (especially, because they are constructed from the results of evidence-based medicine).

➤ **create a comprehensive legislative framework (including application procedures)**

for private health insurance. With high financial potential, the private health insurance sector should be regarded with more interest. Also, there is a need for a good regulation with clear application rules. Encouraging of private insurance will bring multiple benefits such as reducing the pressure on public hospitals, stimulating competition between suppliers, improving quality of care, increasing patient satisfaction, etc...

➤ **medical staff motivation** – has become a mandatory requirement for improving the quality of health services, in the context where the staff deficit is quite high. Although the medical staff is a key element of the health system, we lack a human resources policy clear contoured. This is reflected in the increasingly large number of doctors who choose to leave the Romanian system which they consider completely unattractive. Working conditions and wages below the EU average are only two things which amplifies the migration phenomenon. Is absolutely necessary to increase the wage of medical and auxiliary staff. Obviously, the financial situation does not allow that this to be done suddenly and with a high percentage. But, we have to conceive a gradually increase strategy, so we can get in the coming years to have comparable salaries with other European countries. Otherwise, we risk that the situation from rural areas, where we have many uncovered specialties, to be a general one.

➤ **implementing a quality management system in all hospital units.** Country membership of the European Union requires us obtaining, assuring and continuous improvement of quality. Quality management aims at providing health services that meet the needs of patients, improve health and increase satisfaction for all stakeholders. The sanitary units which wish to obtain performance in the medical field must have a certified quality management system.

Implementing a quality management system according to ISO 9001:2008 in all hospital units would produce significant changes in the conduct of activity. Adapting quality management principles to the specific of medical field is a first step in building an organizational culture where quality is the strongest value. Implementation of ISO 9001:2008 will implicitly lead to a better performance of the hospital management indicators and increase confidence in that unit.

Part of the general management system, quality management system, includes all management processes based on structured documentation, the main goal being orientation towards quality of the units.

4. Conclusions

Building of a solid healthcare well-formed system should be the main priority of Romania in the near future. The imbalances had deepened the crisis and had created new financing problems in the system, a chapter where we already were deficient. At this point we are very near to the in collapse of the health system if there will not be taken urgent measures.

The directions to improve the quality of health services above are just a few ideas to draw attention to the fact that reducing funds is not a way out of the crisis, but adopting a viable strategy to reduce deficiencies from the system, so as to strengthen it.

5. Acknowledgments:

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Section II
Business Economy and Administration

Subsection 3
Finance and Accounting

Financial Annual Statements – Source of Information for Determining the Company's Financial Position and Performance

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Abstract

Annual financial statements represent an accounting instrument of great importance in the management activity, being necessary for both the substantiation of decisions on allocation, financing, use and recovery of funds and the organization of control over the implementation of the decisions taken, as well as for the establishment of certain rights and obligations, liabilities arising from the management and development of the patrimony. The fundamental condition that annual financial statements must meet is to reflect reality, regarding both the elements of active and passive at the disposal of economic operator.

Importance of financial statements is given by the usefulness of the information provided by them, which often are the only ones that users have access to and on which they must base their economic decisions and justify the use of their financial resources..

Keywords: annual financial statements, the entity's performance, economic indicators, financial analysis, balance sheet.

JEL Classifications: M40, M41.

1. Introducere

In the context of reform and transition to a market economy, every enterprise, regardless of size, sector or form of ownership, is facing a number of issues concerning the environment in which it operates improvement of its economic and financial performance and competitive ability compared to other companies. Economic and

financial analysis plays an important role in achieving these objectives, contributing to acknowledgement of the status of various phenomena, identifying the factors and causes that determine some failures and taking the appropriate steps to adjust and optimize the economic and financial results of each enterprise by all the methods and techniques used.

Objectives of financial analysis derive from the fundamental objective of the business. Over many years, the fundamental objective of "maximum profit" has dominated the economic thinking and this has brought havoc to mankind both environmentally and socially. Nowadays, in market economy countries, the wording about fundamental objective is "increasing company's value," which means increasing shareholders' wealth for non-listed companies, on the one hand, and growth rate of securities for the listed companies, on the other hand. Such an objective implies a higher return, but at the same time ensuring liquidity, solvency and financial balance. The purpose of financial analysis is reflected in the financial diagnosis, which is part of the economic and financial diagnosis, oriented especially toward profitability and its related risks. Diagnosing the health of the company is a preliminary stage in its evaluation process.

2. Importance of analysis

The current global economy is characterized by a complex process of globalization, leading to an increased sensitivity and instability of markets and business environment that are generally

manifested by a deep economic - financial crisis in present days. Thus, many business entities are in difficulty, facing especially the weakening of their economic activity, along with the sharp drop in demand, financial bottlenecks in chain, more increased cost of credit, a volatility of exchange rate. In this respect, substantial changes are required in the macroeconomic management, but also within each economic entity.

The basic role of a company's financial management consists of making strategic financial decisions that would solve the problem of effectively managing the enterprise's process of optimum, balanced and proportionate growth. This is why it is necessary to make an objective and imperative analysis in order to establish the company's economic and financial diagnosis and its management control, which are key issues in any enterprise's orientation towards performance.

Manager needs accurate, complete and timely economic information to make the best decisions for a correct management of the entrusted resources so as to increase the performance of the entity.

Economic and financial analysis represents the general method used for the research of objective processes and phenomena based on their decomposition into parts and studying each of them. This contributes to raising the level of knowledge from the particular to the general, from the concrete to the abstract.

During the economic and financial analysis, information sources designed to ensure the achievement of a complete diagnostic of the researched entity are used. However, the information provided accounting, and in particular general accounting, remain the essential material used due for the diagnosis. Production of accounting information answers some strict legal stipulations, which are requiring economic entities to inform internal and external partners, even if, exceeding these requirements imposed by law, entities tend to assimilate their production of accounting information for a genuine financial communication strategy.

Financial analysis is in fact the assembly of procedures used for researching how business funds are purchased and used and financial results are obtained and used, its

final aim being to reveal the extent and intensity of the influence exerted by the determinant and conditional factors of the financial activity.

The purpose of financial analysis is to diagnose the financial position of an enterprise, namely to identify strengths, weaknesses, opportunities and risks manifesting at the enterprise's level from financial perspective.

The purpose of financial analysis is to:

- Identify ways to improve resource management;
- Be the basic source of information and decision when taking or granting a loan;
- Be the information source when buying or selling securities;
- Be the source of information for studying business partners (customers and suppliers).

Users of financial analysis are:

- company's management that aims to identify situations of financial imbalances that could affect the company's financial security;
- company' owners (shareholders) who want to know the evolution of their wealth and what gain to expect;
- Banks with which the company is in relationships. They are interested to know its reliability, meaning the security posed by the enterprise to recover loans from it;
- business partners (clients or suppliers) who change their strategic options depending on enterprise's financial situation;
- competitors who are interested in a company's financial status to strengthen their own positions on the market;
- central and local administrative bodies that are interested in the patrimonial and financial situation of a company, because it represents a source of income and a means of solving economic and social problems;

Unions, interested in the financial situation because it is the basis for negotiation of salary increases and conclusion of collective agreement.

3. Analysis based on the balance sheet itself

The balance sheet is a very important instrument in the management process, used

for decision making on the allocation, financing, use and recovery of funds, organization of control over the decisions, establishing rights and obligations, as well as making decisions regarding continuation of enterprise's activity. The balance sheet is also the most important synthetic document providing data centralization in a systematic and consistent form, allowing an overview, a detailed analysis and a control of the economic activity performed and of the results obtained at the end of each reporting period.

Balance sheet is the official document used in the patrimony's management, which should provide a fair, clear and complete image of its financial position. Using the monetary standard, it highlights the balance between economic goods and their sources of funding. Based on this, a number of economic indicators can be analyzed, such as:

Analysis of the assets' structure rates

- a) **Rate of fixed assets** measures the degree in which the capital is invested and is calculated as the ratio between the total of fixed assets and the total assets.

$$r_{Ai} = Ai/At * 100$$

where: Ai = Fixed assets
At = Total assets

- b) **Rate of current assets** expresses in relative values the level of the fixed capital in the operating process, which, due to the fact it is renewed after each cycle of operation, is called working capital.

$$r_{Ac} = Ac/At * 100$$

where: Ac = Current/Circulating assets
At = Total assets

The following relation exists between the rate of current assets and the rate of fixed assets:

$$r_{Ai} + r_{Ac} = 100$$

Analysis of Liability's structure

- a) **Financial Stability Rate** reflects the permanent/fixed capital's share in the total of financing sources. Permanent capital consist of equity and capital borrowed for longer

than one year, which is why they are also called stable source of funding.

$$r_{sf} = Cpm/Pt * 100$$

where: Cpm = permanent capitals
Pt = total liabilities

Company's financial stability is even greater as the rate is closer to 100.

- b) **Rate of financial autonomy** highlights the extent to which funding sources belong to the owner. The own sources have an important share in the total of financing sources, the company's financial autonomy is higher. There are two types of financial autonomy, namely:

- Global financial autonomy when company's own sources are compared to the total of financing sources;
- Financial autonomy at term when company's own sources are compared only with the permanent sources borrowed.

- c) **Leverage Rate** expresses the debt that the company has in relation to total financing sources or with its own sources.

Creditworthiness Analysis

Liquidity refers to the ability to cover short-term obligations, while solvency is to cover long-term obligations.

Liquidity is defined by two principal characteristics:

- Specificity of assets, which have the capacity to transform into money to a greater or lower extent;
- Destination of liquidity; in this regard, liquidity is defined as the company's ability to cover from its most liquid assets the short-term obligations.

The assessment of liquidity level is most commonly done, according to the specialized literature, by using three indicators (ratios):

- Current Liquidity represents the ability of the company to cover short-term obligations using current assets, calculated as the ratio between average current assets and average current liabilities:

$$l_c = Ac/Pc$$

Ac= average current assets;
Pc= average current liabilities.

- Quick Liquidity represents the ability of the company to cover short-term obligations using current assets that can be quickly converted into cash, calculating the ratio between average liquid current assets and average current liabilities:

$$l_r = (Ac - St) / Pc$$

where:

Ac = average liquid current assets

Pc = average current liabilities

St = Stocks

- Immediate Liquidity represents the ability of the company to cover short-term obligations from its availability, being calculated as the ratio between the average availability and current liabilities:

$$l_i = Disp / Pc$$

where: Disp = Average availability;

Pc = current liabilities.

Patrimonial solvency reflects the company's ability to honor its obligations on medium and long term, to provide the financial resources able to support long-term continuity of its activity.

$$SP = \text{Social Capital} / (\text{Long and Medium Term Loans} + \text{Social Capital})$$

4. Performances of a company

The concept of economic performance includes several elements that characterize the finality of lucrative activities such as: profitability, productivity, competitiveness and economic growth. To synthesize all these elements it can be said that "an enterprise is theoretically efficient when it is productive and effective at the same time."

By the analysis of its results, two components of the economic performance status can be resolved:

- Economic growth, seen as the company's ability to increase its workload, fact reflected by the analysis of all results expressing volume (value of physical production, turnover, value added);

- Profitability, regarded as the company's ability to effectively carry out its economic

activities.

In order to deliver relevant considerations regarding these aspects of performance status, it is necessary that analytical work to be oriented towards the following objectives:

- analysis must be complete, meaning all relevant elements of the situation analyzed must be taken into account, problems and opportunities must be identified, alternatives must be submitted and evaluated;

- analysis involves evaluating and interpreting from economic perspective the situations and events that are being analyzed;

- fill in the lack of information is achieved by reasonable assumptions;

- competent analysis is the one which avoids the confusion between symptoms and problems, opportunities and actions;

- analysis should be the basis for setting some realistic goals and ensuring the recognition of all possible alternatives to achieve these objectives.

5. Conclusions

The main role of the analysis of information provided by annual financial statements is to assess the performance achieved at a given time by a company, to identify factors that lead to failure of achieving the predetermined performance level and to determine the intensity of their actions, so that unfavorable factors can be eliminated and factors with a favorable influence can be maintained.

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Merger Strategies of Economic Entities: Fiscal and Accounting Consequences

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Abstract

This paper addresses the issue of economic entities' mergers, in legally terms, and especially in terms of accounting and taxation. With the help of the analysis of twenty merger projects, initiated during the year 2012, there were identified and highlighted features of this reorganization strategy in the economic activity in Romania.

Key words: merger, taxation, accountancy, strategy

JEL classification: M41

1. Introduction

The paper, through its approach, brings into discussion the strategic view and foundations of economic entities' mergers, a form of reorganization commonly encountered in Romania over the last decade. Merger is presented as an alternative for companies in financial difficulties as a way to financially rescue their businesses. Also, there are presented theoretical and practical aspects related to the recognition of each phase of the process, in accounting.

The development and spreading of the financial crisis (crisis characterized by economic and financial problems and lack of liquidity) and the instability of the business environment led the economic entities to find solutions for their business reorganization in the form of national and cross-border mergers and acquisitions.

Especially small companies, left without funding, are required to find alternatives to restructure and reorganize their business in order to survive, so they are usually absorbed by other larger bodies which are stronger from an economic point of view. The law

regulating trading companies stipulates that merger is the process by which an economic entity extends its business by combining two or more entities into one. The newly formed society can be founded in two ways: absorption and combination.

Absorption merger is achieved when a company called absorbing company absorbs one or more companies, called adsorbed companies. In the case of merger by absorption, the company that absorbs acquires all the rights and obligations of the company that is absorbed. Combination merger occurs when two or more companies decide the establishment of a new society through assets and liabilities transmission on to the newly established company. In case of combination merger, the rights and obligations of the companies that shall cease to exist pass on to the newly established company.

All details of the merger are included in the project of merger, from the description of the parties involved (name, ownership structure, office etc.), the conditions in which the merger takes place, the valuation of assets, liabilities, equity, exchange ratio, merger premium and the rights assigned to implied parties.

2. National and International Regulations regarding Mergers

Merger operations of economic entities in Romania are legally regulated by Law no. 31 of 1990 regarding trading companies, republished, in which there are provided the general conditions for conducting a merger. The Ministry of Public Finances develops rules concerning the merger, division, dissolution and liquidation of trading companies, as well as the withdrawal or exclusion of some associates of the trading companies. The order governing the

accountancy and taxation of reorganization operations of businesses is Order of Public Finances Minister 1376 of 2004. Accounting implications regarding the merge of economic entities in Romania are set out in Order of Public Finances Minister 3055 of 2009, accounting regulations being in compliance with the European Directives. The European Directives related to mergers represent the legal framework at EU level for this type of business reorganization. Article 3 of Directive III (October 9, 1978) regarding the right of trading companies, defines absorption merger as Article 4 defines combination merger as well. Taxation of mergers in Romania is provided by the Taxation Code and covers issues related to: profit taxation, dividend taxation, fiscal losses and value added tax.

From a fiscal point of view, on the 23rd of July 1990, the Council Directive 90/434/EEC was adopted, regarding the common system of enforcement applicable to mergers, divisions, transfers of assets and exchange of shares involving entities from different Member States of the European Union.

3. Fiscal and Accounting Aspects of the Mergers in Romania

Excepting legal and commercial issues/implications of mergers, the partners in this process should also emphasize on how these operations are reflected in accountancy, respectively in the financial statements.

According to the methodological norms regarding the Recognition of major merger operations, the steps that are followed in the case of a merger are: inventory and valuation of assets, liabilities and equity of companies to merge, preparation of financial statements before merger by the companies which are to merge, the overall assessment of companies and determination of net assets, determination of exchange ratio of shares or of the social parts, determination of number of shares or of social parts to be issued in order to pay the net contribution of the merger, the merger premium calculation and recording in accountancy of the economic transactions specific to mergers.

For assessing the companies that have entered the merger, one of the following methods can be used: patrimonial method or the net asset method, stock method, the

method based on results (return value, yield value, supra-profit value), mixed methods and the method based on financial flows or cash flow. The overall value of the company established by one of the methods mentioned above represents the value of the net merger assets of each company in the merger. This value is determined based on the exchange ratio. To highlight the transferred assets and their removal from administration, result accounts are used (in case of using outcomes method) or off-balance sheet accounts (in case of using accounting net worth method). The increase by value of the assets is shown in the income statement or 121 "Profit or loss" (method result) or account 105 "Revaluation reserves" (net worth method of accounting). Transmission of equity elements is performed using the account 456 "Settlements with shareholders/associates regarding the capital" and of the liabilities elements with the account 461 "Various debtors" (method results), or off-balance sheet accounts (net worth method of accounting). The increase of assets value, in the case of absorption merger, is highlighted with the help of the account 207 "Goodwill". The acquiring company highlights the merger premium as the difference between the value of the acquired company's contribution and the amount of the capital increase in the acquiring company.

Accounting regulations in accordance with the European Directives, approved by Order of Public Finances Minister 3055 of 2009 provide that the revaluations made during the reorganization of companies (mergers/divisions) will not be understood as accounting revaluations, but as circumstances under which financial transactions are carried out, in this way a revaluation during the year in case of a merger/liquidation is not recorded in accountancy. In this context, the evaluation results will not be included in the financial statements. The exception applies only if the data compiling the annual financial statements comply with the one of the financial statements prepared for the merger.

Negative accounting net assets of the acquired company may be acquired by the acquiring company through the retained earnings account, thus leading to a reduction of equity held by the latter (absorbed

company) and an increase in the degree of indebtedness.

Fiscal aspects

In case the companies involved register losses this may have tax consequences at the level of the involved entities. According to regulations (effective from 1 October 2012 Government Ordinance 15/2012 amending and supplementing Law 571/2003 regarding the Fiscal Code) the fiscal loss recorded by taxpayers which cease to exist as a result of a merger or division are recovered by the new formed taxpayers or by those who take the patrimony of the absorbed or divided company. Recovery is proportional with the assets and liabilities transferred to the legal beneficiary, according to the draft of merger/division.

Revenues from the transfer of assets (account 7583 "Revenues from the disposal/transfer of assets") are not taxable under the provisions of the Fiscal Code. Similarly, the expenses regarding disposed assets (account 6583 "Expenses concerning disposed assets") are non-deductible expenses. In accordance with the provisions of the Fiscal Code, reduction or cancellation of any provision or of the reserve that was previously deducted at the determination of the taxable profit is included in the taxable incomes of the acquired company, unless the absorbing company takes over that provision or reserve. According to the Fiscal Code, the acquired company must submit the tax statement and pay the income tax 10 days before the date registration of the end of existence at the Trade Registry. The acquiring company uses in determining the taxable profit the fiscal values of the assets and liabilities submitted by the acquired company. For the depreciable fixed assets the acquiring company will have to apply the same regime of depreciation that would have been applied by the company being acquired if the merger would not have occurred.

In case the amount of the legal reserve provided by the Fiscal Code, resulting from the merger, exceeds one-fifth of the subscribed and paid capital of the acquiring company, the difference is not treated as a taxable income as long as this reserve is maintained at the resulting value.

The transfer of assets is subject to VAT, so that the legal person transferring the assets in case of a merger could be required to pay

VAT on those assets transferred (when it's not registered as a VAT payer).

4. Research Methodology

This paper, through its study, seeks to answer a series of questions about the reorganization of economic entities through merger, namely: What are the reasons for which companies merge? What are the advantages and disadvantages of merging companies? What are the financial, accounting and taxation effects of mergers? The aim of the study is to identify the conditions, reasons and the means by which economic entities in Romania merge, the analysis took place in the late 2011 and the first half of 2012. There were analysed 20 merger projects submitted to the NTRO (National Trade Register Office) of Romania between 2011 and 2012. The purpose of the analysis of merger projects was to obtain information regarding: links of participation of the entities involved in the merger, their ownership, field of activity, considerations of the merger, the financial results of the companies involved and the consequences of the merger.

5. Merging Decisions

The decision to merge is taken after a series of analysis have been made: of the financial health of the company (analysis of financial statements), analysis of the degree of compliance with laws, business management analysis, analysis of accounting and taxation consequences involved in the merger process. Certain aspects regarding disputes with third parties or debts to them, possible violations of law, sudden changes in turnover, termination of certain collaborations with expert accountants or auditors, may influence the decision to merge. In order not to expose themselves to unpredictable risks, accounting professionals will analyse financial statements to determine the financial health, management work will be reviewed to draw conclusions on the reliability of the entity and the quality of the work, and they will examine the records and transactions and analyse the degree of compliance with accounting and tax legislation in force.

The merger represents the result of the objectives proposed by the management of the entity and usually targets: strengthening the market position and the elimination of competition, survival of entities facing difficulties, long-term profitable growth, cost reduction and other objectives.

Advantages and disadvantages of the merger of economic entities

National practical experience revealed a number of advantages and disadvantages of the merger of economic entities, weaknesses and strengths, summarized and presented in Table no. 1.

Table 1. Advantages/disadvantages of the merger

Advantages	Disadvantages
<ul style="list-style-type: none"> ☞ Increase of market share and of the number of customers; ☞ Opportunity of market penetration in new geographic regions; ☞ Competitive advantage, avoiding hostile competition; ☞ Diversification of the existing business and of the product portfolio; ☞ The opportunity to benefit from new technologies; ☞ Rationalization of production and distribution techniques; ☞ Greater opportunities to invest in research and development (thus leading to increased quality of products and services); ☞ The opportunity to gain a better trained staff and a better management; ☞ Increased ability to contract loans; ☞ Improving efficiency by reducing costs and increasing profitability and profit; ☞ Shares of larger companies are more 	<ul style="list-style-type: none"> ☞ Merger may lead to the loss of some employees, there is the risk of job loss as well; ☞ Reorganization can decrease the productivity of the existing employees (working climate changes); ☞ Interest conflicts may appear; ☞ Keeping the same management team may not involve large changes in the new created society.

<ul style="list-style-type: none"> marketable than the ones of the smaller societies; ☞ The opportunity to benefit from fiscal advantages; ☞ The possibility to rescue entities that are in financial difficulty. 	
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Source: original

6. Research Results

The data concerning the merging projects has been collected from the publications made on the website of the National Trade Register Office, and the data regarding the financial position and performance (financial statement) were taken from the website of the Ministry of Finance. The financial statements of the companies involved in the merger have been produced at the end of 2011 (three of the merger projects), and most were made in mid-2012. All the 20 merging projects dealt with merger by absorption of economic entities. These projects assumed the involvement of 20 absorbing companies and 33 absorbed companies.

The conducted study also presents some limitations because of the fact that the available technical or financial data were not sufficiently detailed.

The objectives of the research have some main aspects, presented below:

1. Ownership links between entities

From the analysis of the 20 merger projects, we found that the companies which have entered a reorganization process through merger have at least a common associate/major shareholder and the acquiring company holds securities in the company being acquired (there is a relation of participation between entities). Only two of the cases analysed take into account companies which have no links or common associates between them. The acquiring companies usually have control over the acquired companies, so that the merger motivation is to simplify the decision making process, to streamline the process of execution and reduce administrative costs by forming a single structure in which all the forces of the companies involved are engaged.

In most of the examined cases, in the merging process were involved just 2

companies (75% of the cases) as involving several entities is more difficult to achieve and hinders the coordination of the activities. Most entities that merged are limited liability companies, and most mergers were made between companies with the same legal form of ownership (70% of the cases are made between limited liability companies, 10% between joint-stock companies and 20% of them have different forms of ownership).

2. Fields of activity of the merging companies

The identity of the primary or secondary activity objective of economic entities often represents the reason of their merger. Complementary activities carried out by the companies that have entered the merging process enables them to strengthen their market position, thus becoming a significant presence on the market of their activities, being able to successfully compete on the national level with the leading companies in the field. The acquiring companies are usually looking towards companies that have the same field of activity in order to join forces in the same direction and face competition.

The fields of activity of the analysed companies, involved in the 20 merging projects herein presented, are quite different, such as: hotels and accommodation facilities, business consulting activities, trade of pharmaceutical products, trade with meat, beverage and tobacco; construction, furniture manufacturing, waste treatment and gambling. But the most encountered ones are: trade with alimentary and non-alimentary products, tourism activities, business management services and business consultancy.

3. Considerations of the economic entities' merger

From the analysis of the merger projects, it can be seen that there is a variety of reasons that may lead to merger. The merger is made by the simplification of the decision making process, the reduction of parallel structures and of management and by an increase in the efficiency of the managerial decision. In other cases the merger is motivated by the reinforcement of the two or more companies competing in relation to other entities. Companies operating in the same field of activity and that produce the same economic goods decide to merge in order to win market

share, to control the market, the prices and the amount of products.

Besides the reasons presented above, the base of the merging process is also represented by the following economic, financial and strategies reasons: occupying a leading position in the relevant field of activity; cushioning the impact of the financial crisis; improving the efficiency of the acquired company which on the date of the merger recorded losses; extending the activity of the absorbed company; increasing financial and technological power by sharing the resources and the knowledge; simplifying the accounting; saving human and financial resources by eliminating bookkeeping operations regarding reciprocal transactions and simplifying financial reporting; reducing administrative costs (the number of executives and administrators) by the simplification of the administrative structure; increasing the financial power necessary to take bank loans with lower interest rates; for the company being acquired the chances to get cash dividends increase; increased profitability and efficiency (cost reduction, growth of capital, etc.); merger would help the companies to save money by making common various activities, etc.

4. The financial results of the entities involved in the merger

Financial and economic benefits that the acquiring company pursues, through merger, are more difficult to obtain provided that the absorbed companies record a negative net contribution or if they register losses. Of the 33 absorbed companies that were analysed, 54% recorded negative net assets and 69.70% have recorded current losses, meaning that they faced with financial difficulties in the analysed period. Some of the absorbed companies said (drafts of merging projects) that they encountered financial difficulties which made them unable to pay, which is why they turned to this form of reorganization.

In most cases the acquiring company holds an economic and financial power higher than the one of the acquired company. After the merger, the acquiring companies receive, in most cases of merger, important values of the merger premium and reserves. Thus, from a net contribution taken over from the absorbed companies, a small part corresponds to them in the form of titles and the biggest part goes

to the absorbing company in the form of merger premiums. The merger premium represents a payment from the shareholders of the absorbed company in order to become shareholders of the absorbing company.

5. Consequences of the merger

In most of the analysed cases, the merger involved neither redundancies nor changes in the working conditions. The employment contracts of the employees of the absorbed companies continue their existence and applicability. Merger may have as a consequence a change in the ownership structure, as well as a change in the legal form of the ownership.

Gugler K., and al. (2003) analyzed the effects of mergers around the World, over the past 15 years, and the results of their study show that “Mergers, on average, do result in significant increases in profits, but reduce the sales of the merging firms, and conglomerate mergers decrease sales more than horizontal mergers” [1].

7. Conclusions

The aim of the study was to identify the characteristics of merger projects initiated in late 2011 and the first half of 2012. From the conducted analysis we can conclude that the cushion of the financial crisis and the financial difficulties faced by entities were not the main reason for the merger, but their main focus was driven by the desire to gain as much market share as possible and to streamline the entire activity (to simplify the decision making process). Companies involved have decided to initiate the merger process in order to ensure a unique and coherent approach to their activities.

The merger is also seen as an alternative for the recovery and rescue of financially fragile entities. In order to handle the lack of liquidity, companies seek for different solutions in order to reorganize the business they manage. Economic entities are subject to a whole series of factors acting at all the levels, both inside and outside the firm and that they have to deal with, otherwise they are threatened with their removal from the market.

An important effect of the merger is represented by the significant decrease of the administrative and operational costs, with implications for the company profitability,

which will lead to an increase in their sources of financing investments. By reducing administrative costs we understand reducing management costs, by reducing the entire administrative system, resulting in a simplified administrative structure that will lead to a facilitated coordination and administration of the entire business.

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Fiscal Convention in the Context of Globalization

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Abstract

International problems generated by the phenomenon of double taxation appeared for the first time during the Middle Ages. Situations of double taxation were most often caused by the juxtaposing of two or more jurisdictions. The first record of these situations dating since XII century and it is reported on the fees charged in France and Italy.

Key words: globalization, double taxation, model treaty.

J.E.L. Classification: M41

1. Introduction

Corresponding to the existing legislation at the time, when the owner of some properties located in France was living in Italy, taxes were charged in both states. The first attempts to solve these aspects were realized only in the second half of XIX century and are divided according to international literature opinions in three stages:

- the stage of measures to eliminate double taxation in relations between federal states of the same union (ex.: German federal laws in 1870 and Swiss constitution in 1874);
- the stage of measures to eliminate double taxation in relations between quasi-independent states of the same empire (ex.: relations between states of British Empire);
- the stage of measures to eliminate double taxation in relations between independent sovereign states (ex.: Dutch law in 1819

granting exceptions from maritime taxes with the condition of reciprocity for Dutch ships). As a result of these stages in order to develop measures to eliminate double taxation in relations between states, the first bilateral treaty to eliminate double taxation on income was signed in 1899 with the signatories of Prussia and Austro-Hungarian Empire [1].

2. OECD Model Treaty to eliminate double taxation

In 1958, following the efforts of League of Nations, Fiscal Committee of the Organization for European Economic Cooperation has started to elaborate a new convention project, designed to contribute to the elimination of double taxation in the international financial relations. The Organization for European Economic Cooperation was extended through the Convention from Paris in 14th December 1960 and continued its existence as Organization for Economic Cooperation and Development (OECD).

The objectives of this organization were established according to the international collaboration and cooperation requirements in economic, trade and financial, to ensure the economic stability and growth of member and non member states. In the center of OECD concerns was realizing the efforts started under the League of Nations and continued after by the Organization for European Economic Cooperation.

Thus, in 1963 the convention project, started in 1958, was published as: "Convention Project to eliminate Double Taxation, OECD 1963". The Convention Project in 1963 was actually a revision of

London Project and kept the same characteristics and the same structure. The most important characteristic of this project is the allocation of priority tax right of the residence, so the position adopted by London Project was totally maintained. In 1974 were published by OECD new proposals for amending the Convention Project in 1963, and in 1977 was published “OECD Model Treaty to Eliminate Double Taxation”.

Elaboration and publication of this treaty by OECD was the moment of hard work carried out for a period of over 50 years on international level in order to solve the double taxation’s problems. Applying “1963 Project” and then “Model Treaty” in elaborating the treaties to eliminate double taxation was a big success. Indeed, the best proof of the viability of imposed solutions in “Model Treaty” was the big number of treaties that follow the structure and orientations offered by the convention.

From these results, OECD published in 1992 “Model Treaty to Eliminate Double Taxation”, that is a revised “Model Convention” in 1977 [1].

Taking in consideration the general conditions to eliminate the double taxation in international financial-commercial relations, the structure of Model Treaty is complex, and solutions offered in order to achieve this goal are numbered. In this context, however, it is required highlighted the flexible, open character of the Treaty preventions, but especially the possibilities offered to signatory states of bilateral conventions, elaborated after the Treaty in order to complete and adapt its provisions in accordance with the specific of national legal systems. This character is relevant when the actual bilateral conventions on international plan are analyzed comparatively with OECD Model Treaty provisions.

In terms of structure, Model Treaty includes seven chapters [2]:

1. Chapter I- Scope and aims of Treaty;
2. Chapter II- Definitions and basic concepts;
3. Chapter III- Income Taxation;
4. Chapter IV- Capital Taxation;
5. Chapter V- Methods to Eliminate Double Taxation;
6. Chapter VI- Special Provisions;
7. Chapter VII- Final Provisions

In the first two chapters (regarding Scope and Aims of Treaty and Definitions of basic concepts) is realized an identification of taxpayers for who will be applied the provisions of the Treaty and taxes that will be covered under these provisions.

Also, a series of concepts such as “dividends”, “interests”, “immovable property” are defined in separate articles. In Chapters III, IV and V, regarding elimination of double taxation, Model Treaty establishes two categories of rules. First of all, the articles 6-20 taxation way (by the source state of income or by the state where the taxpayer is resident) of different categories of incomes, and the article 21 establishes the same type of rules, but regarding the capital [7].

For some categories of income, the taxation right is given to the source state, and for others categories of income, the taxation right is given to the resident state. In this way, the second state (for which is not given the right of taxation on income) doesn’t have the possibility to tax the income and so, double taxation is avoided.

Usually, the exclusive right to tax certain categories of income returns to residence state.

Second, for other categories of income, the right to tax is not given only to one state but it is divided between the two states.

In these situations, the two solutions to eliminate double taxation are applied: exemption from taxation and credit method (included in the articles 23A and 23B, referring to methods to eliminate double taxation). Thus, depending on allocation of tax rights between the two states, incomes and capitals of taxpayers can be classified in many categories [7].

In the first category are incomes and capitals that are taxed only from the source state. These incomes are exempt from any taxation in residence state. As examples of such incomes are immovable properties incomes (article 6), incomes from sports and arts in that state (article 17), wage income of managers of companies from that state (article 16), etc. In the second category are included incomes that are taxed in the source state, but limited. Here are covered only in the situation when the results from activities performed in a permanent office of a foreign company. Otherwise, source state must limit

taxation to 5% of the total dividends if the taxpayer holds 25% of company's capital and 15% in any other situation [3].

In the last category are included incomes that cannot be taxed in the source state but only in the residence state. As example of such incomes: private pensions, incomes from selling shares of the company, capital invested in company's shares, etc. after this short presentation we can observe the fact that when taxpayers residing in a state get incomes from sources located in the other state, incomes that according to rules of Model Treaty are taxed only in the residence state, the danger of double taxation doesn't exist, because the source state will always offer exemption from taxation. Otherwise, for incomes that can be limited or unlimited taxed in the source state, the residence state may choose for the two methods to eliminate double taxation: exemption from taxation and credit method. Exemption from taxation method means exemption from taxation in the residence state on incomes taxed in the source state. But according to specific variant chosen to apply this method, incomes taxed in the source state may or may not influence the tax rate in residence state on global income taxation. Credit method means to use paid taxes in the source state as a credit in calculating the taxes owed in the residence state. Choosing the right method belongs entirely to signatory states of bilateral conventions, developed after the structure of “Model Treaty”.

In the last two chapters of the Treaty are included specific provisions related to changing data and common procedures, nondiscrimination system (articles 24,25 and 26) and also final provisions related to entry and exit effect (articles 29 and 30).

These solutions are based on the idea that the benefits of bilateral treaties to eliminate double taxation are really mutual only in the situation when investments between the two signatory states are in equilibrium. This is not the case in relations between developed and emerging countries, because the movement of goods and capitals is primarily in one direction, namely from developed countries in developing countries. For this reason, “Model Convention” of U.N. offers the priority right (but not exclusively) of taxation to the source state of the income and not to the residence state. By this provision, is

aimed offering the possibility to tax incomes by developing countries realized on their territories by citizens and companies of developed countries.

3. Types of international treaties to eliminate double taxation.

In all international financial relations, treaties to eliminate double taxation fulfill an important role. This statement is justified in many beneficial consequences, caused by elimination of double taxation!

In this case falls balanced distribution of taxation rights between signatory states of the Treaty, encouraging the development of commercial and financial relations between the two countries and not at least, prevention of international tax evasion.

In order to achieve goals, two fundamental types are on international plan: multilateral treaties and bilateral treaties [6].

Before the Second World War the idea of using multilateral treaties was dominated, argues for this orientation refers to the broad scope of coverage of these treaties, indeed, in multilateral treaties the possibility of harmonizing the legal measures of income tax on international is higher, but the results of this harmonizing are better. On the other side, the advantages offered by bilateral treaties proved to be stronger on international practice [4]. The explication of this phenomenon is that these treaties provide the chance to regulate all details referring to these solutions that correspond to national specific systems. Another argument in favor of bilateral conventions is their high degree of flexibility in application or in the event of changes and amendment and also the fact that do not require the establishment of special institutions to ensure their uniform interpretation in different countries (as in the situation of multilateral conventions).

In this way is explained the change of two multilateral conventions projects:

1. the project pf League of Nations in 1933 and
2. the project of Organization for European Economic Cooperation in 1958 and their publication as bilateral conventions in 1935 and 1963 [4].

The option to conclude a bilateral or multilateral treaty belongs to states interested

in elimination of double taxation in relations between them, thus, multilateral conventions, as Andean Pact and Nordic States Convention are used by certain states that have chosen this type of solving the problems of double taxation.

In Andean Pact, for example, member states decided to give the taxation right to source state of incomes and thus they solved the conflicts regarding the taxation of resident trade companies in one of the states, but having branches in another member state of the pact.

Regarding Nordic States Convention, it respects the general structure of "OECD Model Treaty", of course with some specific features determined by the specific of their legal systems. To note the provisions regarding income taxes by exploiting natural resources of North Sea and also those referring to property tax on companies that have the object of aviation and maritime transport [3].

Also, Belgium, Netherlands and Luxembourg have concluded a special convention referring to levying and double taxation. The largest share in the actual period of time on international relations is held by bilateral treaties to eliminate double taxation, the majority being elaborated according to solutions offered by "OECD Model Treaty". Through these bilateral treaties were realized the harmonization of orientations that existed on national level, regarding the problem of double taxation. The big number of bilateral treaties concluded in relations with member states of OECD (over 200 bilateral treaties) but also in relations with nonmember states is an evidence of the success of "Model Treaty" and the viability of its solutions [7].

4. Perspectives of tax conventions

Globalization has led the fight against increasingly difficult tax evasion on international level, and the 27 member states of EU, with major differences between them, are particularly affected. These factors are favorable to a good and efficient cooperation on international level within the European Union. The EU considers that a significant number of multinational companies were structured in order to avoid taxation in different jurisdictions in which they operate.

Different treatments of taxation in different jurisdictions favor big, international companies with tradition at the expense of small, local or new companies. The ability of multinational companies to the intensive use of fiscal havens and off-shore centers, as strategy to avoid taxation conflicts with the principles of loyal competition and corporate responsibilities.

European Union prepares an important number of legislative proposals regarding income tax from economies, administrative cooperation and multilateral assistance in recovering taxes. Anti-avoiding General Principles offers to the authorities the possibility to evaluate the main goal of certain transactions is to reduce or avoid taxation so, to charge additional taxes to counteract the avoidance or reduction.

So, we can conclude that there are international accounting and audit standards but there are not global fiscal standards. However we can appreciate that the OECD measures could be considered a step (weak) to international tax standards.

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Pension Funds as Vehicle of Better Dynamics for the Capital Markets

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Abstract

The paper aims the analysis the investment strategies adopted by the private pension funds in OECD countries and the relation between the level of development of the financial system and the impact pension funds have on the capital market in these countries. On the short term, in the countries characterised by a developed financial system, pension funds generate an increase in the market capitalization as well as in the transactions volume. For the countries with immature financial systems, the positive effects estimated are less sustainable. Further, the paper underlines the changes generated by the global financial crises in the assets administrated by the pension funds in OECD countries and shows the fundamental role funds have in increasing the activities of the capital markets.

Key words: pension funds, capital market, financial assets, crises

JEL codes: J32, G23

1. Introduction

The financial globalization process has generated an increase in the importance of the pension funds, due to their positive effects over the capital market. The prudential legal rules of pension funds investments diversification made these financial entities extremely important players on the capital markets.

In this context, various studies have proven that the pension funds' investments can have a contribution in the stabilization of

the financial system [4] or in the liquidity increase of the equity and bonds markets [1, 6].

The way financial capital is attracted through the redistribution of a part of the compulsory employees contributions allows pension funds to design their investing process for very long periods of time so that the pension funds could benefit from the adjustment periods for the assets' prices at the levels that are justified by the economic theoretical fundamentals[5].

A series of studies have tried to set a relation between the capital market development and the development of the pension funds. Catalan, Impavido and Musalem [2] have studied 14 of the OECD countries and 5 emerging countries for the time period 1975-1997. They concluded that there is a relation of causality between the capital market development and the development of the pension funds, the capital market development being generated by the evolution of the pension funds. The pension funds investments influence the evolution of the market capitalisation but not the volume of transactions on the market. Why? A possible explanation is the investment long term horizon for which the investment funds design their investment strategies but also the conservatory approach of the portfolio managers that do not use speculative strategies that could lead to the increase of liquidity of the capital markets.

Other authors such as Channarith Meng and Wade Donald [3] have studied the impact of pension funds over the development of the equity and bonds markets, taking into account a sample of 32 mature and emerging capital markets, between 2003-2007. It is noticed that there is a relation between the level of development

of the financial system and the impact pension funds have on the capital market. On short term, in the countries characterised by a developed financial system, pension funds generate an increase in the market capitalization as well as in the transactions volume, while the positive effects estimated for the countries with immature financial systems are less sustainable.

In the present paper we aim to analyze the role pension funds have in making capital markets more active, underlining the changes generated by the global financial crises in the assets administrated by the pension funds.

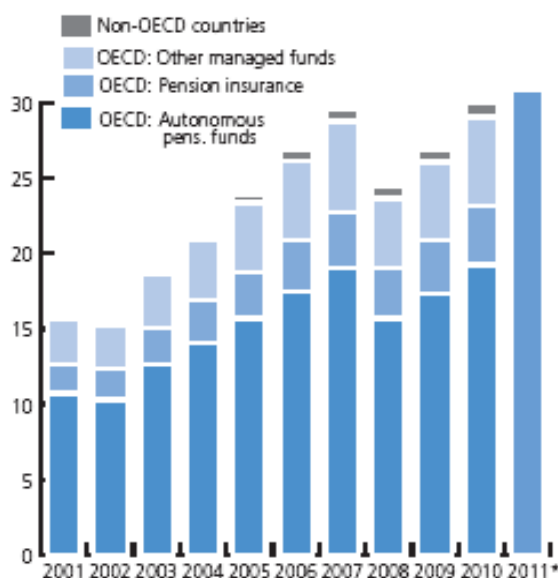
2. The Impact of the Financial Crises upon the Pension Funds' Assets

In the last decades, on the capital markets, an increase in the total assets administrated by the pension funds was noticed. For example, at the level of the OECD countries, for the period 2000-2011, an increase rate of about 96% was registered, reaching 30.90 trillion USD in 2011, which represented 90% of the OECD countries GDP (graph 1).

The impact of the financial crises over the assets administrated by the investment funds was strongly felt in 2008, when there was a decrease of 17% in respect to the previous year. It is to be noticed the fact that in the last decade the total value of the assets administrated by the pension funds has doubled.

Graph 1.

Global pension assets



Source: The CityUK, Pension Markets, 2012, OECD Pension Statistics

At country level, one can identify an important development of the pension funds in Netherlands and Iceland, the administrated assets value being over 100% of the 2010 GDP (table 1) (134.9% in the Netherlands and 123.9% in Iceland).

By the end of 2010, the level of the pension funds in respect to the national economies in OECD has increased if compared to the level in 2008 (when it was of 60.3% of GDP) but has slightly decreased if compared with 2007 (when it was 78.2% of GDP), reaching a level of 71.6% of GDP on average.

At OECD level, the asset-to-GDP ratios increased in most countries in 2010, in comparison with 2009. A decrease in this ratio was registered for Japan (-1.4%) and Portugal (-2%). At world level, UK, Finland and USA overpass the level registered in the OECD zone and register higher levels, between 70 to 90%.

Table 1
Importance of pension funds relative to the size of the economy in selected OECD countries, 2010

As a % of GDP	
Country	Assets
Netherlands	134.9
Iceland	123.9
Australia	90.9
United Kingdom	86.6
Finland	82.1
Weighted average	71.6
United States	72.6
Chile	67.0
Canada	60.9
Denmark	49.7
Ireland	49.0
Israel	48.9
Simple average	33.2
Japan	25.2
Poland	15.8
Hungary	14.6
New Zealand	13.8
Mexico	12.6
Portugal	11.4
Spain	7.9
Norway	7.8
Slovak Republic	7.4
Estonia	7.4

Czech Republic	6.3
Austria	5.3
Germany	5.2
Italy	4.6
Korea	4.0
Belgium	3.8
Slovenia	2.5
Turkey	2.3
France	0.2
Greece	0.0

Source: OECD Global Pension Statistics

Regarding the use of assets administrated by pension funds, one can notice a preference for investments in riskier assets for most developed countries. In the USA, investments in equity add up to about 50% of the total investments, which means an acceptance of being exposed to losses in case of a higher volatility of the capital market. On the contrary, pension funds in Germany, Italy or Spain have reallocated their assets on the bonds markets, reducing their participation on the equity markets (table 2).

Institutional investors as well as banks were highly affected by the equity holdings in investment portfolio, these holdings becoming an important channel through which financial turmoil was transmitted. This has caused a fall in the value of the portfolio holdings of institutional investors and banks.

In the case of OECD countries, as bonds are the dominant asset class and not equity (being about 50% of the total assets), this transmission channel has generally been mitigated for pension funds, especially in those countries where equity holdings do not make up for more than 30% of the overall investment portfolios.

Problems due to this transmission channel arise in countries like USA, Australia, Chile or Finland, where the portfolio allocations to equities is still very high, adding up to 40-50% of the total investments.

The differences in performance between equity holdings and bonds holdings, not compensated by rebalancing policies, has generated a significant shift in the allocation of capitals between equity and bonds in countries as Austria, Finland, Poland or the Netherlands. The weight of equities in portfolio increased with 6-7% from 2009 to 2010 and the bond allocation fell by a similar percentage.

The differences in performance also resulted in reduced bills and bonds allocations for the pension funds in Germany, Estonia and Korea, but in their cases, this reduction was not compensated by increased allocations towards equities but towards other classes of assets.

The investment strategies of the pension funds in Greece have significantly changed in 2010, when there was a sharp rise of 12% in the percentage of cash and similar assets held by the pension funds, in the detriment of allocations towards equity.

The large pension funds try to use a rebalancing strategy, buying more equities when their price is falling in order to keep the targeted level of investments in equities or selling these equities if their price has significantly increased. At a macroeconomic level, this strategy reduces the upward and downward movements on the equity market, increasing the financial stability.

Table 2.
*Pension fund asset allocation for
selected investment categories in selected OECD
countries, 2010*

As a % of total investment				
Country	Equities	Bills and bonds	Cash and deposit	Other (1)
United States	49.3	25.6	1.5	23.6
Finland	47.6	30.5	0.7	21.2
Australia	46.5	11.0	14.8	27.7
Chile	43.9	48.6	0.5	7.1
Belgium	37.7	42.8	6.5	13.0
Poland	36.3	59.4	3.5	0.9
Norway	34.2	56.8	2.5	6.5
Canada	33.8	35.5	3.3	27.3
Austria	32.2	49.8	8.5	9.5
Turkey	25.9	27.0	31.1	15.9
Portugal	21.7	49.5	10.9	17.9
Netherlands	19.5	56.2	4.4	19.8
Iceland	19.2	54.9	8.1	17.9
Mexico	17.7	81.4	0.5	0.4
Denmark	15.5	70.0	0.5	14.0
Hungary	13.4	79.5	2.4	4.7
Spain	12.1	57.4	19.6	10.8
Italy	11.4	47.0	5.7	35.9
Japan	10.6	37.5	4.5	47.4
Israel	6.1	77.7	7.2	9.0
Germany	5.2	41.9	3.1	49.8
Estonia	3.8	17.8	9.4	69.0

Greece	3.3	53.3	40.9	2.4
Slovenia	2.2	66.9	26.8	4.0
Slovak Republic	1.4	70.8	27.5	0.3
Czech Republic	0.9	87.7	7.0	4.4
Korea	0.1	20.2	51.0	28.8

Note: 1. The "Other" category includes loans, land and buildings, unallocated insurance contracts, private investment funds, other mutual funds (i.e. not invested in cash, bills and bonds or shares) and other investments.

Source: *OECD Pension Statistics*

In the context of very unstable and very changeable market conditions, allocation remains a challenge. Even though financial markets are recovering, pension funds and sponsoring companies need to take strategic decisions regarding the asset allocation mix.

Under the aspect of geographic distribution of the assets administrated by the investment funds, the leading position is held by the United States pension funds that were having (at the end of 2010, about 55% of the total assets held by the OECD countries pension funds, which means 10.587 million USD (table 3).

Table 3:Geographical distribution of pension funds' assets in OECD countries,2010

	As a % of total OECD	
	Total assets In millions of USD	In %
United States	10,587,679	55.2
United Kingdom (1)	1,943,110	10.1
Japan (2)	1,388,329	7.2
Netherlands (p)	1,056,769	5.5
Australia	1,089,723	5.7
Canada	1,017,672	5.3
Switzerland (3)	551,450	2.9
Other	1,541,740	8.0

Source: *OECD Pension Statistics*

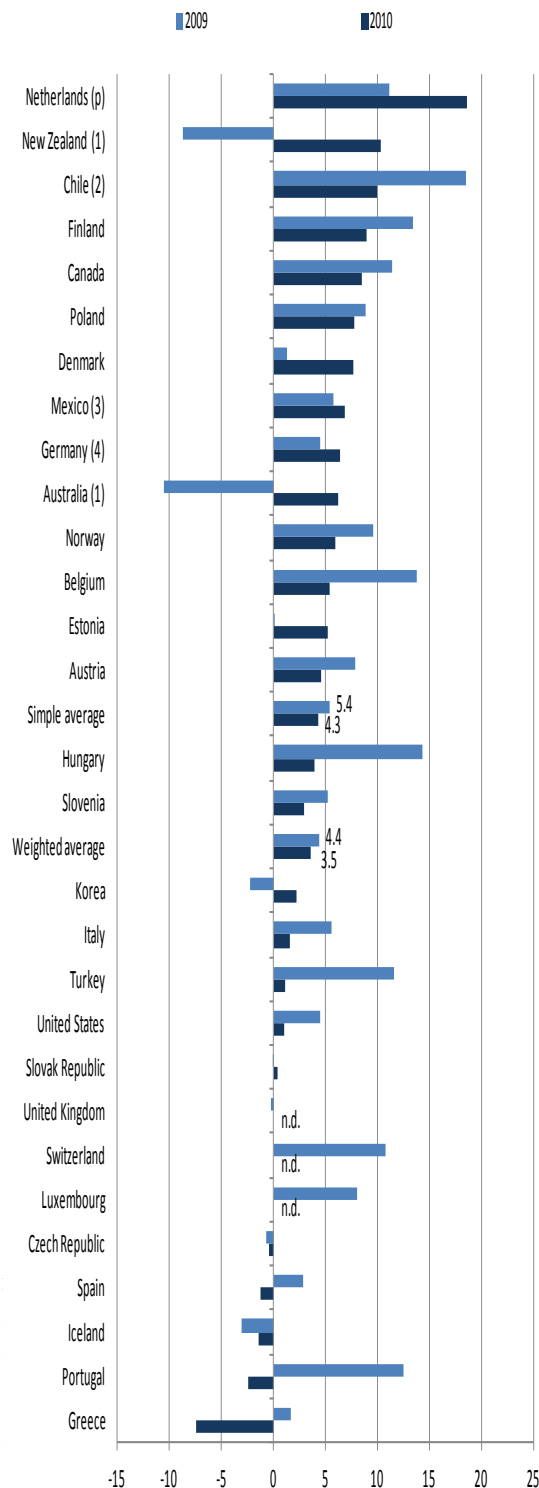
Between 2001 and 2010, the US' share of OECD pension fund assets (in relative terms) shrank from 67% to 55%.

The most important OECD countries in respect to their pension fund system are the United Kingdom with assets of 1.9 trillion USD (representing 10% of the OECD pension fund market), Japan with assets of 1.4 trillion USD (representing 7% of the OECD pension fund market), the Netherlands and Australia

with assets of 1.1 trillion USD (representing 6% of the OECD pension fund market), Canada with assets of 1 trillion USD (representing 5% of the OECD pension fund market), Switzerland with assets of 0.55 trillion USD (representing 3% of the OECD pension fund market). The other 27 countries have in 2010 a total pension fund assets of 1.5 trillion USD which represents approx. 8% of the total OECD pension fund market.

Looking at the data regarding the pensions fund asset levels, we can notice that they have gone over the crisis and continue to register a strong growth. The trend is towards reaching the pre-crisis levels and in 2010, financial and economic indicators show signs of further recovery.

Graph 2: Pension funds' real net rate of investment returns in selected OECD countries, 2009-2010 (%)



registered better results, some have registered worst results. If in Netherlands the net return on investments was 18.6%, in New Zealand was 10.3%, in Chile was 10%, in Finland was 8.9%, in Canada was 8.5% and in Poland was 7.7%, in countries as Portugal

or Greece, the rate of investment returns was very low and sometimes negative. The worst case was that of Greece where the rate of investment returns was -7.4%, due to the collapse of the Athens Stock Exchange Market and the significant drop in the price of Greek bonds. The adverse capital market performance in the domestic markets explains the negative performances registered in the case of the Portuguese pension funds.

3. Conclusions

The investment policy of the pension funds is essential in reaching superior performances and in setting pension funds in a leading position on the capital markets, in comparison with other investors. The time horizons, the objective, the investors characteristics have a high impact upon the chosen portfolios and upon the accepted risk levels, the pension funds' managers are setting.

Also, the financial turmoil that has affected the capital markets was a strong determinant of the present investment policy used by the pension funds.

These aspects have made pension funds' managers identify new investment alternatives or opportunities that can generate a better result than those of the capital market.

The data used in the present paper shows the fundamental role pension funds have in increasing the activities of the capital markets. Nowadays, the transparency level reached by the great majority of pension funds regarding the investments structure, the risk level and the evolution of portfolio performance, give anyone interested the possibility to evaluate the level of interest in such investments and to choose the pension fund that is most adequate for its purposes, the impact being over the volume of assets administrated by the pension fund and therefore on the capital market.

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The VAT Hike in 2010 and Its Effects on the Romanian Firms and their Reaction

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Abstract

This article's goal is to highlight the main microeconomic and macroeconomic effects of the 2010 VAT hike in Romania and the Romanian firms' response to it. At 1st July 2010, the Romanian Government raised the Value Added Tax from 19% to 24%, causing chain increases that delayed with nine months the Romania's exit from recession. It intended to increase its receivables in a period in which the state budget had problems in collecting taxes. I have concluded that the main microeconomic effect was the plunge of the firms' sales and the macroeconomic one was the decrease of the Gross Domestic Product (GDP). Regarding the Romanian firms' reaction to the VAT increase, most of them have ignored the VAT hike and they did not have an important response to such a modification.

Key words: VAT, inflation, Romania, tax evasion, GDP

J.E.L. classification: E26, E31, H25, H26

Introduction

At 1st July 2010, the Romanian Government raised the Value Added Tax from 19% to 24%, causing chain increases that delayed with nine months the Romania's exit from recession. The hike of the VAT has been considered the greatest economic blunder of the Romanian Government.

The increase of prices and taxes for the basic products and services triggered a chain reaction that led to a drop of the population purchasing power and, in consequence, the reduction of the demand for food or non-food products' manufacturing companies.

The declining consumption reversed the upward trend engaged by the economy in the first half of the year 2010, pushing again

Romania into recession for another nine months. Both firms and Romanian families had only to lose because of the increase of the VAT. On the other side, the state, that decided this measure in order to protect its own „business", sacrificing the entire economy, had only gained shy increases of the VAT receivables, amounts that do not countervail for the sufferings caused to each individual or legal person. [1]

1. Short history

From 1st July 2010 the standard Romanian VAT rate increased to 24%. This move took most businesses by surprise. Although rumored in the past to be an alternative to cutting public pensions by 15%, which has been ruled as unconstitutional, the Government Emergency Ordinance only published the increase in VAT on 28 June 2010, just three days before coming into effect.

The hike in VAT to 24% was introduced by the Romanian Government as an alternative to the proposed 15% reduction in the pensions to cover the gap between state budget revenues and expenses.

Businesses only had 3 days to prepare their systems and decide on their pricing policies to be compliant with the increase. Companies with limited or no VAT deduction right (such as banks, insurance companies, and healthcare clinics) will feel the effects of the increase in the VAT rate directly in their costs and will need to think of ways to maximize their VAT deductions wherever possible.

The change in the VAT rate also raises a series of administrative problems, especially for transactions where invoices were issued or advances were cashed in prior to 30 June 2010, but where the transaction will be finalized after 1 July 2010. Producers and retailers granting or receiving volume

discounts at year end will also need to carefully link those discounts to each two semesters of the year, as the VAT rates applicable for those discounts are now different (19% for the first semester and 24% for the second semester). [2]

2. Microeconomic effects

The main microeconomic effects are the following:

1. crowding in stores, where people wanted to buy the products that were still at a "low price";

2. changes of the invoicing software and of prices from store shelves. Some stores had to "re-price" thousands of ranges of products in tens of hours;

3. the time remaining till the 1st of July was very short. Those equipped with cash registers faced the inability to use them in the first days of July, because those who provided the service would not cope with it; [3]

4. the above mentioned effects determine the increase of costs of the Romanian firms' and, as a consequence, a drop of the recorded profit;

5. the reduction of the consumers' purchasing power determine the decrease of the demand and so the cut of the firms' sales and therefore the fall of the recorded profit.

3. Macroeconomic effects

Increases in such a tax should normally lead to the following macroeconomic effects:

- a number of consumers give up consumption as a result of the increase in the lowest priced products;
- it amplifies the spread of prices among different quality segments so there would be two categories of producers that should be mostly affected: the producers positioned at high pricing segments and the producers positioned at low pricing segments with highly price-sensitive consumers; [5]
- increase of the inflation. The NBR governor's counselor, Adrian Vasilescu, stated that it is likely that inflation will rise to 10%. This will determine a chain reaction:
- decrease of the population's purchasing power. The drop will be directly

proportional with the inflation, and also with the chain reactions that will generate: bankruptcies and job losses.

- raise of the underground economy and the decline of the level of collected taxes by the Romanian state; [3]
- a drop of the consumption determined a plunge of the firms' sales and so a decrease of the Romanian GDP;
- inflation could generate the depreciation of the Romanian currency and this means the export could increase.

After the sudden increase of the annual inflation from 4,3% in June to more than 7% in July and in the next months, the inflation rates exceeded the threshold of 8% in the spring of 2011, at 8-10 months from the moment of the VAT hike. In May 2011, food recorded an average increase by over 11%, record that had not been reached from the period April-June 2008. The food prices increases above the affordability of larger layers of population – the situation that we face now, as a consequence of the VAT raise – determined the Nomura Bank Japanese experts to rank Romania on the first place in Europe for vulnerability to food crisis.

This crisis does not come from lack of food, but from the more difficult access to the products of basic necessity, caused by their higher prices. Another negative effect of the raise of the VAT can be seen on the Gross Domestic Product (GDP) statistics.

In 2008, after entering recession, the gap between prices and volume increased, caused by the diminishing demand, but it began to reduce by mid 2010. After the 1st of July, these gaps increased again, leading to a population's consumption lower by 1% in the third trimester 2010 in comparison with the same period of 2009, but the prices had risen by 8%. The VAT raise forced Romanians to consume 1% less, at prices by 8% higher, caused by the sustained loss of incomes. A decrease of the purchasing power at the households' level falls upon business, taking into consideration the fact that the manufacturers lose clients because of the high prices. This is another negative effect of the VAT hike, experienced at the companies' level. Away from this vicious circle of lower demand and purchasing power, the industry and the export companies had profit in 2010 and 2011.

The president of the Unions Federation from the Food Industry (UFFI), Dragoş Frumosu stated: „In the last two years, the food sales declined by 30%, of which 12%-14% are the decreases of the last 12 months. The state did not gain from it, because a diminished consumption brings lower receivables, and the tax evasion increases with taxes.

“The tax evasion would not serve any purpose if we will have a reduced VAT rate of 5%, at least in the case of basic food”, said the union leader. Sorin Minea, the president of Romalimenta union, observed that the raise of VAT lead to a drop of sales, doubled by an increase of tax evasion.

The VAT hike increased the budget receivables, starting the 1st of July 2010, in a period in which the state collected increasingly less. „Apparently the incomes’ situation has been adjusted, on the moment, but in reality, the things are quite different. The only engine that helped the economy to recover, i.e. the export, it also created a number of vulnerabilities”, the lawyer Gabriel Biriş, partner of the Law and Fiscal Consultancy firm Biriş Goran stated.

The authorities can not rely only on the export in order to boost the economy, taking into account the fact that the situation depends on the foreign markets and the exchange rate leu/euro and leu/dollar. That’s why it is necessary to activate another engine that helps to increase the GDP, i.e. the domestic consumption, adds Biriş. Precisely the consumption – that already was going down in the crisis period – was strongly affected by the VAT increase.

The most recent data published by the Ministry of Finance shows that in the period 1st July 2010 – 31st May 2011, the state collected 40,71 billion lei from 24% VAT. This means almost 1,3 billiard euros (5,3 billiard lei), more than in the period 1st July 2007 – 31st May 2008, when in the state budget entered 35,34 billiard lei from 19% VAT.

Biriş says that the increase of VAT receivables is not due exclusively to the raise of the rate from 19% to 24%, the measures against smuggling taken by the authorities at the IMF pressure also contributed. With the 5,3 billiard lei collected in addition, the state covered less than half of the expenses for goods and services, in the first five months of

2011. [1]

“There is not a proximity store that gives tax receipt. Otherwise they couldn’t face the increase of VAT. In Romania, the lack of taxation is serious, thousands of firms are established and then they disappear depending on season”, the Romalimenta president, Sorin Minea, stated. [6]

Since the 1st of July, people turned to those who were selling black because they were cheaper. The small merchants adapted quickly and they have given up to cash registers, but the bigger stores had to lower prices and they were going in loss for a period of time in order to not lose the clients. The increase of prices because of the hike of the VAT diminished the consumption with 5%, according to recent appraisals.

“The continuous service providers invoice monthly the previous month consumption, the applicable rate is the invoice date rate, not the one of the consumption period”, explained the Braşov Water Company’s economic manager, Teodor Popa. This happened in every situation that implied a payment in July for something done in June. For example, those who hurried to buy cheap cars before the 1st of July were lucky only if they had all the money and if they were satisfied with what they had found on the stock. Those who failed had to pay more then the amount from the contract when they have received their car. The final invoice had 24% VAT, and the initial one was rectified. “The state did not take care for the contracts signed before the 1st of July to have a certified rate of VAT 19%”, pointed out Mihai Grinzeanu, sales counselor at Dacia AMG dealer. [7]

The leu depreciation because of a big inflation is a danger and the VAT hike to 24% could bring inflation to 10-12%. “There could be two moments from the point of view of the effects on inflation. Firstly, more expensive foods with 5% will bring inflation to 10%. Secondly, the panic and the greed of the merchants could determine a raise of the inflation with another two percentages”, Vasilescu said. Rozalia Pal specified that the acceleration of the inflation will diminish very much the margin of maneuver of the NBR, taking into consideration the fact that the Central Bank wants to stimulate lending, but its main focus is the price stability. [8]

“The increase of the VAT to 24% will have an important impact on the evolution of

the economy and the inflation rate. The inflation will be 8% at the end of 2010, with 4 percentage points over the current forecast", the UniCredit Tiriatic Bank chief economist, Rozalia Pal, stated. She anticipates that the measure will have as an effect a drop of the GDP beyond current expectations.

"A growth of the VAT will have consequences on the citizens' purchasing power", the economic analyst Aurelian Dochia said, member of the BRD Administration Board.

The government said that this increase of the VAT will be coordinated with the National Bank in order to limit the inflationary risks. [9]

4. The reaction of Romanian firms to VAT increase

The vast majority of Romanian producers have ignored the VAT increase and they did not have a significant reaction to such an indirect tax modification. However, the decision of Romanian authorities to increase the VAT from 19% to 24% starting with 1st of July 2010 is one of the largest VAT hikes in Europe. Romania became a member of the group of European countries, together with Denmark, Sweden, Hungary, with the highest rate of VAT. Despite this qualification, the vast majority of Romanian firms have ignored the VAT increase as they did not have a significant reaction to such an indirect tax modification. The most probable cause of such a situation may lie in the firms' opinion that such a tax hike remains however low from a competitive positioning perspective (5% of the final price). But this is not a comfortable assumption and denies competitive positioning theory.

Among the producers that did react to such a tax increase, the bulk of them opted for two approaches: A. "my word is my bond": some firms have kept the "old prices" constant based on the argument that their pricing catalogue was a firm offer to the consumers so they observe the terms of a contract. This is however a transitory reaction and fundamentally lacks substance (the level of taxes is not a contractual obligation so any Court would waive the liability of the sellers) but highlights the "respect" of the firms towards its clients. This is the case of IKEA (for its entire

catalogue) and Metro (for its promotion catalogue); B. "hit and run": some firms have used the situation in a tactical way to tie the tax modification to a marketing hit. They also used the reduction in pre-tax price on a transitory basis as it was offered only on short term (usually 1 month) with no promise for further pricing repositioning. This is the case of EMAG in the electronics field and FIAT in the auto distribution (only for some models like Linea). [4]

For example, EMAG has offered any client that purchased a product in the two months following the tax increase the option to get a voucher for the 5% increase. The voucher could be used in the following six months in order to buy other products (with a certain minimum order). The campaign was branded "EMAG gives you back 5%" and generated "viral" answers in the blogosphere, where clients reacted positively.

What can be however noticed is that the quasi-totality of firms which chose to react to VAT increase came from budget / value segments or from distributors targeting narrow profit margins. These are obviously the most sensitive competitors to after-tax price increases.

The Romanian experience confirms the fact that competitors are not fully aware of the consequences of such regulatory measures. They lack a strategic approach in their process of competitive positioning. The existing reactions of firms to the 1st of July increase in VAT in Romania were exploratory and intuitive, which sometimes contradicts the theory of marketing.

In the case of the 2010 VAT increase, the most striking aspect is the lack of a significant reaction from the part of luxury brands' producers or distributors – arguably the most affected - which could be caused by their own marketing strategy. [5]

Conclusions

As a conclusion, I can state that the 2010 VAT hike to 24% brought to the Romanian firms and households a lot of economic problems finalized in bankruptcies and loss of jobs. The measure had the expected effect, an increase of the receivables to the state budget, but at the cost of postponing the Romania's exit from recession.

The VAT increase caused a vicious circle consisted of inflation, depreciation, food

crisis, tax evasion and recession, and the only ones who managed to obtain profit were the exporters that benefited from the leu depreciation.

Romania should not rely only on exports in order to achieve economic growth, because the foreign markets are unstable due to debt crisis or military conflicts or other social or economic problems.

Some people tried to find a solution to the VAT modification in order to adjust it or to moderate its negative consequences.

Concerning the VAT hike, the union leader Sorin Minea concluded "The solution could be the implementation of differentiated rates of VAT and the protection of the food industry with several tools as all civilized countries do".[1]

"The impact of the increase of the VAT on inflation could be reduced in case it would not be transmitted entirely to the consumers or if there will be some exceptions to the growth application", Rozalia Pal said. [8]

Mihai Lungu, the chief of the Muntenia Cooperative, said that in case the tax evasion would not be stopped, all the subsidies will be useless. "The tax evasion could be eliminated in one month, if we want. We have 70%-80% tax evasion in comparison to 2%-3% as other European countries have", added Lungu. [6]

Regarding the Romanian firms' reaction to VAT increase, Musetescu concluded "the vast majority of Romanian companies do not have a strategic approach to pricing. With few exceptions, even those which did have a reaction used pricing measures for a smoothing of the seasonal demand

variations." [5]

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Pricing General Insurance in a Competitive Market

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Abstract

In insurance industry, the lack of a proper pricing policy will generate suboptimal results. The price has to be competitive and actuarially adequate in order to reflect the dimension of risk.

In a competitive market, the pricing policy of insurance companies acquires the capacities of a dynamic process. In this pricing war, the insurance company must analyze each component of pricing.

Insurance companies use various statistical methods to set prices, taking in consideration the interaction between premium and risk. In this paper, we try to illustrate the method of historical claims and sums insured, used by actuaries in general insurance.

Key words: risk premium, insurance pricing, pricing model, general insurance, competitive market

J.E.L. classification: G22, C13

1. Introduction

Pricing represents the cornerstone of each insurance company. Without a proper pricing policy, the insurance company would not be capable of consolidating its market share and meeting its liabilities. However, computing the proper price of an insurance policy is only one element of the entire pricing process, being necessary to take in consideration overall expenses, other loading factors and profit margin. Also, competitors' analysis becomes vital, because in practice there is no concept of "fair price": competitors may focus on particular market segments or they may conquer market share in loss. In this context, in order to reverse the

actions of competitors, the pricing policy of an insurance company acquires the capacities of a dynamic process in a competitive market.

Along the years, the pricing of general insurance has been extensively covered in the actuarial literature: Bühlmann (1970), Gerber (1979), Goovaerts et al. (1984), Bowers et al. (1986), Hürlimann (1997, 1998), Wang et al. (1997), Young (1998), Denuit et al. (1999), Hofmann et al. (2007), Chessa (2011) and Emms (2012).

Most modern principles of pricing general insurance are presented in a framework based on expected utility theory, that involves defining decision-making situations as ideal models of a situation in which participants aim to achieve benefits that can be obtained through several strategies.

2. The pricing process of general insurance

The underwriting of risks represents the core activity of general insurance and it generates the secondary activities of the insurance companies. The risks underwriting requires a process of pricing based on a risk-price adjustment, by using actuarial modeling and past experience.

Insurance represents an intangible product, which makes pricing a process that cannot be accomplished through traditional deterministic models applied for tangible products. Also, in general insurance industry, the actuarial modeling of losses is very important for estimating premiums, and the uncertainty of losses' frequency and severity amplifies the difficulty of the pricing process. In this respect, in order to estimate the potential number of losses and their average size, insurance companies use stochastic models which are based on probability theory.

The origin of the pricing policy of general insurance is represented by the equivalence principle. According to this principle, the present value of expected premiums is equal to the present value of expected losses and expected cost. Since future losses are random and the premium is set *ex ante*, the pure premium may not be adequate to cover all estimated losses and costs with a certain probability. Therefore, insurance companies add a loading factor that can be proportionate or fixed and depends on the distribution of losses[1].

In general insurance, the equivalence principle requires extensive statistical information comprising reliable and relevant data. The considered time horizon depends on the risk nature. The higher the time horizon is, the higher the degree of accuracy in determining premium rates will be.

In the pricing process, the cost of the loss represents the dominant component and the most difficult to estimate. In addition, the pricing process should take in consideration inflation. Also, premium rates depend on the terms and conditions of the insurance contract, specific guarantees and the insured risk.

In general insurance, the pure premium is often set on the basis of certain features of the insured object. These features must be objectively quantifiable, measurable and legally accepted.

The pricing policy of the insurance companies must be in accordance with the business, regulatory, economic and social environment. Balancing has to be done to make the price competitive on the one hand and actuarially adequate (risk – price adjustment) on the other hand. Since actuarial modeling is based on past statistical data and simulation, the insurance company must have an efficient IT system capable of providing quality and relevant data. The price should encourage loss control and factor margin for adverse deviation. The pricing philosophy of insurance companies must address the concern of adequate, non-discriminatory and non-excessive tariffs, which also have to be stable over a period of time[2].

The pricing policy reflects the attitude of the insurance company regarding risks. In the process of setting the premium rates, the insurance companies also take in

consideration the forecasts of investment incomes. Therefore, there is an interaction between premium, risk and investment income. Premium rates are set at a higher level when the insured risk is large, but an increase of the investment income allows cutting premium rates.

One of the objectives of the insurer's activity of charging risk is to set premium rates so as to accurately reflect the dimension of risk[3].

From the insured point of view, premium rates represent a differentiating factor when making decision to buy the policy and, from the insurer point of view, they represent a vital factor of their long-term financial health and performance. In order to understand the mechanism of pricing insurance products, it is necessary to identify its key elements:

Figure 1. The elements of the pricing mechanism



Source: R. Qaiser – General Insurance Business Underwriting

The pricing policy of an insurance company cannot ignore certain commercial aspects such as inflation, interest rate, exchange rate and price competition from other players. In this pricing war, the insurance company must examine each element of pricing to ascertain as to the extent to which they can maneuver with them to bring down the price to the level at which they are competitive and fulfills adequacy criteria also[4].

3. Pricing and competition

For the insurance companies, the pricing process represents a strategic decision. Therefore, if the pricing process doesn't take into account the competitors' options or how

they react to changes, the results will be suboptimal.

In insurance theory, the simplest approach of premium rates computation is the expected value principle, which sets the premium equal to the expected claim size multiplied by a loading factor. However, this principle ignores the variability of the underlying risk. Consequently, various principles have been proposed which are based on the utility theory. However, all these principles do not take into account the competitive nature of the pricing process. All these mentioned inconveniences have led to the formulation of models based on both the demand law and the distribution of claims[5].

The pricing policy of the insurance companies takes into account various factors including market and demand issues, current and historical prices and estimated costs.

It is not enough for the insurance company to set the premium rate at the level which covers claims, due to the fact that if the other companies reduce the price, the income will be inadequate for the objective of remaining viable.

In general insurance, the actuarial price of an insurance policy is computed using a premium principle, which relates the premium charged to the potential claims. Insurers add a loading factor to the actuarial price to cover their expenses and generate a profit. In many lines of insurance, there is often a cycle that includes periods during which insurers set premium rates below and then above the actuarial price. Many lines of general insurance are highly competitive in nature, being often dominated by a few insurance companies. In such a situation, each insurance company monitors and tries to predict each other's pricing strategy[6]. Since time delays are an inherent part of actuarial processes, the modeling of the precise financial situation of a competitor becomes difficult and thus, it is unlikely that the market reaction to price changes to be instantaneous. As a result of this competitive nature, in practice, the loading factor is critically dependent on the tariff set by other insurers for similar policies[7].

4. Statistical models of pricing

Using statistical models to determine premium rates in the insurance industry has a

long tradition. Nowadays, more and more insurance companies began applying generalized linear models in order to identify a proper structure of the premium rate.

Insurance companies store vast amounts of information regarding policies and claims. Information is kept in databases, which represent the primary sources used by actuaries in the pricing process[8].

The gross or commercial premium represents the amount of money paid by the insured and comprises net premium and net premium margin. Net premium is set on the basis of statistical data and includes the risk premium and the loading factor. The risk premium, also known as pure premium, is used to cover losses and is determined separately for each risk. The loading factor serves to mitigate fluctuations or errors in premium computation, to ensure profit and to maintain insurer's solvency. The net premium margin is used to cover administrative costs, commissions, to create reserves and to remunerate shareholders.

Figure 2. The elements of gross premium



Source: Constantin Anghelache, Oleg Verejan, Ion Pârțachi – *Analiza actuarială în asigurări*

The risk premium can be estimated through several statistical methods. In order to illustrate how the risk premium can be estimated through the method of historical claims and sums insured, we consider that the insurance company has statistical data regarding historical claims and sums insured, based on previous experience. For necessary computations, we consider the following indicators[9]:

- Average sum insured in year “k”,
 $\overline{V_k}, k = 1, m$

- Number of insured goods in year “k”,
 $N_k, k = \overline{1, m}$
- Average claim in year “k”, $v_k, k = \overline{1, m}$
- Number of indemnified goods in year “k”,
 $n_k, k = \overline{1, m}$

where “m” represents the number of years of the considered time horizon.

On the basis of these indicators we can compute the claims index which represents the amount of claim per unit of sum insured:

$$I_k = \frac{n_k * v_k}{N_k * V_k}, k = \overline{1, m}$$

The relative frequency of the claims index in year “k” is computed by using the following formula:

$$f_k = \frac{n_k}{\sum_{k=1}^m n_k}$$

The claims index I can be defined as a random variable:

$$I = \begin{pmatrix} I_1 & I_2 & \dots & I_m \\ f_1 & f_2 & \dots & f_m \end{pmatrix}$$

The average claims index is represented by the mean of this random variable:

$$M(I) = \sum_{i=1}^m f_i * I_i$$

Since the annual claims indices present deviations to the average claims index, the latter is adjusted by a risk margin determined through standard deviation:

$$D(I) = \sqrt{D^2(I)} \text{ where}$$

$$D^2(I) = \sum_{i=1}^m (I_i - M(I))^2 * f_i$$

Therefore, the rate of net premium for general insurance has the following formula:

$$cpn = M(I) + D(I)$$

To illustrate numerically, we consider the following data regarding agricultural cultures and livestock insurances for a particular insurance company:

Table 1. Historical statistical data

k	N_k	V_k	n_k	v_k
2007	420.320	56.230.443	156.320	12.230.459
2008	398.250	78.997.340	178.980	18.945.400
2009	450.987	110.223.214	202.345	32.340.342
2010	410.230	189.298.230	155.987	39.067.040
2011	549.980	230.340.220	278.554	40.030.204

The average claims index takes the form of the following random variable:

$$I = \begin{pmatrix} 0.080892 & 0.107780 & 0.131643 & 0.078473 & 0.088019 \\ 0.1607 & 0.1841 & 0.2081 & 0.1604 & 0.2865 \end{pmatrix}$$

The mean of the claims index is $M(I) = 0.09806$, and standard deviation is $D(I) = 0.01974$. Therefore, the net premium rate is approximately 11.78%.

5. Conclusions

In insurance industry, the pricing methods take in consideration the interaction between premium and risk. Each insurance company chooses to apply one method or other according to its objectives, available data relevance and accuracy and the experience of the actuary. Nevertheless, insurers must take in consideration their competitors' options due to the strategic nature of the pricing process.

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The Concept of Risk and its Assessment Methods

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Abstract

In a world dominated by incertitude it is necessary to acknowledge the importance of discovering at the right time the risks that affect companies.

The aim of the paper is to provide important insights to economic agents concerning theoretical notions about risk and its assessment.

It is important for any company to take into account the changes that occur in the environment and due to this a risk management view is necessary.

Companies that want to survive the business environment must be ready to evaluate all the time their activity, give important not only to traditional methods but also to modern methods. In the end it depends not on what happens with other companies but only with the company using the methods.

Key words: risk, risk assessment, risk management.

J.E.L. classification: G32

1. Introduction

The necessity of approaching the risk problem has become one of the most important issues taken into consideration by managers who want their business to survive the unstable economic environment. The economic and social environment has passed through many changes in the recent years and the speed of these changes affect the activity of many companies.

The possibility of avoiding these risks or of using some methods to diminish them represents a crucial factor for all economic agents that wish to find the best strategy to accomplish such a desire.

In Romania not all companies tend to pay importance to such a factor and that is why many companies had gone into bankruptcy or have problems with liquidities being obliged to lay off employees.

The key to solving risk problems is the existence of a specialized department, a risk management department specific to all types of companies which are interested in continuing their activity on long term and even increase their turnover or profit.

The importance of identifying and analyzing risks is crucial for the success of any company.

2. The risk concept and types of risks

The performance of any activity must take into consideration the possibility of a risk to take place. The evolutions recorded on the international financial markets, the changes in the most important stock exchanges; show that there have appeared a series of new situations that can affect the activity of companies in a negative way, having serious implications of its long term objectives.

Unfortunately, in Romania there are not many companies that take into account the possibility of tracking and managing risks and when we say this we mean using different methods and models to identify these risks and to do something in improving the profitability of a company.

The risk is presented also as a result of failures or wrong judges or of some uncontrolled events [1] or as the possibility that a future action will generate losses that will affect the capital, interests, activity and results of an economic agent.[2]

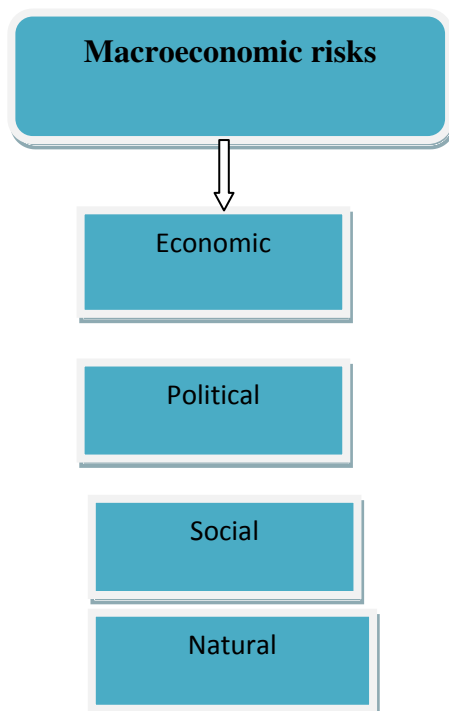
We cannot forget to remind the presentation of risk as „an element of incertitude that can affect the activity of an economic agent or the performance of an economic operation”. [3]

When talking about risks we must not forget to take into account the concept of incertitude, the two concepts could not exist one without the other.

The factors that lead to the appearance of risks are different and can appear from the business environment, from the actions of the Government or can appear from what happens inside the company.

Risks can be structured and analyzed from different point of views, taking into account the fact that they appear in all the socio-economic activities and at all levels of companies. A first classification of risks must take into account the level of organization of the economy and we find here politic risks, social, economic and natural risks.

Figure 1. Macroeconomic Risks



Source: own processing

Risks must be understood as precisely so that the causes that have determined them can be identified in order to make sure what the probability of their appearance is and to try to reduce them or apply proper strategies so that these kind of risks will not appear.

The existence of certain periods which are characterized by economic and financial instability must be a start point for the elaboration of some action plans and strategies that have been clearly established performance objectives, applicable in the

manifestation of all kinds of risks.

It is hard to find a solution to eradicate a risk from the activity of a company but companies should try, if they want to have profitability, to reduce the degree of risk to happen so a set of correct measures could resolve such an issue. Of course, such measures should be adopted only if they take into account the activity of the company not to implement what other companies have done without having any resemblance.

The key of reducing risks is that of discovering them at the right moment and finding the best strategies to implement.

Even the fact that we find different definitions of risks makes it hard for some managers to implement an efficient risk management.

At the microeconomic level we find risks as economic ones, commercial, financial, exchange, politic, contractual.

According to the nature of risks we have[4]:

- Economic,
- Commercial,
- Financial,
- Exchange,
- Political,
- Calamity;
- Contractual.

According to how they are build, we have the following[5]:

- Economic,
- Financial
- Bankruptcy

According to the type of risk, we have[6]:

- Pure,
- Speculative,
- Of non-payment,
- Of innovation.

According to the provenience of the determinant factor, we have:

- Internal,
- External.

We have presented some important criteria, which allow the identification of the most important risks that can take place, so that there can be followed the way of action of these risks and try to identify the methods, techniques and instruments that can offer a guidance.

3. Techniques for identifying and assessing risks

The implementation of an active management of risks is based firstly on the identification of risks. The process of identifying risks must be realized in accordance with the objectives that can be affected by the existence of risks.

The identification of risks regards highlighting the threats and possible dangers, a complex of events, phenomena and processes that can generate losses, having as aim to offer clarity to possible problems before they come into existence.

Companies must firstly take into account the potential sources of risks which can be found in the external environment but also in the operational environment and they must also consider the fact that some information used in the process can be wrong or not enough in order to control possible actions.

The methods used in the identification of risks can be traditional and modern ones. Those traditional are:

- The identification through questionnaire: a questionnaire is used, allowing the identification of assets exposed to risks and of potential losses caused by the action of risks. The questionnaire must include questions regarding external and operating risks. There can be taken into consideration categories of risks like: politic, social, economic, financial, risks regarding suppliers, investors, debtors, competition.
- The analysis of the financial and accounting statements: is done by using the data recorded in the financial and accounting statements that are recorded in previous periods. This method allows the identification of a limited category of risks due to the specific information used.
- Direct observation : It implies the use of information collected directly from the level of activities performed. The advantage is that risk can be identified easily.
- Brainstorming: Is a method which is realized by reuniting more experts in a meeting moderated by a person having as aim the exposure to certain ideas.
- Delphi: Is a combination between brainstorming and the questionnaire method. A group of experts are reunited

in order to identify possible risks afferent to a project or an activity with the difference that they do not meet in a meeting. A questionnaire is given by the coordinator, it will be completed by experts with ideas regarding the most important risks.

- **SWOT analysis:** Is performed by identifying strengths, weaknesses, opportunities and threats regarding an activity. Risks can be identified more easily, they come from the company or outside of it.

While the modern ones cover the:

- **Process mapping:** This method regards the fact that any economic entity has inputs and outputs and there are build diagrams which highlight the way the activity is structured. The main factors aimed in the process of realizing the mapping are: the dedication of the management team; effective communication; the development of a systematic approach; the training of people involved in the methodology; the supply of good resources in the identification process of time and money[7]
- **Profile of risks:** method used when risks that have appeared in previous cases are found here. It allows a relevant assessment of risks that affect a company.
- **Risk scoring cards:** A method which uses ordinal scales to evaluate risks. These are classified according to some established criteria and the ranking represents the base for adopting decisions when managing risks.

In the specialty literature we can also find the methods like the quality and the quantitative one. Each of them presenting some advantages and some disadvantages. The qualitative one appears to be subjective while the quantitative one is objective.

The difference between the two methods regards the fact that the quantitative one takes into consideration numerical values while the qualitative one regards non-numerical values.

The quantitative analysis has as objective the identification of the risks that have the most important influence of projects. There can be used not only data from the risk management domain but also from the process of identifying risks. Some risks have

a higher probability of appearance while others have a small one.

4. Conclusions

The unstable economic environment faces companies with numerous challenges and managers that want their businesses to survive the economic crisis must give the proper importance to the identification of risks and to their assessment.

Companies that have a proactive risk management attitude are more capable to overcome the appearance of different risks.

Managers must be capable to identify not only financial risks but also commercial ones, risks coming from the fact that currencies can be depreciated. In Romania the currency risk has affected many companies that had not known how to manage their liquidities.

Taking all of these into consideration, we must state that it is crucial to give importance to the identification of risks, to their assessment and to always try to have risk management strategies if companies want not to go bankrupt.

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Analysis of the Company's Performance Based on the Profit and Loss Account

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Abstract

The complexity of economic and financial operations of a company has as consequences positive or negative results, which are reflected in the financial statements. One of these statements that play an important role in the analysis of the company's performance is the profit and loss account. Through this document we shall have an overall view on the performances recorded by a company in an accounting period, performances that can be followed from a dynamic, structural point of view and also through the margin rates.

The profit and loss account is a part of the financial statements set that forms the informational basis of any company reflecting its performances, informational basis well known on internal plan, but also on the international area.

The aim of the research is that of highlighting the structural and dynamic analysis of the results reflected through the profit and loss account, and also through the margin ratios.

Keywords: the profit and loss account, performances, structural analysis, margin ratios

J.E.L. Classification: L2

1. Introduction

In the specialty literature, there is not a unitary vision on the performance concept, finding either particular definitions of it, surprising certain sides, or general definitions that are hard to quantify: [10]

- M. Porter considers that the company's performance depends on its capacity of

creating value for its clients;

- A. Bouguignon defines the performances as reflecting the accomplishment of the organizational objectives;

- Elie Cohen assimilates the performance with efficiency, tracking the results obtained by the company in comparison with the resources used;

- Philippe Lorino states that the performance for a company is what helps the couple value- cost, and not only what contributes to the diminution of cost or the increase of value;

- C. Marmuse considers performance as the one maintaining a distance, on long term, from competitors, through a powerful motivation (by using the reward systems) of all the organization members.

The professors M. Niculescu and G. Lavalette define the economic performance of a company as representing the unstable equilibrium resulted from the evolution of the concepts of efficiency and efficacy. [5]

P.A. Samuelson, winner of the Nobel prize states that: "it is absolutely indispensable for the modern human to initiate a little bit in the accounting elements. All those which work in the economy must be able to understand the two essential conditions, to understand the balance sheet and the profit and loss account." [9]

The profit and loss account is a financial statement concluded at the end of the financial exercise, respectively on its performances. On its basis there can be calculated a series of indicators with informational value important for the company, indicators which can be compared with other indicators of the companies from the same activity sector with the view of establishing the level of performance of the company at branch level.

Also, on the basis of the profit and loss account there can be determined the results afferent to the three categories of activity, respectively of operating, financial and extraordinary, and starting from their results there can be determined the weights of the three categories of results (operating, financial and extraordinary) in the gross result. This type of analysis is called structural analysis and has the role of establishing which of the three results has the biggest share in the formation of the gross result.

2. The performances analysis on the basis of the Profit and Loss Account

In our country the profit and loss account is found in a list form where company's revenues and expenses are presented according to their nature. Thus, revenues are divided in three categories: revenues from operating, financial revenues and extraordinary revenues, and expenses in operating expenses, financial expenses and extraordinary expenses.

The simplified form of the profit and loss account can be presented as:

Table no.1

	INDICATORS	ACCOUNTING PERIOD	
		N-1	N
1.	Operating revenues		
2.	Operating expenses		
A.	Result from operating (1-2)		
3.	Financial revenues		
4.	Financial expenses		
B.	Financial Result (3-4)		
C.	Current Result (A+B)		
5.	Extraordinary revenues		
6.	Extraordinary expenses		
D.	Extraordinary result (5-6)		
7.	Total revenues		
8.	Total expenses		
E.	Gross result (7-8)		
F.	Tax Income		
G.	Net Result(E-F)		

Through this form of presentation of the profit and loss account is explained the way in which is formed the global result of the financial year, on its basis being derived a series of conclusions regarding the evolution and level of performances according to the three types of activities: operating, financial and extraordinary.

3. Profitability analysis by using the profit and loss account

3.1. The dynamic analysis of the result indicators

Through the dynamic analysis of the profit and loss account are researched the results reflected by this, respectively those from the operating, financial and extraordinary activity, results which are in a permanent change from a financial year to another, showing their position in a certain time period. Through the detailed analysis, in dynamic can be explained the modifications of the results through the modifications of the different categories of revenues and expenses.

In the dynamic analysis for the appreciation of the way in which the company's results evolve, and also the elements of revenues and expenses there can be used the indexes that can be expressed either as simple ratios between current values (realized) of the economic indicators and previous values (planned) of them, either under the form of the percentage ratios of the two values: current and previous.

3.2. The structural analysis of the result indicators

The structural analysis of result indicators follows their evolution according to the types of results highlighting the structure modifications that appear from a period to the other. A structural analysis allows the establishment of the elements regarding revenues and expenses that contribute to getting the result, and also to the identification of the factors that have influenced it.

The weight of the operating result in the gross exercise of the period:

$$G_{RE} = \frac{R E}{R B E x} \cdot 100 \quad (1)$$

The weight of the financial result in the gross period result:

$$G_{RF} = \frac{R F}{R B E x} \cdot 100 \quad (2)$$

The weight of the current result in the gross result of the period:

$$G_{RC} = \frac{R C}{R B E x} \cdot 100 \quad (3)$$

The weight of the extraordinary result in

the gross result of the period:

$$G_{RExt} = \frac{R_{Ext}}{RBE_x} \cdot 100 \quad (4)$$

By performing the structural analysis of the results we shall determine the weight of each type of result in the total result of the period, observing the positive and negative influences of the three types of results.

3.3. The profitability analysis by using the margin ratios

3.3.1. The analysis of consumed resources ratios

The profitability analysis by using the consumed resources expresses synthetically the efficiency of the activity performed by using the ratio effect/effort. It can also be calculated the analysis of the following ratios: [2]

a) profitability ratio of consumed resources it expresses the gross profit realized at one unit of total expenditure (100 units if it is expressed in percentage) and it measures the capacity of the consumed resources to generate gross profit. It is calculated as:

$$RPRC = \frac{\text{The gross result of the exercise}}{\text{Total expenditure}} \cdot 100 \quad (5)$$

» the growth of the ratio in dynamic expresses a favorable situation for the company and it takes place when the index of the gross result of the exercise brings forward the growth index of total expenditure.

b) profitability ratio of current resources expresses the profitability of consumed resources in the current activity (of operating and financial) and it is calculated as:

$$RPRC = \frac{\text{The current result}}{\text{Current expenditure}} \cdot 100 \quad (6)$$

» this ratio eliminates the influence of the extraordinary result on the gross result of the exercise, meaning the efficiency of the activity performed in general. The increase in dynamic of the ratio has the same significance as at the previous ratio.

c) profitability ratio of the consumed resources in operating activity expresses the profitability of the operating activity and is relevant especially in the situation in which the financial and extraordinary activity influences greatly the gross result of the exercise. It is calculated as:

$$RPRE = \frac{\text{The result of the exploitation}}{\text{Operating expenses}} \cdot 100 \quad (7)$$

3.3.2. The analysis of the ratios of realized revenues

The profitability analysis regarding the realized revenues expresses the economic efficiency through the ratio effect/effect and it shows the capacity of revenues to generate profit. It is used for the following ratios: [2]

a) gross profit margin expresses the weight of the gross result of the exercise in total revenues and it reflects on this basis the global efficiency of the activity. It is calculated as:

$$RPVT = \frac{\text{The gross result of the exercise}}{\text{Total revenue}} \cdot 100 \quad (8)$$

» the growth in dynamics of the ratio reflects a positive situation and can be realized through the increase of the gross result of the exercise in a superior rhythm to the increase of total revenues, which means actually the reduction of expenses per revenue unit. It results that the total revenues profitability ratio is complementary to the consumed resources profitability ratio.

b) the profitability ratio of current revenues reflects the efficiency of the operating and financial activity, elimination the influence of the extraordinary activity which sometimes can influence the gross result of the exercise. It is calculated as a weight of the current result in current revenues as it follows:

$$RPVC = \frac{\text{The current result}}{\text{Current income}} \cdot 100 \quad (9)$$

» the upward dynamic of the ratio reflects an improvement of the operating and financial activity and can be performed through the reduction of operating and financial expenditures in parallel with the growth of revenues realized from the respective activities.

c) the profitability ratio of operating revenues expresses the profitability of the main activity of the company, meaning of the activity that performs the object of activity. This ratio eliminates the influence of the financial activity which influences greatly through its financial expenses the

profitability, diminishing considerably the profit. It is calculated as:

$$RPVE = \frac{\text{The result of the exploitation}}{\text{Operating income}} \cdot 100 \quad (10)$$

d) the operating margin ratio characterizes the economic efficiency from the point of view of the final stage of the economic circuit. It is calculated as:

$$RRC = \frac{\text{The result of the exercise}}{\text{Turnover}} \cdot 100 \quad (11)$$

4. Case study regarding the profitability analysis by using the profit and loss account:

Firstly, in order to form an image on the evolution of the results of a company we shall have to use the following data:

Table no.2

NO. CRT.	INDICATORS	EXERCISE	
		N-1	N
1.	Operating revenues	1.066.796	1.907.010
2.	Operating expenses	577.262	1.015.742
A.	Operating result(1-2)	489.534	891.268
3.	Financial revenues	131.402	109.391
4.	Financial expenses	1.861	6.912
B.	Financial result (3-4)	129.541	102.479
C.	Current result (A+B)	619.075	993.747
5.	Extraordinary revenues	0	0
6.	Extraordinary expenses	0	0
D.	Extraordinary result (5-6)	0	0
7.	Total incomes	1.198.198	2.016.401
8.	Total expenses	579.123	1.022.654
E.	Gross Result (7-8)	619.075	993.747
F.	Income Tax	96.161	158.999
G.	Net result of the Exercise (E-F)	522.914	834.748

Taking into consideration the data from above, we analyze the evolution of the result indicators as:

Table no.3

No. CRT.	INDICATORS	EXERCISE	
		N-1	N
		Change (+/-)	Index N/N-1*100
1.	Operating revenues	-840.214	178,76
2.	Operating expenses	+438.480	175,96
A.	Operating Result(1-2)	+401.734	182,06
3.	Financial revenues	-22.011	83,25
4.	Financial expenses	+5.051	371,41
B.	Financial result(3-4)	-27.062	79,11
C.	Current Result (A+B)	+374.672	160,52
5.	Extraordinary revenues	0	0
6.	Extraordinary expenses	0	0
D.	Extraordinary result (5-6)	0	0
7.	Total revenues	+818.203	168,29
8.	Total expenses	+443.531	176,59
E.	Gross Result (7-8)	+374.672	160,52
F.	Income Tax	+62.838	165,35
G.	Net Result of the exercise(E-F)	+311.834	159,63

From the calculus performed there can be detached the following conclusions:

- the operating result has recorded a growth of + 401.734 lei, respectively with 178,76% in the year N in comparison with the year N-1, this thing is due to especially to the growth of other operating revenues, respectively to their increase with 921.722 lei;
- the financial result has decreased with 27.062 lei in the year N in comparison with the year N-1 due to the growth of the financial expenses with 5.051 lei, but also the decrease of financial revenues with 22.011 lei;
- the current result is the same with the gross result of the exercise due to the fact that the extraordinary result is null; the current result records a positive evolution, growing with 374.672 lei, situation appreciated positively for the company;
- the extraordinary result is null, due to the fact that the company has not been confronted with extraordinary events during the two financial exercises;
- the gross result is positive not only in year N, but also in the year N-1, meaning the company has recorded profit for the two financial exercises, and as evolution this has increased with 374.672 lei in year N, in comparison with the year N-1;
- the net result, respectively net profit, records also positive values, increasing in the year N in comparison with the year N-1 with 311.834 lei.

Together with the dynamics analysis of these results, an important role is had also by the structural analysis which helps at following their evolution from the structural point of view. Through the structural analysis we shall measure the contribution of each intermediary result to the formation of the gross result. Thus on the basis of the calculation of the weight of the four types of results in the gross result of the exercise we shall obtain the following data:

$$G_{RE_{N-1}} = \frac{R E_{N-1}}{RBEX_{N-1}} \cdot 100 = \frac{489.534}{619.075} \cdot 100 = 79,07\% \quad (12)$$

$$G_{RE_N} = \frac{R E_N}{RBEX_N} \cdot 100 = \frac{891.268}{993.747} \cdot 100 = 89,69\% \quad (13)$$

$$G_{RF_{N-1}} = \frac{R F_{N-1}}{RBEX_{N-1}} \cdot 100 = \frac{129.541}{619.075} \cdot 100 = 20,92\% \quad (14)$$

$$G_{RF_N} = \frac{R F_N}{R B E x_N} \cdot 100 = \frac{102.479}{993.747} \cdot 100 = 10,31\% \quad (15)$$

$$G_{RC_{N-1}} = \frac{R C_{N-1}}{R B E x_{N-1}} \cdot 100 = \frac{619.075}{619.075} \cdot 100 = 100\% \quad (16)$$

$$G_{RC_N} = \frac{R C_N}{R B E x_N} \cdot 100 = \frac{993.747}{993.747} \cdot 100 = 100\% \quad (17)$$

$$G_{R E x_{N-1}} = \frac{R E x_{N-1}}{R B E x_{N-1}} \cdot 100 = \frac{0}{619.075} \cdot 100 = 0\% \quad (18)$$

$$G_{R E x_N} = \frac{R C_N}{R B E x_N} \cdot 100 = \frac{0}{993.747} \cdot 100 = 0\% \quad (19)$$

The data obtained can be summarized as follows:

Table no.4

NR. CRT.	INDICATORS	EXERCISE	
		N-1 G %	N G %
A.	Operating result	79,07	89,69
B.	Financial result	20,29	10,31
C.	Current result	100	100
D.	Extraordinary result	0	0

From the synthesis of the obtained calculations it can be seen that the operating result had the decisive contribution to the formation of the gross result.

In order to deepen the results' analysis based on the profit and loss account we will achieve the profitability analysis based on margin rates given the two aspects, namely: the analysis of the consumed resources rates and the analysis of the achieved revenues rates.

The analysis of the consumed resources rates:

a) the consumed resources rate of return:

$$R P R C_{N-1} = \frac{\text{The gross result of the exercise}}{\text{Total expenditure}} \cdot 100 = (20)$$

$$= \frac{619.075}{579.123} \cdot 100 = 106,90\%$$

$$R P R C_N = \frac{\text{The gross result of the exercise}}{\text{Total expenditure}} \cdot 100 = (21)$$

$$= \frac{993.747}{1.022.654} \cdot 100 = 97,17\%$$

b) the current resources rate of return:

$$R P R C_{N-1} = \frac{\text{The current result}}{\text{Current expenditure}} \cdot 100 = (22)$$

$$= \frac{619.075}{579.123} \cdot 100 = 106,90\%$$

$$R P R C_N = \frac{\text{The current result}}{\text{Current expenditure}} \cdot 100 = (23)$$

$$= \frac{993.747}{1.022.654} \cdot 100 = 97,17\%$$

c) the operating consumed resources rate of return:

$$R P R E_{N-1} = \frac{\text{The result of the exploitation}}{\text{Operating expenses}} \cdot 100 = (24)$$

$$= \frac{489.534}{577.262} \cdot 100 = 84,80\%$$

$$R P R E_N = \frac{\text{The result of the exploitation}}{\text{Operating expenses}} \cdot 100 = (25)$$

$$= \frac{891.268}{1.015.742} \cdot 100 = 87,75\%$$

Summarized, the data is:

Table no.5

NR. CRT.	INDICATORS	EXERCISE	
		N-1 (%)	N (%)
1.	Consumed resources rate of return	106,90	97,17
2.	Current resources rate of return	106,90	97,17
3.	Operating consumed resources rate of return	84,80	87,75

Because the extraordinary result is null, the current result coincides with the gross result of the exercise and the consumed resources rate of return is identical to current resources rate of return.

The analysis of the achieved revenues rates:

a) the total revenues rate of return:

$$R P V T_{N-1} = \frac{\text{The gross result of the exercise}}{\text{Total revenue}} \cdot 100 = (26)$$

$$= \frac{619.075}{1.198.198} \cdot 100 = 51,67\%$$

$$R P V T_N = \frac{\text{The gross result of the exercise}}{\text{Total revenue}} \cdot 100 = (27)$$

$$= \frac{993.747}{2.016.401} \cdot 100 = 49,28\%$$

b) the current revenues rate of return:

$$R P V C_{N-1} = \frac{\text{The current result}}{\text{Current income}} \cdot 100 = (28)$$

$$= \frac{619.075}{1.198.198} \cdot 100 = 51,67\%$$

$$R P V C_N = \frac{\text{The current result}}{\text{Current income}} \cdot 100 = (29)$$

$$= \frac{993.747}{2.016.401} \cdot 100 = 49,28\%$$

c) the operating revenues rate of return:

$$R P V E_{N-1} = \frac{\text{The result of the exploitation}}{\text{Operating income}} \cdot 100 = (30)$$

$$= \frac{489.534}{1.066.796} \cdot 100 = 45,89\%$$

$$R P V E_N = \frac{\text{The result of the exploitation}}{\text{Operating income}} \cdot 100 = (31)$$

$$= \frac{891.268}{1.907.010} \cdot 100 = 46,74\%$$

d) the commercial rate of return:

$$RRC_{N-1} = \frac{\text{The result of the exercise}}{\text{Turnover}} \cdot 100 = \quad (32)$$

$$= \frac{619.075}{1.051.378} \cdot 100 = 58,88\%$$

$$RRC_N = \frac{\text{The result of the exercise}}{\text{Turnover}} \cdot 100 = \quad (33)$$

$$= \frac{993.747}{969.870} \cdot 100 = 102,46\%$$

Summarized, the data is:

Table no.6

NR. CRT.	INDICATORS	EXERCISE	
		N-1 (%)	N (%)
1.	Total revenues rate of return	51,67	49,28
2.	Current revenues rate of return	51,67	49,28
3.	Operating revenues rate of return	58,88	102,46
4.	Commercial rate of return	45,89	46,74

From these data it can be seen that the total and current revenues rate of return declined in year N to year N-1, the operating revenue rate of return recorded the highest growth while the commercial rate of return increased slightly.

From the two tables we observe that the resources rate of return registered higher values than the revenues rate of return, except the operating revenues rate of return that increased with 100% in year N compared to N-1.

5. Conclusions

The profit and loss account is and always will be the informational base necessary for any user interested in the results, the performance recorded by a company during a financial year. Of course, an analysis on the company's performance is not based only on the profit and loss account, but in conjunction with all of the other financial statements of the company.

Practically, the profit or loss account is a picture of revenue and expenditure of a period of time having as a balance the net result. This result is determined in cascade, on the following levels: the operating result, the financial result, the current result, the extraordinary result, the gross result of the exercise, the net result of the year. [7]

The result of this research has resulted in a case study that is a proof that through the dynamic, structural analysis and based on the margins of the profit and loss account we can get an overview of the development results

achieved by the company during the financial years.

Also, the case study also provides information that can help decision making process regarding the economic and financial area from a company's management.

The objective of the financial statements is to provide information regarding the financial position, the financial performance, the changes in the financial position and cash variation, their progress being tracked on at least two years.

Most of the information contained and provided by such financial statements and implicitly by the profit and loss account is required for a variety of users of financial statements (shareholders, employees of the company, creditors, suppliers, current and potential investors, customers, managers, competitors, state, and so on).

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Analysis of the Government and Local Public Debt in Romania

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Abstract

The concept of public debt is a complex one and it has been analyzed many times throughout the years but the current context influenced by the global financial and economic crisis highlights the importance of prudent public debt management.

The term of public debt is based on the financial obligations of central and local public authorities towards their creditors.

The article focuses in observing the evolution of total public debt and of its components in the period 2004 - August 2012. The purpose of the article is to highlight the current values of the public debt in order to show the state of the public finances of the country.

Key words: public debt, government public debt, local public debt.

J.E.L. Classification: H62; H63

1. Introduction

The effective management of public debt is based on the achievement of state funding and payment of its obligations at a lower cost and risk. In conducting the activity of attracting financial resources, the State creates relationships with internal and external creditors which lead to the increase of state debt.

A detailed analysis of public debt shows its evolution and the one of its elements of structure in the period considered.

Public debt may be useful in financial development until a certain threshold; past

this threshold it may actually prove harmful. Furthermore the possibility of public debt adversely affecting financial development has to do with the financial system itself which can be repressed or free. [1]

The need for public debt management in good conditions is based on the Government's priority to reduce exposure to risks in the medium and long term.

In order to fit into the requirements of the Maastricht Treaty regarding the public debt, Romania intends to reach a level of below 33,5% during the period 2013-2015. Also, the importance of managing properly the public debt appears from the fact it influences the future of the citizens that have to refund the debt.

2. The evolution of public debt

Public debt is the indicator showing the financial obligations assumed by the State from its internal or external creditors. These obligations arise from loans obtained directly or guaranteed by the Government or local authorities and refer both to loan repayment and payment of interest and fees related to it.

Public debt includes all amounts borrowed by government, the administrative-territorial units and other public entities, from individuals or legal entities from a domestic market and abroad and that are to be repaid at some point. [5]

As shown in the above definition of public debt, the total public debt has two components: the government debt and the domestic public debt.

In turn, the government debt and the local public debt are structured by several criteria. In this article we focus on their structure depending on their type, referring to the direct or guaranteed government debt, respectively to the direct or guaranteed local public debt.

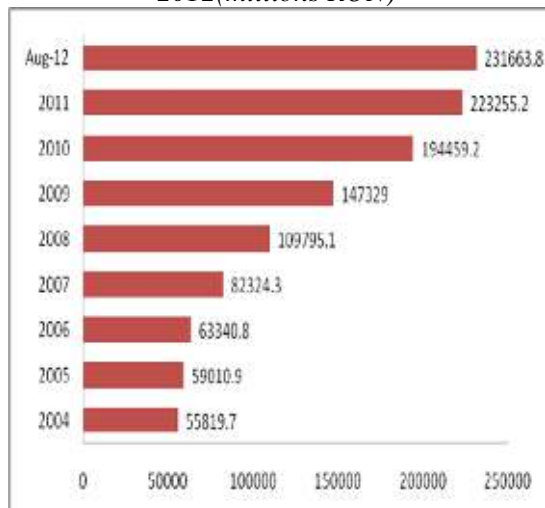
The direct government public debt represents the obligations of the state at a time, arising from reimbursements employed on a contractual basis by the Government through the Ministry of Economy and Finance; according to GEO no. 64/2007,

including those contracted by the central public administration authorities until the entry into force of the Government Emergency Ordinance. The guaranteed government public debt includes all obligations of the state at a time, from reimbursable funding guaranteed by the Government through the Ministry of Economy and Finance; in accordance with the provisions of this emergency ordinance, except those contracted by the central public administration authorities until the entry into force of this emergency ordinance. Direct local public debt shows all obligations of the territorial administrative units at a time, from reimbursable funding employed by them, on a contractual basis while the guaranteed local public debt represents all obligations of the territorial administrative units at a time, from repayments guaranteed by them, under the provisions of this emergency ordinance and of the Law no. 273/2006 on local public finances, with subsequent amendment. [2]

In order to analyze the total public debt we tried to follow the evolution of its level (Figure no. 1) and of the components of its structure (Figure no.2).

The analysis performed on the total public debt of Romania in 2004 - August 2012 looks like it had an upward trend.

Figure no.1. The evolution of the total public of Romania during 2004 – August 2012(millions RON)



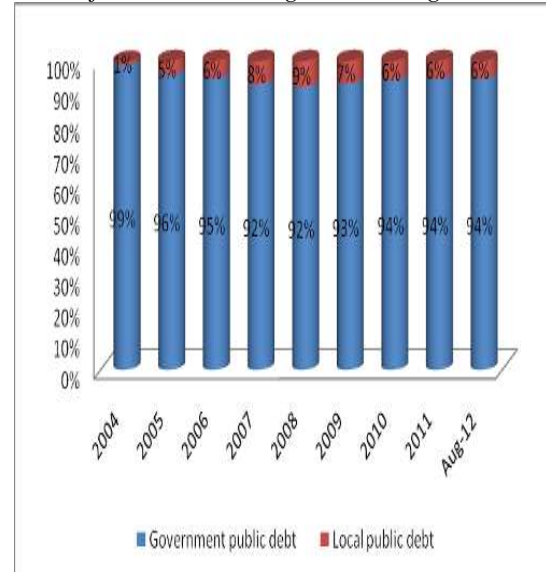
Source: Personal contribution based on the data from the Ministry of Public Finance

We notice that in August 2012 the total public debt registered an increase of 3,76% compared to 2011. Based on the figure we observe that between 2004 and 2006 the

increase of this indicator was a slow one, while starting with 2007 the debt suffered a significant growth annually. The high value of the total public debt is determined by the macroeconomic situation that the country is facing.

For a better understanding of the evolution of public debt we follow the evolution of its forms. (Figure no.2)

Figure no. 2. The structure of the public debt of Romania during 2004 – August 2012



Source: Personal contribution based on the data from the Ministry of Public Finance

Regarding debt structure in Figure no.2 can see that the largest share in the total public debt is held government debt, while total public debt has a very low weight. Thus, the government public debt, in August 2012, has represented 94 % of the total value of the public debt while the local public debt had a share of 6%.

Starting from the government public debt value from 2004, when it represented 99% of the total public debt, we notice a slight and insignificant decrease its share in public debt.

3. The government public debt

The government public debt is the debt component showing the financial obligations of the state arising from the loans contracted or guaranteed by the Government.

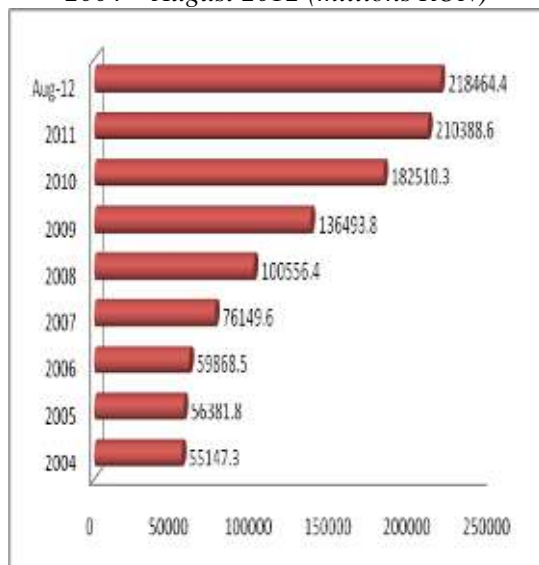
The Government is authorized to engage in the name and on behalf of the state obligations in the nature of the government public debt only through the Ministry of

Finance, for the following purposes:

- financing the state budget deficit, temporary financing of deficits from previous years of the state social insurance budget, up to the money allocation to this destination, temporary financing of the deficit of the state budget and of state social security budget in the current year;
- refinancing and early repayment of government debt;
- always maintain a proper balance in the Treasury General Account, established by the Ministry of Economy and Finance, in accordance with the methodology developed according to the art. 12 paragraph (1);
- financing based on the law of programs / projects and other priority needs for the Romanian economy [4].

It registered an upward evolution during the analyzed period, from 55147.3 millions Ron in 2004 to 218464.4 millions Ron in August 2012. (Figure no. 3)

Figure no. 3. The evolution of the government public debt of Romania during 2004 – August 2012 (millions RON)



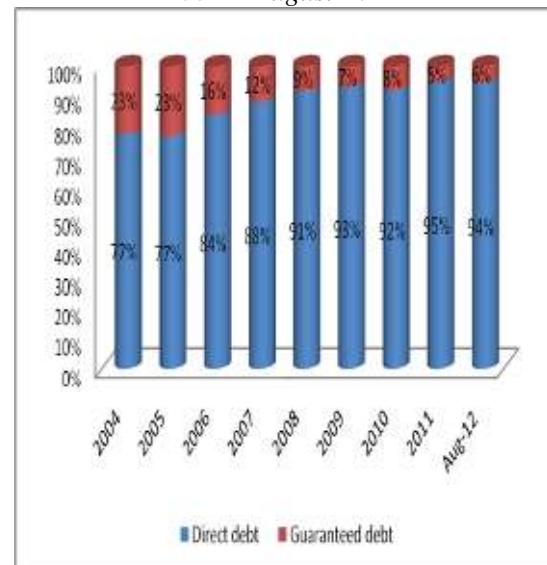
Source: Personal contribution based on the data from the Ministry of Economy and Finance

The high levels of government public debt are due to the increase of the budget deficit. Thus, in 2008, due to the increase in the budget deficit, the Ministry of Finance decided to launch new issues of government bonds and new borrowings. This decision resulted in the increased value of government debt.

From the above figure, we notice that it has registered an increase of 3,83% in August 2012 compared to 2011. Also, based on the figure we can see that between 2004 and 2006 the government public debt has registered a slight increase. Starting with 2007, its increase was a significant one as it started from 76149.6 millions Ron in 2007 and reached to 218464.4 millions Ron in August 2012.

Based on the public debt structure presented above, we analyze the evolution of its components. (Figure no.4)

Figure no. 4. The structure of the government public debt of Romania during 2004 – August 2012



Source: Personal contribution based on the data from the Ministry of Public Finance

Based on the above figure, we observe that the highest share in total public government debt is held by the direct government public debt. Also, we see that the level of this rate, as part of the government public debt, has an ascending trend during 2004 – August 2012, increasing from 77% in 2004 to 94% in August 2012.

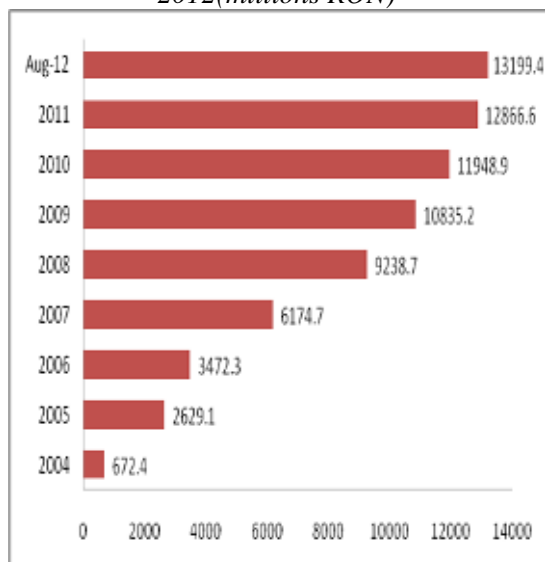
In what concerns the guaranteed government public debt, its share in the total government public debt is continuously decreasing, reaching from 23 % in 2004 to 6% in August 2012. However, the figure shows that in August 2012 the guaranteed government public debt increased by 1% compared to the previous year but it is an insignificant increase.

4. The local public debt

Local public debt is the financial obligations of local administration authorities arising from loans contracted or guaranteed by them.

Administrative territorial units are denied access to loans or to guarantee any loan, if the total annual debt representing annual installments due on loans contracted and / or guaranteed, interest and fees related to them, including those of the loan to be contracted and / or guaranteed in that year, exceeds the limit of 30% of total revenues stated by art. 5 paragraph (1) point a. [3]

Figure no. 5. The evolution of the local public debt of Romania during 2004 – August 2012 (millions RON)



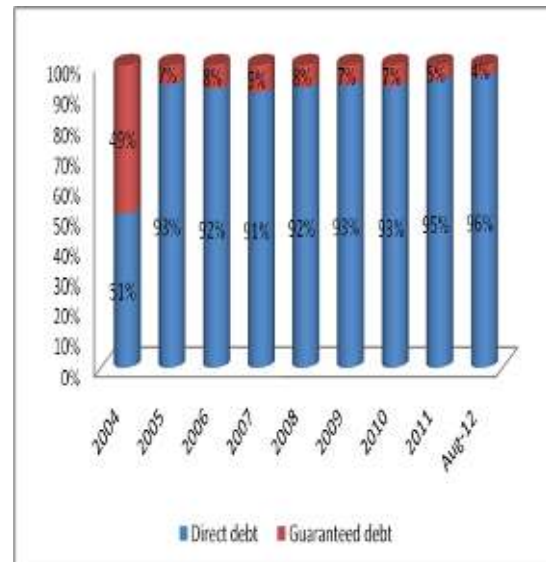
Source: Personal contribution based on the data from the Ministry of Public Finance

Local public debt recorded significant growth in the period under review. Thus, it increased from 672.4 millions Ron in 2004 to 13199.4 millions Ron in August 2012.

In the period 2011 – August 2012, the increase was a minor one of 2,6% and between 2008 - August 2012 it recorded a constant increase.

As in the case of government public debt, for highlighting the local public debt structure we monitor the evolution of direct and guaranteed local public debt. (Figure no.6)

Figure no. 6. The structure of the local public debt of Romania during 2004 – August 2012



Source: Personal contribution based on the data from the Ministry of Public Finance

Based on the figure above, we can see that the direct local public debt represents the largest share in the total local public debt. In the analyzed period, 2004 - August 2012, the direct local public debt level had a value near that of the guaranteed local public debt only in 2004. In the other years, its value maintained between 91% and 96%.

5. Conclusions

Based on analysis achieved throughout the article, we can conclude that the public debt of Romania, during 2004 - August 2012, showed an upward trend because of massive lending contracted by Romania, especially in recent years.

Due to the need for payment of wages and pensions, Romania was forced to seek loans from the IMF, European Commission and other banks in the local market which resulted in high levels of public debt.

From the structural analysis of public debt results that the largest share in total public debt is registered by the government public debt.

For Romania to record a slow growth rate of public debt is needed that the Romanian economy to record growth and the budget deficit to be reduced.

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New Customer Demands – Challenge for Accounting Track in Business Faculties

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Abstract

For many years business schools were perceived as providers of educational services only for students. Now, can be identified many other customers: internal (students, faculty - teachers, and administrative staff – who do not teach), external (futures employers, other universities, suppliers, the government, and various communities). In this context, all business faculties face new challenges and new approaches of school management. For this reasons we try to identify the impact of the labor market transformations and the new access rules to accounting professional organizations on the demands for accounting track in business faculties.

Cuvinte cheie: Business faculties, accounting, higher education, profesional organization.

Clasificare J.E.L.: I23, M40.

Introducere

Trying to produce a map of the customers of business faculties, it can be identified two categories: internal (students, faculty - teachers, and administrative staff – who do not teach) and external (futures employers, other universities, suppliers, the government, and various communities) [1]. Both categories of customers are acceptable in this contest if we define customers as beneficiaries of works efforts or purchasers of products and services.

The customers appreciate a good product or a good service if it answers to their expectations, preferences, and requirements. But the expectations, preferences, and requirements are different from a category of customers to another one (e.g., students expect to acquire knowledge and solid

working skill; employers expect more practical education, foreign language skills, and a focus on teamwork). In this context, all business faculties face new challenges and new approaches of school management.

Changing characteristics of learners, making higher education more diverse, dispersed and decentralized, self-learning, developing virtual and hybrid, customizable and characterized as cross-disciplinary, cross-institutional and transnational delivery mechanisms, adopting national and international requirements for education in accounting are the new challenges for faculty management.

The accountants of tomorrow will face much more daunting challenges that did the accountant of yesterday. In addition to these changes, Bologna process has significantly modified the economic higher education. It is an obligation for faculties to adopt new curriculum and new teaching methods to accomplish the new expectations of different customer types.

Purpose of study

The purpose of this paper is to highlight how internationalization (globalization) of business education, as well as its standardization, higher education reform initiated by government, and new regulations in accounting profession are source of changes and challenges for accounting track in business faculties.

In order to emphasize this, we will present below a number of elements regarding the environment in which the faculties of economics act, the rules that represent the benchmark in training the current and future accounting professionals and the way the Bologna process has influenced the higher education.

When taking into account the higher education in economics, a very clear reality is

that its position within the academic community is not one to be envied. Although not valued at their full potential by the academic community, the faculties of economics managed to earn respect by means of the consistent revenues they brought and still bring for the public or private universities, though rarely being considered as important structures in universities or as determinants contributing to the society development [2]. The matter of reputation can also be raised. Thus, some authors [3] state that a big number of subjects contribute at the academic debate regarding reputation; among them we can find economics, strategic management, marketing, sociology and accounting. Although the last in the list, accounting contributes more and more to the reputation increase and to the bigger number of students that enroll in faculties of economics, for bachelor degree, as well as for master and PhD degrees. In some countries (e.g., France, Romania), the master and PhD degrees in accounting and audit offer important capabilities for accessing the professional accounting organizations.

From the student perspective, both the studies in economics, as well as those in accounting and audit, must have a practical component. The requirements of the professional accounting organizations from some countries contribute to the students' opinion, because they impose to faculties interested in signing agreements for study recognition some conditions regarding the content of study and subject programs, as requirements for profession access.

Under these circumstances, the faculties are more and more interested in having professors that are capable to develop the students' practical abilities, paired with the delivered technical knowledge. Among the abilities ever more necessary for future professional accountants, that faculties are preoccupied to help the students develop, are: oral and written communication skills, teamwork, research, time management etc. However, we cannot say with certainty that obtaining theoretical knowledge under various forms of education ensures their correct use in practice. That is why, at a global level, the International Federation of Accountants (IFAC), through the International Accounting Education Standards Board (IAESB), develops and

publishes documents that represent the referential in professional accountants training [4]. The relationship between the pieces of knowledge obtained through study and the ability to use them in practice is emphasized correctly in the table below.

Table 1. Relationship between capabilities and competence

Capabilities	Competence
<i>Key concepts</i>	
Attributes Potential Possess <i>Can be expressed as learning outcomes</i>	Action Actual Demonstrate <i>Can be expressed as performance outcomes</i>
<i>Types of capabilities</i>	<i>Types of competence</i>
Professional knowledge Professional skills Professional values, ethics and attitudes	Includes the range of performance outcomes related to practice standards Includes the range of performance outcomes related to behavioral standards

Source: IFAC, *Handbook of International Education Pronouncements*, 2009 Edition, New York, pp. 23-24

Although these documents are purely informative, the faculties that offer study programs in accounting and audit are directly interested in what they state because national organizations of professional accountants determine their access requirements and continuing education programs for their members according to these recommendations.

This situation also raises a question: does the higher education in accounting and audit come close to the professional area or the academic environment? In some countries, from the standpoint of the regulatory bodies of university education, these faculties should have an important research component and thus by oriented more and more on research activities.

The so-called Bologna process has significantly modified the economic higher education. This refers to an increase in the study period, but also a structural modification. A noteworthy increased of the number of masters and PhD students led to

added quality for the economics faculties. But it is too soon to make an evaluation of the advantages and disadvantages brought by this process. Nevertheless the reform of the faculties will continue in order to make the results more visible on the long run. Some of the objectives have been achieved: the students, professors and administrative staff mobility was increased / facilitated, a transferable credit system was established and the inter-institutional cooperation has significantly developed[5].

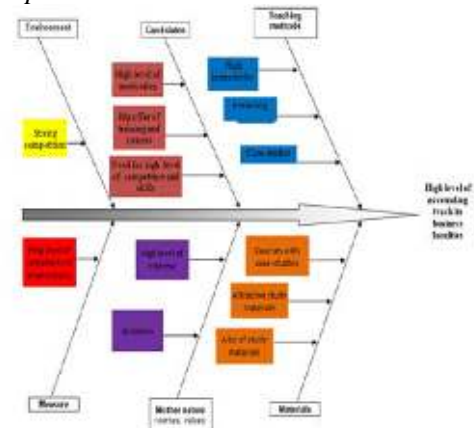
Methods

The accounting track in a business faculty should survive only if on the market exist demand for accounting services. But, there are a lot of costumers who demand educational services (in accounting track). In addition, accounting services market depends on national and international rules. In this context, we focused on the forces and factors affecting internalization, harmonization, and development of higher education in accounting track. Using Fishbone Diagram and Pareto Diagram, can be highlighted the main contribution of some forces and factors in a high quality accounting track development.

As an initial step, we have tried to identify the determinants for maintaining a high study level in accounting and audit. For this, we have developed a Fishbone diagram, (also known as Causes-Effect diagram) that emphasizes the contribution of the identified causes to achieving the pursued effects. All of the causes are grouped in six main categories: candidates, teaching methods, environment, materials (courses), measure, Mother Nature (values, ethics, etc.), and each of them is split into components.

I continued this analysis indentifying the main causes of these results (I presented them in the table below) and I realized, using for data compilation Vertex 42, a Pareto Diagram which highlight that 78.22% of effect is generated by so-called vital causes and the rest of 21.78% is generated by rank 2 causes.

Figure 1. Fishbone/Causes-Effect Diagram for a high level of accounting track development



Source: Own processing

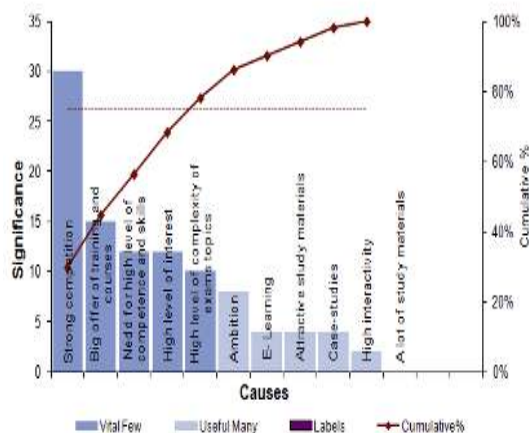
Table 2. The causes of accounting track development and their significance

	%	Causes	%	Total
Candidates	30	High level of motivation	10	3
		Big offer of training and courses	50	15
		Need for high level of competence and skills	40	12
Environment	20	Strong competition	100	30
Teaching methods	10	High interactivity	20	2
		E-learning	40	4
		Case-studies	30	3
Materials (courses)	10	Attractive study materials	40	4
		Courses with case-studies	40	4
		A lot of study materials	20	2
Measure	10	High level of complexity of exams topics	100	10
Mother nature (values, ethics)	20	High level of interest	60	12
		Ambition	40	8

Source: Own processing

The Pareto Diagram presented below has starting point the table above.

Figure 2. Pareto Diagram



Source: Own processing

In developing this analysis we have observed that there are numerous causes that influence the development of higher educational studies in accounting and audit and that the most important depends on market, meaning the competition between various providers of such programs or alternative programs.

We observed that the complex business environment makes new demands on the professional accountant. Users expect a high level of competence of the profession and this level can be reached through some form of specialization. The professional organizations must be pro-active in this area. There are some factors which would serve to enhance the expertise of the professional accountant and hence the service to business. These factors are listed below: to improve and maintain the skills and competence of members who operate as specialist in fast changing business community; to provide guidance for those who may wish to operate in a specialized area; to create a framework for the interaction of members who share a common professional interest; to lessen the danger of fragmentation within the profession.

In the same time, specialization is already widespread among professional accountants, whether they are working in a public practice, in industry, commerce or the public sector. This specialization is a necessity because the professionals operate in a dynamic environment. In recent years, the knowledge required by the professional accountant encompasses not just matters

relating to accounting but includes knowledge of taxation, information technology, internal audit, company legislation etc

Findings and results

From my study resulted that 78.22% of effect is generated by so-called vital causes (5 in my analysis) and the rest of 21.78% is generated by rank 2 causes (6 in my analysis). Unfortunately, most of the causes that influence the maintenance and development of study programs in accounting and audit do not depend entirely on the organizing institution, but on the competitors represented by faculties of economics, as well as other types of organizations that offer courses and training programs in these fields of study. We can state that there are second rank causes that depend on the organizing institutions and about which we can say that more and more of them have worked on developing (E-learning, attractive and diverse courses, interactivity).

Conclusions

The accountants of tomorrow will face much more daunting challenges that did the accountant of yesterday. The role of the accountant in a changing environment should be multiple: adviser, specialist, and even business partner. It is an obligation for faculties to adopt new curriculum and new teaching methods to accomplish the new expectations of different customer types. The business faculties must decide if the higher education in accounting and audit will come close to the professional area or the academic environment. Nevertheless the reform of the faculties must continue in order to make the results more visible on the long run. This is more necessary as, in the recent times, some authors have suggested that accounting research has become insufficiently innovative and increasingly detached from practice and society[6], [7].

Others authors (Deppe et al., 1991) considers that accounting students must develop competencies in seven areas: communication skills, information development and distribution skills, decision-making skills, knowledge of accounting, auditing, tax, knowledge of business and

environment, professionalism, and leadership development.

The employability sits on graduate attributes like: communication skills, good interpersonal skills, teamwork, self-management, problem solving, technological competence, etc. So, business school must develop curriculum that cover all this attributes and open a dialogue with employing firms and accounting professional organization for change the future of accounting profession.

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Financial Crises and Monetary Policy Interventions in the View of the Austrian School

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Abstract

In our attempt to understand the causes and consequences of the most critical international financial crisis of the 21st century which, besides crushing world economies, questioned the bases of the mainstream economic theories, we focused our attention on the solutions provided by the Austrian School's representatives (in doing that we have nevertheless tried to avoid prejudices). According to them, the reckless policy of artificial credit expansion promoted by the monetary authorities represents the major cause of the economic and financial crises as well as of recurrent recessions. Our study aims to provide an enumeration (of course, not an exhaustive one) of the causes of the financial crises, from the Austrian School perspective, but also draws attention to the inevitable political and social consequences of the interventionist policy in the economy, in general, and in the banking system, in particular.

Key words: the Austrian School, financial crisis, central banks, monetary policy.

J.E.L. classification: B25, B53, E40, E50, E52

1. Introduction

The occurrence of the most critical international financial crisis of the 21st century brought back into the spotlight the economic ideas of the Austrian School, thus questioning (and even criticizing) the validity of the *mainstream* economics theory. Among the first representative exponents of this school we mention: Carl Menger, Eugen von Böhm-Bawerk, Friederich von Wieser, Ludwig von Mises, Friedrich von Hayek etc.

and among contemporary representatives we may consider: Israel Kirzner, James Buchanan, Murry Rothbard, Jörg Guido Hülsmann, Jesus Huerta de Soto etc.

According to the representatives of the Austrian School, the policy of artificial credit expansion, promoted by monetary institutions, is the main cause of the economic and financial crises as well as of recurrent recessions. As for the financial crisis which broke out in the autumn of 2007, it is worth reflecting on the five errors (three general diagnostics and two specific recommendations) emphasized by the economists of the School of Madrid: Rodríguez Braun and Ramón Rallo [9]. Their five points of view, incorporated in a message oriented against the mainstream economics theory are: 1) the political culprit for the international financial crisis which deeply undermined the mainstream economic fundamentals is the liberalism; 2) the moral responsible for the crisis is the greed of human nature (this opinion was skeptically regarded by the two economists due to the ethics of this issue); 3) the economic responsible for the crisis is, according to the two economists, undoubtedly, the free market (with a stress on money and finance); 4) the fourth perspective is built on the rejection of the so-called necessity to save the banks in difficulty; 5) the last issue approached by the two is focused on dismantling one of the most popular economic policy strategy, that is, the necessity to increase public spending with the purpose of creating new jobs.

Our paper is structured as follows: in the second section we concentrate on an incursion in the Austrian economic literature in order to emphasize the events preceding the break of an economic-financial crisis. Due to the fact that the origin of the current

international economic crisis was a financial one, the third section is meant to define the role of Central Banks (which represents the top of the pyramid of the banking system in most economies) in the view of the Austrian School. Section four comes to complete the previous one and is entirely dedicated to the problematic of the „natural” interest rate versus the „artificial” interest rate. The final section of the research paper highlights the main findings of our work.

2. The Austrian School’s vision with regard to financial crises

According to Austrian economists, the artificial increase of the monetary mass and the credit (explained in detail in the Austrian business cycle theory) causes serious economic imbalances (at the level of microeconomic and macroeconomic indicators) which distort the real structure of production, thus affecting the private agents’ perception with regard to profitable investments and pushing them into taking considerable risks by getting involved in malinvestments.

In order to clarify the chain reactions which occur up to the moment of the outburst of an economic-financial crisis, from the Austrian School’s perspective, we shall deal the following topics: voluntary savings, real credit versus artificial credit, profitable investments versus malinvestments, the collapse, and finally, the denouement.

2.1. Voluntary savings

Voluntary savings represent the type of behaviour by which a person stops the immediate consumption of a large amount of goods in virtue of subsequent consumption of the same amount [7: 487]. In this way, the person transfers the purchasing power of his savings to the debtor, allowing the latter to purchase different goods.

The savings process is based on the *deposit contract*. According to the Austrian economist, Jesus Huerta de Soto, it is compulsory to make the distinction between the *irregular deposit contract* (in cash) and the *loan contract*. The *deposit contract* is „a contract signed in good faith by which a person – the depositor – entrusts another person – the depository – a mobile asset

which the latter is to guard, protect and return at any moment if demanded by the depositor” [5: 42]. By referring to a fungible asset, the deposit contract (irregular) imposes that „the *tantundem* (the disposal right on the goods) not be transferred”. To conclude, in the particular case of cash (fungible goods), the person receiving the deposit is obliged (according to the institution of irregular deposit) to permanently maintain at the depositor’s disposal 100% cash reserves. The cash deposit contract is applicable in practice to the so-called „visible current accounts, savings accounts and to deposits, any time the last two enable the client to actually withdraw balance at any moment” [5: 196]. As for the *loan contract*, a transfer of full disposal of the goods (or money) takes place from the lender to the borrower for a certain period of time and, normally, with an agreement regarding interest payment.

2.2. Real credit versus artificial credit

Mises [8] proposes, before opening any discussion regarding credit expansion, to draw a clear line between two types of credit: *commodity credit* and *circulation credit*.

Commodity credits (or *credits with coverage in real savings*) involve the transfer of financial resources from those who saved towards the ones who wish to use them productively. The debtor, owner of the financial resources transferred by the lender, (creditor) has the purchasing power necessary to buy the goods for future production. In conclusion, the amount of commodity credit is strictly limited by the previously achieved amount of savings. Supplementary credit can be acquired if additional savings are created by reducing present consumption.

Circulation credits (or *artificial credits*) require transfers of financial resources from „especially created banking funds [8: 124]. The moment the bank offers such a credit, it prints money thus resulting in a simply accounting entry.

According to Huerta de Soto, demand deposits offer bankers the possibility to „create bank deposits (that is, money) and in turn, loans (purchasing power transferred to borrowers, whether businessmen or consumers) from nothing; these deposits and loans do not result from any real increase in

voluntary saving by social agents" [5: 199]. To conclude, according to the Austrian School's vision, the banking system is abusive in that it creates fiat money „on paper", the amount of money substitutes is increased, thus providing the opportunity to be used as if proper money. With the purchasing power artificially increased, debtors manifest increased demand on the production factors market which naturally leads to an increase in the price of goods and the level of wages.

2.3. Profitable investments versus malinvestments

In any economy, economic agents plan their future activity according to the information received from such indicators as *price levels*, *salary levels* and *interest rates*. We aim to approach two scenarios: a free economy and an economy in which the state intervenes in the financial-banking system.

In the case of a free economy, the economic agents use the information received from the above-mentioned indicators and establish the extent to which an investment project is profitable or not. If the analysis reveals a configuration of indicators which draws attention to the fact that he is dealing with a *malinvestment*, the economic agent becomes aware of the fact that his project is of no interest, at least at that particular moment, to the consumers. In this context, the consumer is the one who, by expressing his preference for a product/project forces the economic agent to focus his resources in a particular direction.

In the second case, the state distorts the signals sent by the configuration of indicators by direct intervention. Due to this, the economic agent performs miscalculations and erroneously estimates a malinvestment as a profitable one. In this way, instead of directing the economic agents' resources towards real needs, they are recklessly invested.

Through the expansionist policy of circulation credits, the state intervenes on the market and indirectly modifies the interest rate, thus distorting reality and encouraging taking supplementary risks by becoming involved in investments which used to be considered unprofitable.

2.4. The collapse

The unlimited number of loans provided by banks by means of the circulation credit mechanism lead to major imbalance in economy by: the increase in prices of goods and services, the increase in salaries, the fall of interest rate below the level of the „natural" interest rate (increasing the spread).

On the short term, the expansionists' interventions, as the inflation advocates call themselves today [8: 126], produce *booming business* but despite that Mises draws attention to the fact that „such an artificial prosperity cannot last and will inevitably end up in a *slump*, a general depression" [8: 127].

Once the economic agent is attracted by the cheap and easy money policy mirage and once he becomes involved in bad business, in the context of the factors of production price increase (as a consequence of the overflow of liquidity), he becomes dependent on the bank's constant money „injections" (if he refuses to give up on his initial plans). This euphoric state, dominated by bigger and bigger salaries and the possibility to earn money without considerable efforts, becomes fragile in time and ends in a collapse. The natural consequence of this artificial economic boom is, as we are about to see, an adjustment process in the shape of an economic crisis and recession.

2.5. The denouement

Within the first scenario, the expansionist credits policy spiral is fueled by banks which provide economic agents with the cash they need. The chain reactions continue: the credit demand is bigger and bigger as well as the credit offer, the amount of banknotes and deposits (artificially produced) increases uncontrollably, the production prices and costs as well as salaries increase etc. In a moment of lucidity, people become aware of the situation and „run away" from money and focus their attention on more tangible goods and purchase them irrespective of price or of whether they need it or not. Consequently, the purchasing power of the currency falls rapidly and its decline culminates in economic and/or financial crisis.

In the second scenario, it is supposed that banking institutions become aware of the situation created by the credit expansion

policy and therefore refuse to perform financial liquidity injections (artificially created) thus managing to deny access to credit addicts to their only source of finance. In this case, as well, we witness a series of chain reactions: the phenomenon triggers panic, interest rates increase rapidly, prices fall abruptly (as a consequence to the generous stock offer on the market due to the economic agents' attempts to recover their invested money), unemployment rate increases as a consequence to activity restriction etc.

The Austrian economists' solution is a painful but necessary one. According to them, the economic crisis and recession are necessary since they „reveal the fact that a significant number of investment projects financed with the newly-created bank credits *are not profitable* due to the fact that they do not meet the consumers' real needs” [5: 283]. Once the artificial credit expansion has been initiated, we are warned that the economic crisis will inevitably happen. Despite all these, „the outburst of the crisis and recession ultimately represent the beginning of the *recovery*. In other words, economic recession represents the beginning of the *recovery* stage... Similarly to the drinking hangover which represents a normal reaction of a healthy body against alcohol aggression, an economic recession, which marks the beginning of the recovery period, is healthy, necessary but painful at the same time. The result of such a period is a production structure adapted to the consumers' real needs” [5: 444]. The period marked by economic crisis, followed by depression, ends „the moment the free market balance is reestablished and the expansionist distortion is eliminated” [10: 860].

The remedy to these economic mutations (crisis and recession) that Huerta de Soto proposes consists in applying a *maximum economic flexibility* policy able to „focus on the microeconomic objective of flexibility and liberalization of all market factors, and especially of the labour market” [5: 446]. This policy generally refers to: a) readjusting the production structure and adapting it to the consumers' real needs in terms of savings; b) abolishing erroneously initiated projects and the massive transfer of production factors towards the consumption stages and companies, where consumers require them.

According to Mises, *the depression* (as a

consequent phenomenon to crisis) is „the necessary process to structurally readjust production activities according to the real configuration of the market data, that is, to the capital goods offer and to the public assessments” [8: 130-131]. Thus, according to Mises, the depression represents the first stage in the return of normalcy, economic recovery and real prosperity fundamentals reestablishment (by eliminating the prosperity illusion artificially based on credit expansion).

As far as the current situation is concerned, Rodríguez Braun and Ramón Rallo [9] think that the role of the state in solving the financial crisis should be null and they consider the prospects of fast recovery to be conditioned by the following terms: adjustment of relative prices, production factors reallocation and stimulation of savings.

To conclude, state intervention and manipulation of financial-banking activities according to political interests (and not according to profit criterion) prevents the micro and macroeconomic indicators from receiving and transmitting objective market information. In this way, the system becomes unsustainable and incapable to maintain the initial welfare on the long term.

3. The Central Banks' position and role in the view of the Austrian School

According to the representatives of the Austrian School, the current two-level-structured banking system (central banks and commercial banks), based on fractional reserves of cash deposits, represents the basis of disequilibria which ultimately cause financial and economic crises.

As far as the financial-monetary sphere is concerned, Austrian theorists criticize the central planning maintenance (performed by central banks), their massive interventions in economy (by deciding interest rates and introducing regulations) and state monopoly (by legalizing forced exchange which obliges citizens to accept payment in the government-issued fiduciary currency).

Central banks, in their desire to stimulate economy and thus enhance production (beyond the capacity of its normal parameters) follow the Keynesian monetary policy recommendations and allow the artificial increase of credit volume and monetary mass. As a consequence, central

banks are indirectly responsible for:

- *reduction of interest rate*; in this way the activity in different economic branches is stimulated and therefore, production stages are multiplied and entrepreneurs' risk aversion is decreased, an aspect which clearly contributes to their involvement in unprofitable projects.
- distortion of the market signals issued by the configuration of indicators such as interest rates, price and salary levels;
- the occurrence of malinvestments; these are „projects which will never be realized and which will ultimately be abandoned by their promoters" [2: 5];
- the increase in the price of production factors and in the costs of commodities production;
- the outburst of the economic crisis (and/or of the financial crisis which occurred as mutations/bubbles in the financial sector) and its consequences: bankruptcies, high unemployment rate, low standard of living etc.

If economy is not left alone to recover by going through the painful crisis process and central banks continue to interfere (eg. by providing loans without coverage in real economies in order to maintain the value of a currency), it will not be long before the economic crisis will break out at a much larger scale (in terms of duration, loss and intensity etc.).

In the financial-monetary sphere, the Austrian School's advocates propose the application of the principles of liberty and private property on condition that the following compulsory measures are implemented in banking [2: 8]:

- the elimination of fractional reserves and restoration of 100% obligatory reserves for the banks which receive deposits from the public and for all similar institutions ;
- central banks should no longer hold the last resort financing and the central financial planning agency roles.
- The privatization of the fiduciary media issued by the state under monopoly and its replacement with a monetary system which cannot be manipulated by people (the competition principle); at this moment, Austrian theorists recommend a gold-based standard system.

In the current context, the financial crisis

does not ignore, by any means, the regularities of the Austrian School advocates; it is simply the „effect of the U.S. government interference at all levels of the real estate and financial markets" [3: 13]. In Mises's opinion, the banking system, together with its toxic assets is artificially „kept alive" by liquidities injection in economy and thus it transfers loss to state budgets, both current and future. What the state is actually doing at present, through its „manic-depressive" interventions, is transform financial-banking crises into public debt crises thus aggravating, with its every intervention, the seriousness of the matter. And when „sovereign" entities fail they call the superstate European and international financial organisms for support (see the FMI, CE, BM interventions etc.).

4. The natural rate of interest versus the artificial rate of interest

The Swedish economist Knut Wicksell was the one to introduce the concept of *natural rate of interest* (or *neutral rate of interest*) in the economic literature, in order to refer to that particular rate of interest which „equals savings and investments" [4: 6]. If the interest rate had been lower, the money offer in the shape of savings would have been below the investors' demand for financial resources as well. If the interest rate had been higher, the funds demand for investments would have been lower than the savings offer. It is only in the case of a natural rate of interest that the money demand and offer could have been balanced.

According to Mises, the neutral rate of interest „expresses the population's willingness to eliminate the consumption of a percent of the earned income in order to allocate it to the production process extension" [8: 131] or, in Soto's terms, „the market price of present goods as compared to future goods" [5: 306]. Cerna shares their opinion: „the rate of interest which is neutral in relation to the prices on the goods and services markets or the rate which is equal to the demand and offer on the real market" [1: 594].

Despite all these, we would like to draw attention to the fact that, according to the Austrian economic literature, the concept of „neutral interest rate" has a three-fold interpretation: 1) it is a rate for which the

level of voluntary savings is equal to that of investments and therefore, there is no supplementary amount of money created ; 2) it is a rate of interest for which prices remain constant (there is no inflation); 3) it is a rate of interest which corresponds to the real (physical) productivity of capital goods. The interpretation of the interest rate according to the above-mentioned definitions is carried out according to the economic typology: stationary or in course of increase.

The moment the state intervenes on the market and starts to generate *ex nihilo* credits according to the Keynesian monetary policy recommendations, it indirectly manipulates the rate of interest (as an essential element of monetary policy of most central banks) and turns it into an „artificial” rate which is no longer reflected in the economic reality. The decrease in interest rates performed by monetary authorities is a strictly technical action which increases the present value of capital goods and distorts the entrepreneurs’ calculations by creating the illusion that certain projects can be profitable while they are nothing more but malinvestments (unapproved by consumers).

To Mises, the artificial interest (also named „monetary interest” or „gross interest on the credit market”) represents the „product of the manipulations of a group of unscrupulous exploiters” which creates the premises „of a different evaluation of present goods as compared to the future ones” [8: 131]. By modifying the natural rate of interest, the monetary authorities and banks bear the responsibility for the resulting *expansionist orgies and artificial economic explosion*.

5. Conclusions

What we are witnessing today is one of the most devastating artificial (“man made”) phenomenon of the capitalist era. The peculiarity of such an event is that problems keep bouncing from the private propriety to the public one and back (thus having a crisis of firms, banks, markets and sovereigns). The representative economists of the Austrian School blame the *mainstream* economics theory. According to the Austrian thinkers the main culprits for the economic and financial crises as well as of recurrent recessions are the monetary institutions and their policy of artificial credit expansion.

Therefore the artificial increase of the monetary mass causes serious economic imbalances which distort the real structure of production, thus affecting the private agents’ perception with regard to profitable investments. Other representatives from the same school of thought highlight five important errors of our time: a) liberalism is the political culprit; b) the greed of human nature is the moral responsible; c) the free market is the economic responsible; d) the rejection of the so-called necessity to save the banks in difficulty; and e) the so-called “necessity” to increase public spending with the purpose of creating new jobs. In our readings on the economics of the Austrian School we identified five important stages that describe the collapse of an economy: 1) the period of voluntary savings; 2) the separation of the artificial credit from the real credit; 3) the distortions of private agents’ perception with regard to profitable investments thus encouraging them to make malinvestments; 4) the collapse of the economy, and finally 5) the denouement of it.

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Quantitative Analysis of the Higher Education System in Romania Compared to EU Realities and Expectations

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Abstract

Education plays an important role in civil society, nowadays becoming an essential tool for training “actors” in the market economy. Worldwide currently it manifests the idea according to which educational systems must begin, continue and sustain changes and social progress, ensuring the quality of education, preparing individuals for the future and also to develop capacity to adapt to scientific and technical changes, to be able to create the new[1]. Neither the European Union nor Romania is an exception to this trends recorded by the higher education system at a global level. To continue to be a worldwide force, it is important that through balanced educational policies aimed at performance and quality, this region manage to succeed in a world marked of constant changes.

Key words: analyses, public finances, perspective, quality

J.E.L. classification: H52, H75, I21, I23

The problem of financing the higher education system was always a delicate problem because it is affecting all the countries that aim at achieving a performing educational system. In order to create value, such system needs consistent investments, its result cannot be seen only in the medium and long run. This situation regarding financing sources, size and destination it's a problem that was and is highly debated at the national and European level. Taking this into consideration, in this paper we will create a

comparative analysis regarding the structure and characteristic of the university system at the European level and Romania from the perspective of the measures and laws that EU created at a global perspective.

After the European Union was created, it was clear that the European learning system had to be modified. At the European level the idea of a continuous learning program and was adopted. This would contribute to a healthy development of the modern society and to a long term development of the economy. Because of the variety of learning systems at the European level, the idea of a new model that would adopt the values and qualities of all the countries involved and to create a new university system that would be unitary for all the countries of the EU soon arose.

In this context, the EU encouraged states to collaborate, to work together, to learn from each other in order to create a common path regarding the university system.

A first step in this direction of a uniformization and creating a unique university system at the European level was at 25 of May 1998 at Sorbona when a group of ministers responsible with the higher education system in France, Great Britain, Italy and Germany signed the „Declaration of Sorbona” regarding “the harmonization of the higher European university system architecture”. The primary elements were[2]:

1. Recognizing the „positive potential” of the existence of a European common area of the higher education system;

2. A "progressive harmonization" of the general frame of reeling-off study cycle through "strengthening the previous experience of unifying diplomas, pilot initiative and of dialog " started with the Lisbon strategy;
3. Encouraging student mobilization, researchers by using the hole support of the European Union

The Declaration ended with an appeal to all the European States to join the objective of creating a common european spouce of higher education in which „the national identities and common interests can interract and develop in the benefit of Europe”

The most important step that was made in order to achieve this European Union goal was in 1999 once the „Bologna Declaration” was adopted. In 18-19 of june 1999, at Bologna, at the United Confederation of Rectors of the European Union teh declaration was signed by the ministries of education of 29 European states regarding "European space of higher education system". Until now, the Bologna System was installed and mplemented in 47 European countries.

Romania is not an exception from this system and with the beginning of the university year 2005/2006 the national university system suffered a lot of changes once with the implementation of the European higher university system. So, with the beginning with the fall of 2005 Universities from Romania offered study programs structured on three levels:

a) Undergraduate studies – *Cycle I*. The normal length of the university undergraduate studies is between 3 and 4 years. The length of technical learning system (including agricultural), law and technological is 4 years. The first generation that graduated was in 2008. They received a graduate diploma according to the specialization they followed.

b) *Graduate studies- master – Cycle II*. The normal length of the graduate studies is 1-2 years. The total length of cycles I undergraduate studies and cycle 2- graduate studies must correspond to at least 300 credits. The graduates receive master diplomas in the specialization they followed.

c) *Doctoral studies – Cycle III*.

These studies are usually 3 years long. In special cases, when the research needs a longer period of study the total period can be prolonged with 1-2 years. The graduates receive doctoral diplomas in the field they chosen.

In order to implement exactly the directions of the university system, European Union insisted on education when elaborating the strategy "Europe 2020". So, the program Education and professional formation was founded (ET2020). This is a strategic European cooperation program in the field of education and professional development and it sets strategic objectives for all the member countries including a set of principles in order to achieve this objectives. It also sets common work procedures with priorities for every academic cycle.

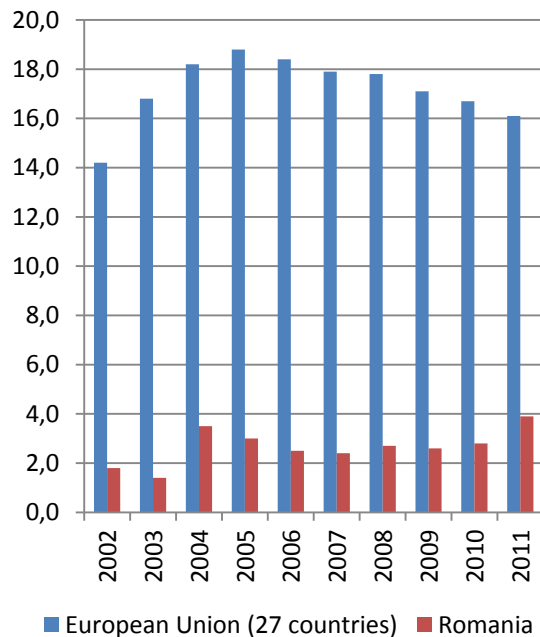
Through this program there are 4 strategic objectives set: [3]:

1. Practical learning along the life and student mobilization;
2. Improving the quality and efficiency of education and learning;
3. Promoting equity, social cohesion and active citizenship ;
4. Stimulating creativity and innovation, including entrepreneurship at all levels of education and teaching

In order to measure the progress in fulfilling these objectives a number of indicators and references criteria were establish. Regarding the higher education system it was established that all the member countries by 2020 had to meet the following criteria [4]:

1. On average, at least 15% of grown-ups have to attend learning program

Fig.1 the share of adults that participated in universities program of learning in Romania compared with EU 2002- 2011 (%)



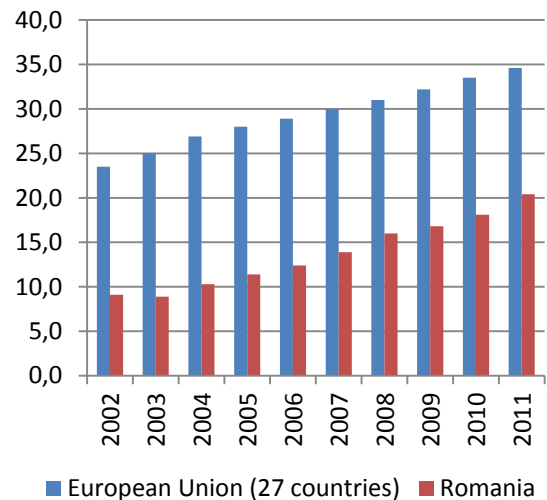
Source: Authors calculation based on Eurostat

As we can see in figure 1, at the EU level in the entire period analyzed, besides 2002, more than 15% of adults followed a university learning program. This is not the same in the case of Romania where the higher percentage of the population involved in this type of learning program was in 2011-3,9%, way beyond the EU average of 16.1%.

When it comes down to the rate of enrollment in study programs at the level of all learning cycles, not just university ones, the percentage is way lower not just for Romania, where in the last 10 years the percentage was 1.6%, the same value as in 2011.

2. The percentage of people with the age 30 and 34 years old that are attending tertiary sector has to be at least 40%.

Fig. 2 evolution of student with the age between 30 and 34 years old in România and UE 27, in the period 2002-2011(%)

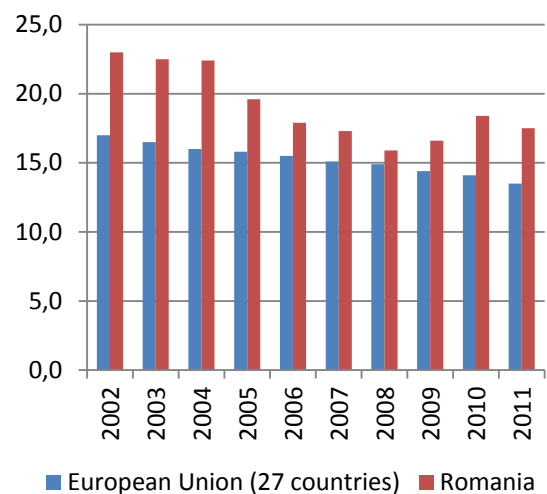


Source: Authors calculation based on Eurostat

As we can see from the figure above, at the EU 27 level for the entire period analyzed, the percentage of students with the age between 30 and 40 rose from 23,5% in 2002 to 34,6% in 2011. This was also the case in Romania when this indicator was 20.4%.

3. The percentage of people between 18 and 24 that drop out of school has to be above 10%

Fig. 3 The percentage of people between 18 and 24 that drop out of school in Romania and EU 27 in the period of 2002-2011



Source: Authors calculation based on Eurostat

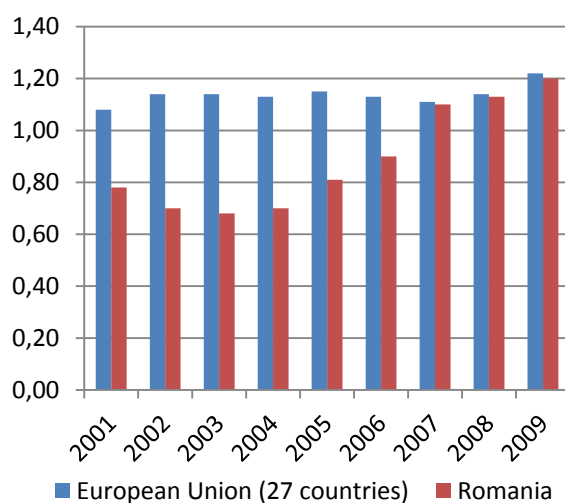
The 10% figure that EU stated regarding drop out from school between the ages 18 and 24 is still way beyond realization. Although that through the measures adopted the value of this indicator dropped at 13,5% in 2011 in UE 27 and at 17.5% in Romania there is still a long way to go in order to achieve 10 % by 2020.

4. 20% of the graduates must spend a period of the studies abroad.

At this last point, the statistics are not very encouraging. According to Eurostat in Romania and EU this indicator does not reach 5%. This is because of financial reasons but also because of the lack of synchronization of the learning programs at the EU level.

Another aspect that has to be analyzed is the one regarding financing the university system. In order to get the results that “Europe 2020” set up regarding higher education there has to be significant investments. Education is a priority for EU but it is still insufficient financed. At the European level, the investments in higher education is only 1.3% of GDP, compared to USA where is 2.7%. In this context, the annual budget of the EU (2014-2020) is set up to be substantially increased for education, professional development and research [3].

Fig. 4 The evolution of public expenditures with university education in Romania and EU 2001-2009 (%)



Source: Authors calculation based on Eurostat

From this analysis we can see that also Romania and EU pay about 1,2% of GDP for financing university education. In case of Romania, we can see something above 0.6% of GDP in 2003 not the same we can say regarding the evolution of the EU level among 1,1% and 1,2 % of GDP.

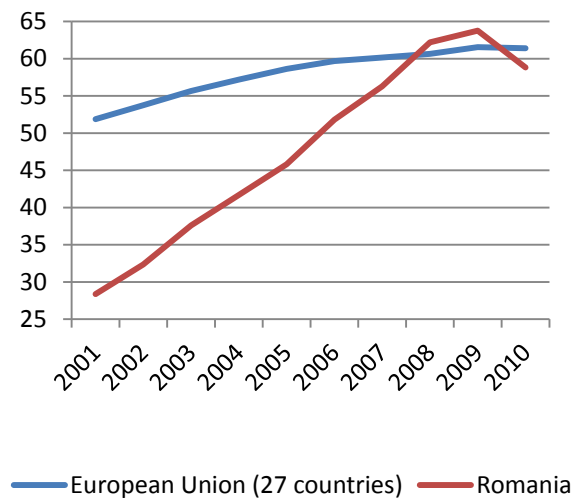
In order to be competitive the budget has to increase considerably. Not even a doubling of this amount is not sufficient with the Lisbon goal. In nominal terms, this amounts will increase based on the economic rise that is foreseen if we take into account the statistics of IMF and World Bank, regarding the GDP growth. And if the percentage for financing higher education will stay the same, then by 2017 the budgetary allocation in absolute figures would have to rise with 32% in Romania and 14% in case of EU.

At this moment, in our country the state financing is little above 3400 dollars per student and at the EU level it is 10600 dollars.

In order to for an educational system to be competitive, there has to be set the necessary conditions in order for students to give the best. So, the sums that state directly gives to the student as a learning scholarship or other scholarships gives a great advantage. The students are attract by the quality of education and are helped to achieve more by this sums. .

In Romania the financial aids for students as a percentage of total budgetary expenditures with the higher education is 7% compared to 17% in EU. Analyzing this data, we see that in Romania in 2011, the financial aids given by the state was 240 dollars. The European average was 1800 dollars.

Fig. 5 Number of students as percentage of the total population in Romania and EU (%)

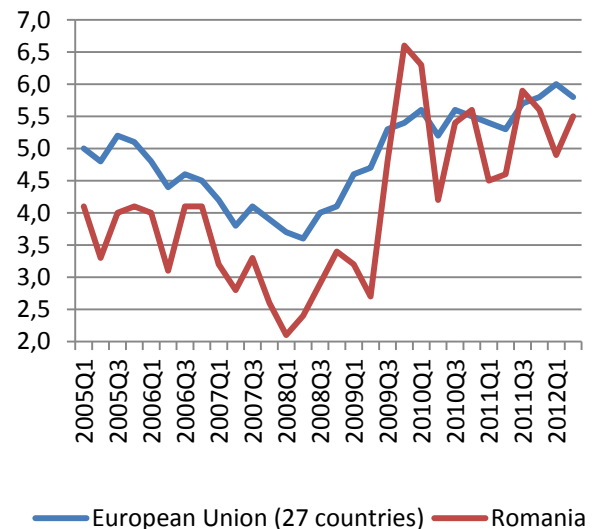


Source: Authors calculation based on World Bank

As we can see from the figure above, although in Romania the financial situation is difficult regarding the higher education financing, the number of students willing to study is increasing year by year. In 2009, when was the highest number of students registered compared with the worst year of 2001 it was a 40% increase. For a short period of time, Romania was also above the EU average 2008 and 2009.

Although the number of students registered rose it is essential to further discuss the problem of absorption of the market. If we discuss about the quality of the university studies, it is not enough to state the number of students that attended the courses but also the number of people that receive the graduate diploma. We have to analyze the performances and also the value added to the work market. At a macroeconomic level, we have to identify the the best policy in order to obtain an efficient mix between the number of students that enter the university and the capacity of the program to create the best specialists.

Fig.6 Trimester evolution of those unemployed with higher education in Romania and EU 2005-2012(%)



Source: Authors calculation after Eurostat

In the first years of the period analyzed, we can see a drop in the number of unemployed with higher education studies this trend is maintained until the middle of 2008 when this number started to rise. The main reason was the global financial crisis. The high number of graduates along with the crisis made that the absorption rate to be limited which led to a higher unemployment rate.

Conclusion

Higher university system is the most important instrument that a country has at its disposal in order to influence in the long run the development of society, socially, economically, military, politically. It is also true that this system is very expensive not only for the state, but for the students also. But these investments, along with a series of educational programs viable and adapted to the need of every student can contribute in the long run at creating a society valuable that can face all challenges that a global economy can bring. In order to be competitive the higher education system in Europe, through its common policies has to combine with harmony all the factors that can create stability and balance. Considering the diversity of the countries involved in this global process it is very difficult to find a

unique recipe that can produce these beneficiary effects at every country level. Considering that there are a series of different policies that have to be applied taking into consideration every countries member of EU needs and possibilities, then this policies have to enforce the university system of every country. It has to become more successfully , more attractive for students willing to follow the higher education courses competitive so that in the end, from a powerful system of every nation to gain a unitary and successful system for all the EU involved in this reform.

Establishing precise and measurable objectives, allocating the necessary amounts for financing and establishing successful policies adapted to every country needs would bring Romania and EU the competitive advantage needed to become a successful economy in the long run. This process also involves a lot of patience, awareness and involvement and value added. This investment is measurable in the medium and long run, only when through the output

generated, the graduates by knowledge and aptitudes gain, could make a difference in the real economy.

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The Evolution of Seigniorage during the Crisis

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Abstract

In developing countries, governments are tempted to, and they often do finance their budget deficits by issuing currency. This leads to inflation, and ultimately, the source of the incomes to the budget are the inflation tax and the seigniorage. The mechanism that is used is the direct loan, from the Treasury (the Government's cash desk) from the central bank, which means creating a an additional monetary base. Basically, seigniorage is not different from the financing of the budget deficit, by the central bank, by buying government bonds, and the effect of this practice is the emergence of the phenomenon of taxing inflation, by deteriorating the value of the financial assets owned by banks and non-banks.

This paper is structured as follows: conceptual aspects concerning the seigniorage in section 1, section 2 showing the models for calculate the level of seigniorage, section 3 estimates the evolution of Seigniorage during the crisis.

Cuvinte cheie: seigniorage, inflation tax, crisis.

Clasificare J.E.L.: E31, E58, E62, G01.

1. Introducere

The seigniorage is the increase in the real monetary base, its purpose being to finance the budget deficit (through the monetization of the public debt) and it is the income obtained by the state by issuing currency.

While most economists agree that seigniorage is one way governments finance deficits, there is less agreement about the political, institutional and economic reasons for relying on it.

2. Concept of seigniorage

In order to cover budgetary expenditure,

constantly increasing from one year to another, the Government should find methods to increase budgetary incomes and this desideratum can be accomplished by various methods: increasing taxes and duties, their quantity or number (disadvantages: an unpopular measure and it is less used due to the fact that, at the next elections, politicians would have fewer sympathizers and would thus loose the elections); issuing bonds, securities or other government bonds (may generate or increase inflation should be carefully used and by the authorities); selling assets (when the Government owns various goods, especially fixed property and it is not a long-term solution, because, in a capitalist economy the property is preponderantly private).

Due to the fact that these strategies have obvious disadvantages, a method that was often used in the past to cover budgetary deficit was monetary issue, a process by which the state, through the specialized institutions, increased the economic liquidity. It is a well-known fact that by covering the deficit by monetary issue the inflation is increased, but in certain authors' opinion (Sargent, Wallace, 1981), financing a budgetary deficit by public loan leads, on long term, to a higher inflation rate than its financing by monetary issue. The argument of this theory would be the fact that covering the budgetary deficit from public loans drives only inflation. The assumption of this argumentation would be that the government undertakes to pay interests for the borrowed amount, and has two options at the due date: to use monetary issue or to borrow again, thus creating a new payment liability. However, at a certain point in time, the Government will have to stop contracting loans and to start financing by monetary issue. Interests will increase constantly if the Government delays this moment, and the relative amounts put into circulation in the economy may lead to price increases and

implicitly to the increase in inflation. However, the practice proved that, in most cases, the effect of such method is the increase in the inflation rate.

The first country that stopped seigniorage was England (where William the Conqueror coined the first coin in the 11th century) in 1666 through Queen Elisabeth. However, the system was bimetallic, i.e. gold and silver, with the corresponding divisions. But the difference in parity between states (the gold-silver ratio varied between 1:15 and 1:17) allowed for speculation with the two coins (at the beginning of the 18th century, the ratio was 1:15 in the USA, and 1:15.5 in France – the American golden coins passed to Europe.) The gold-coin standard that eliminated the silver in the coinage, also emerged for the first time in England, in 1821. without directly legislating the standard, England renounced coining in silver, and thus the first monometallic system emerged.

We can find the financing of the budgetary deficit exclusively based on monetary issue in Germany in the 1920s (Mishkin, 1998); in the period 1921-1923 this country had to resort to monetary issue to finance public expenditure, because the increase in taxation was deemed an unpopular solution. As a result of the fact that public funds were necessary for the reconstruction of the German economy after World War I and, consequently, the reduction of public expenditure was not recommendable, and loans could not have been contracted because the financing needs exceeded the borrowing capacity of the country.

Against the background of social torments (strikes, the invasion of the Ruhr area by France as a result of the failure to observe the treaties for the reconstruction of Germany, etc.), his method of financing the budgetary deficit led to the increase in inflation that reached the level of 1.000.000 % in 1923. A more recent example in this respect is constituted by the states in South America that had, in their turn, to finance high budgetary deficits by monetary issue. An analysis of the situation of the countries in South-America reflect the fact that, if these countries had issued government bonds in order to finance budgetary deficits, the amount of issued bonds would have been so

large that the capital markets would not have been able to manage such an offer of financial instruments (Mishkin, 1998).

In terms etymologically, “seigniorage” from the French Seigneur: Sir, God, Landlord) denominates the capacity of (state) authorities to finance expenditures by money printing and it is associated with its sovereign monetary monopoly. Seigniorage revenues come from the fact that the Central Bank does not pay interest on the issued money, but the respective money is lend to the banking sector in exchange of a corresponding interest. A part of seigniorage revenues is used by the government for financing its budget; once the seigniorage disappears at national level, this source of revenue for the budget is not anymore available.

For exemple, in Romania, the seigniorage is the right granted by the Romanian State to the National Bank to coin. The difference between the printing costs and the nominal value of the coins is a source of income for NBR. NBR’s object is not to make profit, but to provide the stability of the prices in economy, i.e. the financial stability that provides an inflation within the target limits. Although BNR – *the National Bank of Romania* – is an independent institution, its profit is taxed by 80%, the conclusion being that the money obtained by the central bank also go to the government budget.

Because the profits from central bank operations are intended to be returned to the taxpayer, it is important that a central bank be careful with how it uses its power to create money.

For example, central banks often come under pressure to create money to provide loans to insolvent banks. But a central bank that makes loans to insolvent banks and then writes them off is creating money to bail out bank creditors, instead of to acquire assets that can make a return for all of a country’s citizens.

It is important, then, that central banks be regularly audited to ensure their money creation activities are in the public interest. It is also generally considered important that central banks be free from pressure from politicians to abuse the money creation power.

3. Seigniorage calculation models

There are several definitions that might be used and many calculation models for the seigniorage:

- the difference between the face value of a coin and its costs of production and mintage (Buiter, 2007). In fiat money economies, the difference between the face value of a currency note and its marginal printing cost are almost equal to the face value of the note – marginal printing costs are effectively zero. Printing fiat money is therefore a highly profitable activity – one that has been jealously regulated and often monopolized by the state.
- opportunity cost of money cost (Barro, 1982), that is, the money base multiplied by the nominal rate of interest:
$$S = d_n \times B_m$$
- according to Aise and Veiga (Aise and Veiga, 2008) as the change in reserve money as a percentage of nominal GDP and secondly the change in reserve money as a percentage of government revenues (most popular).
- the product of reserve money by the inflation rate divided by either GDP or government revenues (Cukierman et al., 1992). Authors have shown that these two additional alternative measures of seigniorage provide similar results.
- the change in the monetary base as a percentage of government spending (Click, 1998).
- The economists Nina Budina, J. Hanousek and Z. Tuma (Budina, Hanousek, Tuma, 1998) carried out a survey concerning currency demand and seigniorage in 4 countries in Eastern Europe (Romania, Bulgaria, the Czech Republic and Poland) and defined seigniorage as the real the real created base money and calculated it as a percentage of GDP.
- according to IMF (IMF, 2011), the seigniorage can be decomposed into "pure seigniorage" and an "inflation tax." Pure seigniorage is not inflationary; it is derived from the increase in real base money associated with increased demand for such money as a consequence of economic growth and

other factors. The inflation tax equals the amount of additional nominal money the private sector needs to accumulate so as to off set the impact of inflation on the real value of its stock of money over time. It is like a regular tax, because it requires agents to forego consumption in order to increase the nominal (and maintain the real) value of their stocks of money.

- Fischer, Sahay and Vegh (Fischer, Sahay, Vegh, 2002) calculate seigniorage as the change in the real money stock by comparing the base money variation to GDP (both values are nominal):

$$S = \frac{\Delta B_m}{PIB}$$

- "Inflation tax" after Friedmann: π^*m (π , inflation rate; m , real monetary holding); it measures the costs of inflation by which the economic agents that retain money are loaded. Some definitions of the inflation tax also include the erosion in the real value of government debt that arises from higher inflation. The unexpected rise in the inflation rate would lead to a substantial reduction in the real value of public debt in advanced economies, where debt is long-term, nonindexed, and in local currency. However, this would also result in higher long-term rates, therefore increasing the cost of new borrowing (Cottarelli and Viñals, 2009).
- the real growth of the monetary mass, such as it is used, for instance in the inflation study done by Cagan: μ^*m (μ , growth rate of monetary mass offer); it measures the profits resulted out of money creation.
- opportunity costs of monetary action (Phelps/Marty): i^*m (i , nominal rate of interest); it measures the expenditures that are created due to the fact that the economic agents cannot make investments out of the detained money mass in other asset values, which bear interest.

By assuming the validity of the quantity equation (for a constant speed of monetary circulation) and of the Fisher equation with perfect foresight, the following relation results:

$$\pi^*m = (\pi - g_y)^*m = (i - r)^*m$$

for slight changes, where g designates the growth rate GDP and r the real rate of interest. When g_y , respectively r are positive, the measured seigniorage for item 2 and 3 exceeds the one measured according to item. When $g_y = r$ is valid, than item 1 and 2 are equivalent.

- according to Aisen and Veiga (2006):

$$St = \alpha Plt-1 + \beta SPt + \delta PSt + Ecot + EcPt + et$$
 where St is seigniorage, $Plt-1$ is a proxy for political instability, SPt is a proxy for social polarization, PSt is the Polity Scale, $Ecot$ is a vector of economic structural variables, $EcPt$ is a vector of variables accounting for economic performance and external shocks, et is the error term.
- according to Aise and Veiga (2008) as the change in reserve money as a percentage of nominal GDP and secondly the change in reserve money as a percentage of government revenues (most popular).
- Fischer (Fischer, 1982) calculated seigniorage in the 1980s as the change in high-powered money (line 14 in the IMF's International Financial Statistics) in GDP:

$$\% B_m / PIB = \left(e_y \frac{\Delta \gamma}{\gamma} + e_p \frac{\Delta P}{P} \right) \times \frac{C}{\gamma}$$

where:

e_y = real income elasticity as function of currency demand (assumed to be 1 or 1.5)

e_p = price elasticity (assumed to be 1)

- A survey (Hochreiter, 1996) performed in three countries (the Czech Republic, Hungary and Romania) fuses the following elements to calculate seigniorage:

$$S = H + H' + EK$$

where: $H + H'$ = the money base made of currency and the residents' deposits be they remunerated or nor; EK = accumulated reserves of the central bank exceeding 10% of the quantity of money.

While most economists agree that seigniorage is one way governments finance deficits, there is less agreement about the political, institutional and economic reasons for relying on it.

4. The evolution of seigniorage during the crisis

Central banks have expanded their balance sheets significantly in response to the

crisis, mostly by stepping up purchases of sovereign and bank debt.

On average, this expansion has been financed by an increase in base money, which nearly doubled as a percentage of GDP over 2007–11. Substantial purchases of assets by the central bank to provide liquidity to financial markets have two consequences for the government. Such purchases support demand for sovereign bonds and also boost government revenues through the collection of higher seigniorage—the revenue from printing money (Anand and van Wijnbergen, 1989; Buitier, 2007). Seigniorage revenues have been sizable as a result of quantitative easing strategies in the context of the crisis, with little impact so far on inflation expectations. However, governments cannot rely on these revenues indefinitely, as the central bank may need to unwind its positions as market conditions improve and money demand returns to more normal levels.

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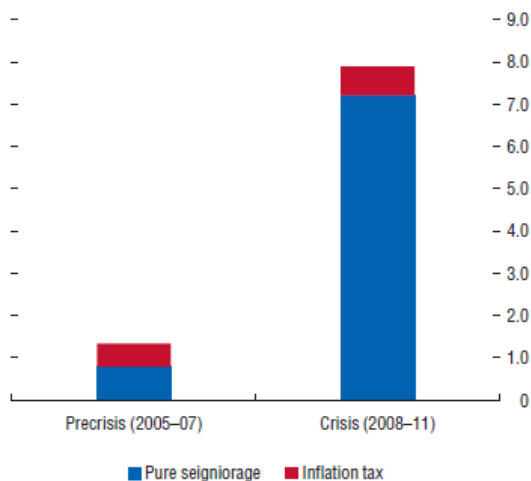
In the aftermath of the global financial crisis, seigniorage revenues have risen rapidly as central banks have expanded their balance sheets through quantitative easing and bank support to counteract the impact of the crisis. In advanced economies, the total cumulative seigniorage revenue collected during 2008–11 reached 8 percent of GDP—more than five times the precrisis level. Most of the expansion took place in the form of pure seigniorage, whereas revenues from the inflation tax were limited. This can be explained in part by the surge in demand for reserve currencies (mainly the euro, the Japanese yen, the Swiss franc, the British pound, and the U.S. dollar) amid flight-to-quality effects following the crisis.

With impaired credit markets, the inflationary risk posed by such deficit financing is very low in the near term. The relationship between seigniorage revenues and changes in one-year-ahead inflation expectations has weakened since the onset of

the crisis. A predominant part of the expanded balance sheets has accumulated as excess reserves, which are either nonremunerated or remunerated at a very low interest rate and as a result, central bank profits have increased substantially (for example, the U.S. Federal Reserve transferred to the Treasury profits amounting to about ½ percent of GDP in 2011). Most of these revenues will disappear once central banks shrink their balance sheets to their normal level.

In advanced economies, the inflation tax accounted for less than 0.7 percent of GDP, a level comparable to the inflation tax collected in the precrisis period.

*Graphic 1. Selected Advanced Economies:
Seigniorage (Percent of GDP)*



Sources: IMF, *International Financial Statistics*; and IMF staff estimates.

Note: Weighted averages based on 2011 GDP at purchasing power parity; includes Australia, Canada, the Czech Republic, Denmark, the euro area, Japan, the Republic of Korea, New Zealand, Sweden, Switzerland, the United Kingdom, and the United States.

5. Conclusion

Seigniorage refers historically, that is, in a world with commodity money, to the difference between the face value of a coin and its costs of production and mintage. In fiat money economies, the difference between the face value of a currency note and its marginal printing cost are almost equal to the face value of the note – marginal printing costs are effectively zero. Printing fiat money is therefore a highly profitable activity – one

that has been jealously regulated and often monopolized by the state.

The issuance of fiat money is an extremely profitable monopoly and the Eurosystem can collect a sizable amount of seigniorage revenue while maintaining inflation of two percent. A back-of-the-envelope calculation puts yearly seigniorage collection at EUR 40 billion. Buiter and Rahbari (2011) estimate that the Eurosystem can collect seigniorage revenue with a present discounted value of about three trillion euros.

A straightforward way that the ECB can use its seigniorage to support illiquid but potentially solvent sovereigns is to buy their debt outright in secondary markets as it has done in the Securities Markets Programme. However this is less efficient than purchasing their debt in primary issuer markets and includes no conditionality that would promote good fiscal behaviour.

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Actual Dimensions of International, European Union and Romanian Experience in the Use of Satellite Accounts

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Abstract

Satellite accounts can respond to specific data requirements. They extend the central accounting framework by adding non-monetary information.

Using alternative concepts may give rise to partial complementary aggregates, the purpose of which is to supplement the central system.

Changes in some concepts and aggregates of the central framework may be introduced, but this is not the primary intention, nor is it intended to give a different picture of the overall economic process.

In the case of Romania, the introduction and use of satellite accounts still represent a nice “future step”.

Key words: satellite accounts, EU, Romania.

J.E.L. classification: A10; H50; M40; M41; M49.

1. Introduction

For some specific needs in terms of data, the best solution is to have separate satellite accounts.

Satellite accounts can respond to specific data requirements: they provide further details, where necessary, and eliminate unnecessary details; they extend the accounting framework, by adding non-monetary information, for example, information on pollution or environmental assets; they change certain basic concepts,

for example, extending the concept of capital formation while introducing the expenditure on research, development or education.

Satellite accounts provide the opportunity to make links between such non monetary statistics and the standard framework of the national accounts. The link is possible by using for these monetary statistics, where possible, the classifications applied in the standard framework, for example, the classifications by type of household or activity branch. In this way, we reach to a consistent extended framework. This framework can serve as a database for analyzing and evaluating all types of interactions between the variables in the standard framework and those of the extended framework. [1]

A number of the complementary or alternative analyses may modify the main aggregates as shown in the central framework either directly or indirectly. Examples of direct modifications are the increase in output and value added when final consumption of household services for own use is included within the boundary of production, or the increase in fixed capital formation if human capital is considered an economic asset. Other aggregates are indirectly modified; saving in the latter case, disposable income in the former. [2]

In some types of analysis the objective is to focus on one specific field of concern, such as education or tourism. Changes in some concepts and aggregates of the central framework may be introduced, but this is not the primary intention, nor is it intended to

give a different picture of the overall economic process. [2]

In the standard version, headings at a given level are mutually exclusive. For example, teaching in hospitals must be classified as either education or health expenditure but not both. Consequently, for an education or health account, it might be desirable to reclassify a number of transactions. In order to preserve as great a degree of consistency with the central system as possible, any reclassifications should be treated as removing an item from one heading and placing it in another rather than allowing double counting. Double counting would mean that transactions classified by purpose were no longer additive since some of them would appear under two or more headings. However, even without double counting, it should be noted that different satellite accounts, each with a different focus, may not be consistent with respect to other headings. For example, if an education satellite account treats some teaching done in hospitals as education rather than health, the measure of health in that satellite will differ from that in any other satellite where such a displacement has not been made. [2]

2. Characteristics of satellite accounts

The document entitled „Proposal for a Regulation of the European Parliament and of the Council on the European System of National and Regional Accounts in the European Union” offers a general introduction for satellite accounts. Union citizens need economic accounts as a basic tool for analysing the economic situation of a Member State or region. For the sake of comparability, such accounts should be drawn up on the basis of a single set of principles that are not open to differing interpretations. [3]

Although still in the proposal stage, it describes and analyzes how the central framework of national accounts can be used as base system to meet several important particular needs for specific data. Satellite accounts might develop or modify the tables from central framework in order to meet the necessities for such specific data. [3]

Satellite accounts can meet specific data needs by providing more detail, by rearranging concepts from the central

framework or by providing supplementary information, such as non-monetary flows and stocks. They may deviate from the central concepts. Changing the concepts can improve the link with economic theoretic concepts such as welfare or transactions costs, administrative concepts such as taxable income or profits in the business accounts, and policy concepts such as strategic industries, the knowledge economy and business investments used in national or European economic policy. In such cases, the satellite system will contain a table showing the link between its major aggregates and those in the central framework. [3]

Broadly speaking, there are two types of satellite accounts. One type involves some rearrangement of central classifications and the possible introduction of complementary elements. Such satellite accounts mostly cover accounts specific to given fields such as education, tourism and environmental protection expenditures and may be seen as an extension of the key sector accounts just referred to. They may involve some differences from the central system, such as an alternative treatment of ancillary activities, but they do not change the underlying concepts of the System of National Accounts in a fundamental way. The main reason for developing such a satellite account is that to encompass all the detail for all sectors of interest as part of the standard system would simply overburden it and possibly distract attention from the main features of the accounts as a whole. Many elements shown in a satellite account are invisible in the central accounts. Either they are explicitly estimated in the making of the central accounts, but they are merged for presentation in more aggregated figures, or they are only implicit components of transactions which are estimated globally. [2]

The second type of satellite analysis is mainly based on concepts that are alternatives to those of the System of National Accounts. It includes a different production boundary, an enlarged concept of consumption or capital formation, an extension of the scope of assets, and so on. This second type of analysis may involve, like the first, changes in classifications, but in the second type the main emphasis is on the alternative concepts. [2]

The wide range of satellite accounts illustrates that the national accounts serve as a frame of reference for a variety of statistics. They also illustrate the merits and limitations of the central framework. By applying the concepts, classifications and presentations such as the supply and use tables of the central framework to a wide range of topics, the flexibility and relevance of the satellite accounts approach for these topics is demonstrated. At the same time, additions, rearrangements and conceptual modifications illustrate the limitations of the central framework for the study of these topics. For example, the environmental accounts extend the central framework to take account of environmental externalities and the household production accounts extend the production boundary to include unpaid household services. In this way, they demonstrate that the central framework's concepts of product, income and consumption are not complete measures of welfare. [3]

Major advantages of satellite accounts include the following: a) based on a set of clear definitions; b) application of a systematic accounting approach; c) linkage to the basic national accounting concepts; and d) linkage to national accounts statistics. [3]

A major characteristic of many satellite accounts is the inclusion of non-monetary data, such as data on CO₂ emission by industry in the environmental accounts or number of treatments by type of health care in the health accounts. The linkage of such non-monetary data with monetary data can provide key ratios, such as CO₂ emission per billions of euro of value added or the costs per treatment. Two other major characteristics of satellite accounts are extra detail and supplementary concepts. [3]

3. Functional satellite accounts

Functional satellite accounts focus on describing and analysing the economy for a function, such as environment, health, and research and development. For each function they provide a systematic accounting framework. They do not provide an overview of the national economy, but focus on what is relevant for the function. To that end, they show detail not visible in the aggregated central framework, rearrange information,

add information on non-monetary flows and stocks, ignore what is irrelevant for the chosen function and define functional aggregates as the key concepts.

The central framework is mainly institutional in nature. A functional satellite account can combine a functional approach with an activity and product analysis. Such a combined approach is useful for many fields, such as culture, sport, education, health, social protection, tourism, environmental protection, research and development (R&D), development aid, transportation, safety and housing. Most of these fields refer to services; they generally spread over a number of activities and they correspond in many cases to subjects that are related to questions of economic growth or of social concern. [3]

Some services may appear in two or more satellite accounts. For example, research in health services in higher education institutions is a product relevant for satellite accounts on Research and Development, as well as education and health. This also implies that the national expenditure on various functions may partly overlap; simple aggregation of these expenditure to arrive at a total as a percentage of GDP may involve double-counting.

The concepts in the satellite account may deviate from those in the central framework. For example, voluntary work may be included in satellite accounts on education and health. For a satellite account on transport, the ancillary transport services can be shown separately. For a satellite account on development aid, the loans which are given at preferential conditions are accounted for. Benefits or costs resulting from rates of interest lower than the market ones are recorded as implicit transfers. [3]

4. Special sector accounts

Special sector accounts provide an overview focused on one industry or product, a regrouping of various industries or products, one subsector or a regrouping of various subsectors. Three types of special sector accounts can be distinguished: a) those linked to industries or products; b) those linked to institutional sectors; c) those combining both approaches. Examples of special sector accounts linked to industries or products are agricultural accounts, forestry

and fishery accounts, tourism accounts, ICT accounts, energy accounts, transport accounts, residential building accounts and accounts for the creative sector. Examples of special sector accounts linked to institutional sectors are government finance statistics, monetary and financial statistics, balance of payments, public sector accounts, accounts for non-profit institutions, household accounts and accounts on corporate activity. Tax revenue statistics can be regarded as supplementary tables to government finance statistics. [3]

The key sector accounts can be presented in the framework of integrated economic accounts. A column or group of columns is introduced for key sectors and other columns are renamed where relevant, such as "other non-financial corporations" or "other households". This makes it possible to see the respective shares of the key sector and other sectors in transactions and balancing items. The precise format of such tables depends on the objectives pursued. One more step may consist in showing in additional tables the "from whom to whom" relationship between the key sector and other sectors, including the rest of the world. [3]

5. Conclusions

"The 2008-2010 multi-annual national statistics program", developed by the National Institute of Statistics of Romania provides in the chapter of the satellite accounts solely: environmental satellite accounts, natural resource accounting and health satellite accounts [4].

In terms of environmental satellite accounts, INS program includes: the current implementation of satellite accounts of expenditure for environmental protection, development of methodology and data collection for National Accounting Matrix with Environmental Accounts - NAMEA; the development of methodology and data collection for "environmental industries" accounts. The satellite accounts of natural resources refer to actions for 2008 (exploration of administrative and statistical data sources for the calculation of environmental accounts; development of data collection on material flows and providing standard tables to Eurostat; development of the methodology and building of the

indicators: resource productivity and material intensity of their use) but also for 2009 (development of methodology and data collection for the accounts of natural resources - coal, oil, natural gas; development of methodology and data collection for water flow accounts). Furthermore, the program also includes actions on health satellite accounts for 2008 (implementation of data collection on health expenditure, harmonized with OECD methodology and with the most recent methodological recommendations of Eurostat), yearly (for the collection of health expenditure of the three areas: funding sources, health functions and services, health service providers; an additional field is the collection of expenditure on health human resources in the standardized format), for 2009 (review the national methodology of the System of Health Accounts, following the preparation and publication of the second edition of the OECD-EUROSTAT-WHO methodology) and for 2010 (dissemination of statistics on health expenditure). [4]

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Premiums in non-Life Insurance: on the Property of Iterativity

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Abstract

This paper presents the premium calculation principles related to an insurance risk together with the desirable properties that should be satisfied. The main result concerns the iterativity property of the principle of equivalent utility (or the principle of zero utility). We compare two loss distributions through their calculated premiums.

Keywords: non-life insurance, insurance premiums, principles of premium calculation, principle of equivalent utility (or principle of zero utility), iterativity.

J.E.L.: C02, G22.

1. Introduction

In non-life insurance, one important issue is the principle based of which the premium is calculated. A premium calculation principle is a functional that assigns a usually loaded premium to any distribution of claims (or a rule for assigning a premium to any insurance risk).

We present the premium principles known from the literature and the properties that a premium principle has to verify. We focus on the property of iterativity, giving a result concerning this property for the principle of equivalent utility. In the end, the numerical illustration compares the premiums calculated for two types of loss distributions: discrete random variable and a continuous light tail distribution.

2. Premium principles

Let V denote the set of nonnegative random variables on the probability space (Ω, K, P) . V is the collection of insurance-loss random variables, also called

risks.

Let H denote the premium principle, or function, from V to the set of nonnegative real numbers.

$$H : V \rightarrow R_+,$$

$$X \mapsto H[X] \in [0, \infty),$$

$$H[X] = \Pi \text{ or } H[X] = \Pi[X].$$

The interpretation is that the insurer is willing to receive Π and in return accepts to make a random payment of X .

Further, we list some well-known premium principles [2], [6].

a) *Net Premium Principle* (or *Principle of Equivalence*): $H[X] = E[X]$ or $\Pi = E[X]$.

The use of the Net Premium is justified in the case we consider a large and homogenous portfolio with risks $X_k, k = 1, n$,

independent and identical distributed with expected value $E(X_k) = m$. According to the Weak Law of Large Numbers,

$$\lim_{n \rightarrow \infty} P\left(\left|\sum_{k=1}^n X_k - n \cdot m\right| < \varepsilon\right) = 1, \text{ for any } \varepsilon > 0,$$

so the premium $n \cdot m$ could cover the aggregate loss $\sum_{k=1}^n X_k$ with probability 1.

However, from the ruin theory, it is known that if the insurance company does not apply a loading to $E[X]$, i.e. a positive amount $H[X] - E[X] > 0$, for certain there will be a moment in which the insurer will not be able to cover the losses.

b) *Expected Value Premium Principle*: $H[X] = (1 + \theta)E[X]$, for some $\theta > 0$; this principle includes a proportional risk load $\theta E[X]$.

In practice, are used premiums depending on the first two moments of the random variable risk, such as the following two principles.

c) *Variance Premium Principle*:

$H[X] = E[X] + \alpha \text{Var}[X]$, for some $\alpha > 0$.

d) *Standard Deviation Premium Principle*:

$H[X] = E[X] + \beta \sqrt{\text{Var}[X]}$, for some $\beta > 0$.

e) *Principle of Equivalent Utility*: We present this principle from the insurer point of view as well as from the buyer of insurance point of view.

- The buyer of insurance point of view: Let u and w represent the utility and wealth (initial endowment) of a buyer of insurance. We suppose that u is a strictly increasing concave utility function. The maximum premium that the buyer of insurance is willing to pay for coverage of risk X is the solution $H_u[X] = \Pi$ of the equation

$$u(w - \Pi) = E[u(w - X)]. \quad (1)$$

The resulting premium $\Pi = \Pi[X] = H_u[X]$ is the indifference price for the buyer of insurance: he is indifferent between buying insurance at the premium $\Pi[X]$ (the left-hand side) and not buying (the right-hand side is the expected utility of the person who does not buy insurance).

- The insurer point of view. Let \tilde{u} and \tilde{w} represent the utility of the insurer and the initial wealth (initial endowment). We suppose that \tilde{u} is a strictly increasing, concave utility function. The minimum premium the insurer is willing to accept in exchange for insuring the risk X is the solution $H_{\tilde{u}}[X] = \tilde{\Pi}$ of the equation

$$\tilde{u}(\tilde{w}) = E[\tilde{u}(\tilde{w} - X + \tilde{\Pi})]. \quad (2)$$

This relation states that the insurer is indifferent between not accepting the insurance risk (the left-hand side) and accepting it (the right-hand side is the expected utility of the surplus that results when X is insured in exchange for the premium $\tilde{\Pi}$) [8].

f) *Exponential Premium Principle*:

$H_{\text{exp}}[X] = \frac{1}{a} \ln(E[e^{aX}])$, for some $a > 0$.

This premium is obtained from the previous principle for the case of exponential utility

functions $u(x) = \frac{1}{a}(1 - e^{-ax})$ or

$u(x) = -e^{-ax}$, $a > 0$, both strictly increasing

and concave functions, where a is the constant coefficient of risk aversion.

g) *Percentile principle* [7]: the smallest amount payable such that the probability of loss for the risk X is at most ε , i.e.

$H_{\varepsilon}[X] = \inf\{x | F_X(x) \geq 1 - \varepsilon\} = \text{VaR}_{1-\varepsilon}[X]$.

3. Desirable properties

We list the desirable properties of the premium principles that should be satisfied. We consider only the insurance payout and refer to that as the insurance loss random variable [1], [7].

i) *Invariant to the distribution law*: $H[X]$ depends on the risk X only through the cumulative distribution function of X , namely $F_X(x) = P(\{\omega \in \Omega | X(\omega) < x\})$, or on the survival distribution function $p_X(x) = 1 - F_X(x) = P(\{\omega \in \Omega | X(\omega) \geq x\})$; if two risks X and Y follow the same distribution, then, their corresponding premiums are equal.

ii) *Risk loading* (or *nonnegative safety loading*): $H[X] \geq E[X]$, for all $X \in V$; in this way, the business of the insurance company makes sense, otherwise it will go bankrupt.

iii) *No ripoff* (or *maximal loss*): $H[X] \leq \text{ess sup}[X]$, for all $X \in V$.

iv) *Consistency* (or *translation invariance*): $H[X + c] = H[X] + c$, for all $X \in V$ and all constants $c \geq 0$.

v) *Scale invariance*: $H[bX] = bH[X]$, for all $X \in V$ and all constants $b \geq 0$.

vi) *Additivity*: $H[X + Y] = H[X] + H[Y]$, for all $X, Y \in V$ independent risks.

vii) *Iterativity*: $H[X] = H[H[X|Y]]$, for all $X, Y \in V$. This property has the interpretation: the premium calculated according to the principle H for the risk X can be obtained by applying the principle H to the conditional premium of X , given Y . The conditional premium is a function of the random variable Y [5].

4. A theoretical result

Among the listed premium principles, the Net Premium Principle satisfies all the

properties i)-vii) mentioned earlier.

The Exponential Principle verifies as well all of them, except the scale property, v).

The Principle of Equivalent Utility verifies i), ii), iii), iv). Regarding the iterativity property vii), Gerber [3], [4] says that a Principle of Equivalent Utility is iterative if and only if it is an Exponential Premium Principle or the Net Premium Principle. In reality, we noticed much more than that.

We state and prove the following proposition [1]:

Proposition: The Principle of Equivalent Utility H_u verifies the iterativity property for any $u \in C^2$, $u' > 0$, $u'' < 0$, a strictly increasing, concave, utility function, i.e.

$$H_u[X] = H_u[H_u[X|Y]],$$

for arbitrary risks $X, Y \in V$.

Proof: We prove first from the buyer of insurance point of view.

By the definition of the Principle of Equivalent Utility, for a risk $X \in V$ we have $u(w - \Pi) = E[u(w - X)]$.

As $u' > 0$, u continuous function, then there exists u^{-1} the inverse of the utility function.

Then we obtain:

$$\begin{aligned} w - \Pi &= u^{-1}(E[u(w - X)]) \\ \Rightarrow \Pi &= w - u^{-1}(E[u(w - X)]). \end{aligned}$$

Let $Y \in V$ an arbitrary random variable (risk) and denote $\Pi_Y = H_u[X|Y]$. So, we have that $\Pi_Y = w - u^{-1}(E[u(w - X)|Y])$ and $w - \Pi_Y = u^{-1}(E[u(w - X)|Y])$.

Let us denote $\Pi^* = H_u[H_u[X|Y]]$ or

$\Pi^* = H_u[\Pi_Y]$. So, we have:

$$\begin{aligned} \Pi^* &= H_u[\Pi_Y] = \\ &= w - u^{-1}(E[u(w - \Pi_Y)]) = \\ &= w - u^{-1}(E[u(u^{-1}(E[u(w - X)|Y]))]) = \\ &= w - u^{-1}(E[E[u(w - X)|Y]]) = (\text{here} \end{aligned}$$

we use the iterativity property of the expected value for a random variable)

$$\begin{aligned} &= w - u^{-1}(E[u(w - X)]) = \\ &= \Pi = H_u[X]. \end{aligned}$$

That is, we proved that

$$H_u[H_u[X|Y]] = H_u[X], \text{ for any } X, Y \in V.$$

For the insurer point of view, we perform the transformation $w = \Pi + \tilde{w}$ and the proof goes analogously.

5. Numerical illustration

Let us consider two types of distributions for the risk variable: a discrete one and a continuous one.

The individual risk in a given portfolio covering losses for one year is modelled by the random variable $X: \begin{pmatrix} 0 & 2,05 & 6 & 11 & 157 \\ 0,6 & 0,2 & 0,16 & 0,025 & 0,015 \end{pmatrix}$, where the values are the possible losses in monetary units, $E[X] = 4$, $Var[X] = 363,3605$. The large and very large values occur with quite small probabilities.

For a discrete random variable X with the distribution $X: \begin{pmatrix} x_j \\ p_j \end{pmatrix}_{j=1, \overline{m}}$, and for $\varepsilon \in (0,1)$,

we have $H_\varepsilon[X] = VaR_{1-\varepsilon}[X] = x_{k_{1-\varepsilon}}$, where $k_{1-\varepsilon}$ is the unique index such that $\sum_{j=1}^{k_{1-\varepsilon}-1} p_j < 1 - \varepsilon \leq \sum_{j=1}^{k_{1-\varepsilon}} p_j$.

Let us consider also a light tailed distribution for the individual risk, namely the exponential distribution $X \in Exp(\lambda)$ with parameter $\lambda > 0$, i.e., with probability density function $f_X(x, \lambda) = \lambda e^{-\lambda x}$, $x \geq 0$, expectation $E[X] = \frac{1}{\lambda}$, variance

$Var[X] = \frac{1}{\lambda^2}$, and cumulative distribution

$$\text{function } F_X(x) = \begin{cases} 0, & x \leq 0 \\ 1 - e^{-\lambda x}, & x > 0 \end{cases}$$

$VaR_{1-\varepsilon}[X] = -\frac{1}{\lambda} \cdot \ln \varepsilon$, for $\varepsilon \in (0,1)$. For $\lambda = 0,25$, then $E[X] = 4$, $Var[X] = 16$, $VaR_{1-\varepsilon}[X] = -4 \cdot \ln \varepsilon$.

We choosed these losses such that they have the same expectation and we want to compare their premiums.

The following tables present the premiums calculated according to principles

a), b), c) d), f) and g) for some parameters, for the two distributions considered.

Table 1. Premiums calculated for the discrete random loss.

Principle			$H[X]$
a)			4
b)	θ	0,10	4,4
		0,25	5
		0,4	5,6
c)	α	0,10	40,3361
		0,25	94,8401
		0,4	149,3442
d)	β	0,10	5,9062
		0,25	8,7655
		0,4	11,6248
f)	a	0,24	139,5012
		0,20	136,0015
		0,10	115
		0,01	7,1430
		0,001	4,1910
g)	ε	0,10	6
		0,02	11
		0,01	157

Table 2. Premiums calculated for the exponential random loss.

Principle			$H[X]$
a)			4
b)	θ	0,10	4,4
		0,25	5
		0,4	5,6
c)	α	0,10	5,6
		0,25	8
		0,4	10,4
d)	β	0,10	5,6
		0,25	8
		0,4	10,4
f)	a	0,24	13,4119
		0,20	8,0472
		0,10	5,1083
		0,01	4,0822
		0,001	4,0080
g)	ε	0,10	9,2103
		0,02	15,6481
		0,01	18,4207

We notice that the premiums calculated according to c) show large differences explained by the value of the variance. Also, we see again significant differences for the same values of the coefficient of risk aversion a . Another remark is that as a becomes smaller and closed to 0, the value of the premium approaches the expectation.

6. Conclusions

This paper presented the main premium calculation principles and the desired properties, pointing out the property of iterativity that the principle of utility exhibits. The numerical example highlighted the fact that two risks, modelled by two random variables with the same expectation, can generate premiums with quite large differences for the same values of the parameters.

One of the ways of quantifying risks means to convert a random future loss or claim into a certainty equivalent. Premiums principles realize this requirement: given the probability distribution of the risks involved, they return prices. In exchange of them, the insurance company agrees to take the risks. This is the actuaries' point of view. However, the insurance company should consider also the market conditions, when assuming a risk.

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Controversy and Convergences in Defining the Concepts of Accounting Policies and Options

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Abstract:

The accounting policies have an important role in defining the loyal image of an entity. That is why we must distinguish clearly between accounting policy, accounting option accounting estimate.

Keywords: policy, option, accounting estimate.

J.E.L. classification: M41-Accounting

1. Introduction

The definitions given to the concept of accounting policies welcome the achievement of an accountancy that provides a loyal image or, in other words, of an honest accountancy.

2. Theoretical approaches on the concept of accounting policy

The accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements [1].

The accounting policies are defined in the Accounting Dictionary of Oxford University Publishing House [2] as "the specific accounting bases and constantly used by an organisation in drawing up the financial statements, these bases are considered and determined by the organisation as the most appropriate for the loyal presentation of its financial results and operations; the policies are focused on specific topics such as the pension schemes, the goodwill, the research and development costs, the operations denominated in foreign currencies, and so on."

Another definition, more nuanced, was given by Christopher Nobes [2]: "Accounting policies are detailed methods of assessment,

measurement and recognition (observation) that an entity has chosen from the generally accepted ones by the law, accounting standards or business practices. These policies must be used permanently and they must be published. An entity's annual report will include "an annex on the accounting policies" that have been applied in the financial statements. For example, a publication of the policies could mention whether the entity has used the linear method or the diminishing balance method of depreciation, whether in the stock assessment the FIFO or the CMP methods were used, the way of calculating and recording the provisions for the future pension payments.

The Accounting Standards Board: ASB in the UK published in late 1999 the Financial Reporting Exposure Draft 21: FRED 21 entitled "Accounting policies", which was to replace the SSAP 2 standard "Publication of accounting policies". The draft defined the accounting policies as being the specific principles, the bases, the conventions and the practices applied by an entity in order to reflect the effects of the transactions and other events by the recognition (observation), selection of the measurement bases and the presentation of assets, debts, earnings, losses and the evolution of the owners' funds. This draft, just as IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors", as we shall see below, makes the distinction between accounting policies and estimation techniques.

The International Accounting Standards Board (IASB) by means of the IAS 8 standard "Accounting Policies, Changes in Accounting Estimates and Errors" [3] defines the accounting policies concept in the following way: "the accounting policies represent the specific principles, bases, conventions, rules and practices adopted by an entity in drawing up and presenting the financial statements".

The Fourth Directive of EEC defines the accounting policies similarly to IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” and it states that liability regarding the accounting policies adopted by an entity for the operations carried out belongs to its management. The Directive also envisages that in the development of the accounting policies the general accounting principles stipulated within it must be respected, as well as the fact that the accounting policies should be developed given the specificity of the activity by the specialists in the economic and technical fields, who are familiar with the activity carried out and with the strategy adopted by the entity.

Concerning the selection and application of the accounting policies, IAS 8 stipulates that when a Standard or an interpretation specifically applies to a transaction, to another event or condition, the accounting policy or policies applied to that event will be determined by applying the Standard or Interpretation and by taking into consideration any relevant guidance on the Implementation issued by the IASB for the Standard or Interpretation.

The IFRSs (International Financial Reporting Standards) establish the accounting policies about which the IASB (International Accounting Standards Board) has concluded that they lead to financial statements that contain relevant and reliable information about the transactions, other events and the conditions to which they apply. These policies must not be applied when the effect of their application is irrelevant. Nevertheless, it is inappropriate to ignore or to leave uncorrected irrelevant deviations from the IFRSs in order to achieve a particular presentation of an entity’s financial position, financial performance or cash flows.

In the light of the standard, any omission or erroneous reporting of the items is significant if it can influence, individually or collectively, the users’ economic decisions taken based on the information from the financial statements. The significance threshold depends on the dimension and nature of the omission or erroneous reporting judged in the context. The dimension and the nature of the elements, or a combination of both, could be the determining factor.

An entity shall select and apply its accounting policies consistently for similar transactions, other events and conditions, except for the case a Standard or an Interpretation requires or explicitly allows the classification of the items for which different accounting policies may be suitable. If a Standard or an Interpretation requires or allows such a classification, an accounting policy shall be selected and applied consistently to each category.

In the absence of a Standard or of an Interpretation that specifically applies to a transaction, event or condition, the management shall use its professional judgment in developing and applying an accounting policy that leads to information that is:

- relevant to the users’ needs to make economic decisions;
- credible, in that the financial statements:
 - exactly reflect the financial statement, the financial performance and the cash flows of the entity;
 - reflect the economic substance of transactions, other events and conditions, not only in terms of the legal form;
 - are neutral and free from bias;
 - are prudent;
 - are complete in terms of all significant aspects.

The terms from the Fourth Directive of the EEC on developing accounting policies are similar to those of the standard, and in terms of the changes in the accounting policies the Directive’s provisions are similar to those of the above-mentioned Standard.

IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” enables changes in the accounting policies only if the change:

- is required by a Standard or by an Interpretation; or
- it leads to the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the financial position, financial performance or cash flows owned by the entity.

Both the Standard and the Fourth Directive show that the following are not considered changes of the accounting policies:

- applying an accounting policy for transactions, other events or conditions that actually differ from those previously produced; and
- applying a new accounting policy for transactions, other events and conditions that did not occur previously or which were irrelevant.

The changes in the accounting policies shall apply when:

- an entity shall take into account a change in the accounting policy resulting from the initial application of the Standard or of the Interpretation in accordance with the specific transitional provisions, if they exist, from that Standard or Interpretation;
- when an entity changes an accounting policy upon the initial application of a Standard or an Interpretation that does not include specific transitional provisions applying to that change, or it changes an accounting policy voluntarily, the entity shall apply the change retroactively.

When the retroactive application is required, a change in the accounting policy shall be applied retrospectively, except the case in which either the effects specific to the period or the cumulative effects of the change are impossible to determine.

Concerning the financial information presentation, IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" provides that when the initial application of a Standard or of an Interpretation has an effect on the current period or on any prior period, it would have had such an effect apart from the fact that it is impossible to determine the value of the adjustment, or it might have an effect on the future periods, an entity shall present:

- the title of the Standard or Interpretation;
- where appropriate, the fact that the change in the accounting policy is made in accordance with its transitional provisions;
- the nature of the change in the accounting policy;
- where appropriate, a description of the transitional provisions;
- when appropriate, the transitional provisions that may have an effect on the future periods;
- for the current period and for each prior period presented, as far as possible, the adjustment value;

- the value of the adjustments relating to the periods before those presented as far as possible;
- if the retroactive application (above-mentioned) is impracticable for a particular previous period, or for periods previous to those presented, the circumstances that led to the existence of that condition and a description of the way and of the moment in which the change in the accounting policy was applied.

The financial statements of the subsequent periods do not have to repeat these presentations.

When the voluntary change in an accounting policy has an effect on the current period or on any other previous period, it would have had an effect on that period apart from the fact that it is impracticable to determine the adjustment value, or it might have an effect on the future periods, an entity shall present:

- the nature of the change in the accounting policy;
- the reasons why the application of the new accounting policy provides reliable and more relevant information;
- for the current period and for each previous period presented, as far as possible, the adjustment value;
- the amount of the adjustments relating to the periods before those presented as far as possible;
- if the retroactive application is impracticable for a particular previous period, or for the periods before those presented, the circumstances that led to the existence of that condition and a description of the way and the moment in which the change in the accounting policy was applied.

Neither in this case is it necessary for the financial statements of the subsequent periods to repeat these presentations.

In case an entity has not applied a new Standard or an Interpretation that has been issued, but which has not yet entered into force, it shall present this fact, as well as the information known or reasonably estimable, relevant in the assessment of the possible impact that the application of the new Standard or Interpretation will have on the entity's new financial statements in the period of the initial application.

3. Accounting policies and accounting estimates

One important thing that should be mentioned is that the accounting policies do not include accounting estimates.

As a result of the inherent uncertainties occurring in the performance of an entity's activities, many elements of the financial statements cannot be assessed precisely, but only estimated. The estimation process involves judgments based on the latest available credible information. For example, one may request estimates for:

- the uncertain clients;
- technical obsolescence of the stocks;
- the fair value of the assets and financial debts;
- useful life, as well as the expected pattern of consumption of the future economic benefits incorporated in the depreciable fixed assets, etc.

In order not to undermine the credibility of the financial statements reasonable estimates should be used when they are drawn up. An estimate may need revision if changes occur in the circumstances on which it was based or as a result of new information or subsequent experience. The revision of an estimate is neither related to the previous periods nor does it represent the correction of an error.

Both the accounting policies and the estimation techniques presuppose that the entity in question could have used one or more measurement (assessment) bases.

A change in the measurement basis applied represents a change in the accounting policy and does not represent a change in the accounting estimates. In case it is difficult to distinguish between a change in the accounting policy and a change in an accounting estimate, the change is treated as a change of the accounting estimate.

The existence of several accounting policies and estimates for solving a problem leads to the accounting options. The option involves, therefore, a choice.

The choice of an accounting policy or of an estimation technique, including those accepted, must be made in such a way to ensure the best information for making decisions. The best and useful information must be consistent with the most loyal image concerning the financial position, the

financial performance or the financial position and financial performance trends.

The accounting options appear both at the level of the individual financial statements and at the level of the consolidated financial statements. Pierre Lassègue uses a brief inventory of these options in his accounting lexicon [4]:

- examples of options for the individual financial statements: the extent of development of the jobs and headings; the presentation of the annual accounts as account or list; the choice of an accounting system; the possibility of a cash accounting for the small entities; the choice between asset and expenditure and between debt and income; several assessment methods (procedures) of the confusable property (CMP, FIFO, LIFO); the use or non-use of the indexed historical cost; the use or non-use of the replacement value; classification of expenditure (by nature or by function) and of the income (by nature or by origin); accounting of the bad debts at operational or exceptional level; amortisation (amortisation legislation: must the goodwill be amortised or not?, the difference in the purchase?, the intangible assets?); the re-assessment of the balance sheet items (prohibited, optional, mandatory, fiscal conditionality); capitalisation or not of the assets financed by financial leasing; subordinated debt for an indefinite period (qualified or not in the category of equity); the translation differences (their integration or non-integration in the results); the long-term works (observing the result during progress or upon completion); financial expenses (their integration or not in the production cost of fixed assets or of certain stocks); value compensation of the ups and downs on certain categories of securities, etc.
- examples of options for consolidated financial statements: the consolidation methods and criteria; the treatment of difference from the point of view of consolidation (capitalization and amortisation, duration of amortisation, the immediate disappearance through the integration in the result of the exercise or in the equity); the converting method of the foreign subsidiaries accounts; the processing of the conversion difference;

the assessment of the amortisable tangible assets at the replacement value; the classification of the expenses by nature or by function; processing of the deferred taxes; etc.

4. Conclusions

The existence and presence of options in accounting raises the issue of the selection criterion of an accounting policy or of another, of an estimation technique or of another.

Regardless of the possible options, the accounting referential to which various entities appeal, whether national or international, must possess the characteristics of a modern referential in order that both the policies and the estimation techniques applicable can circumscribe in the perimeter of a fair representation of the financial position, of the performances and of the financial position evolution whose reality is modelled by accountancy.

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Premises and Obstacles to International Accounting Convergence

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Abstract

This article aims to analyse the main aspects of international accounting convergence. Therefore, the issue is the analysis both in terms of factors that favour the international accounting harmonisation and in terms of factors that prevent achieving this desideratum.

Keywords: normalisation, harmonisation, accounting convergence.

J.E.L. classification: M41

1. Introduction

International and even global accounting normalisation has become an increasingly pressing requirement because of the more and more numerous and sensational financial scandals. Therefore there is a need to develop accounting standards as uniform as possible worldwide.

International accounting harmonisation is a process that aims, as much as possible, at improving and reducing the differences between the national accounting practices and regulations. The harmonisation process aims to develop general principles and rules leading to the comparison of the information offered by the content of the financial statements. In other words, harmonisation aims at reducing the differences between the accounting regulations of different countries.

2. Normalisation, harmonisation and accounting convergence

Starting from the undeniable reality that in a market economy accounting harmonisation and normalisation mainly aim at determining the rules for operation of the accounting information market in order to optimise the financial communication, we conclude that the existence of this market

requires a product. The product exchanged on the accounting information market is the accounting information itself. This product only exists according to the rules and regulations that define it, leading to the need for accounting normalisation.

The need for harmonisation and uniformity in accounting requires its normalisation. The normalisation process leads to accounting harmonisation and convergence by formalising and materialising the objectives, concepts, methods, rules and procedures for the production and use of the accounting information. Normalisation involves determining a reference framework to which fundamental purposes can be attached, such as:

- obtaining information and a homogenous image on the entities by the public power;
- obtaining accounting information comparable between entities in time and space;
- ensuring a better allocation of the financial resources in a national economy.

Accounting normalisation is the way through which the presentation of the summary documents, the accounting methods and the terminology are harmonised. The normalisation effort as well as its product aim at [1]:

- defining the concepts, principles and accounting rules based on a precise terminology identical to all the producers and users of the accounting information;
- their practical application to ensure comparability in time and space, the relevance and reliability of the accounting information.

Internationally, the accounting convergence/harmonisation effort involves the development of accounting principles and standards applicable, entirely or partially, to a set of countries, entities or by a group of experts in the accounting profession. This

implies an authority to develop rules to be imposed and which have the authority and coercive power to sanction their non-compliance.

Currently, the institution through which international accounting normalisation is achieved is the "International Accounting Standards Board" (IASB), which is an organisation specialised in developing accounting standards. Although the institution exists, it neither has competence in the application of the rules developed by it, nor has it the coercive means to enforce these rules.

If until a quarter of a century ago accountants lived in a world of their own, in which not only did they speak different languages or used different languages, but they also gave different interpretations to the same events and transactions, today the watchword for most accounting professionals from all the world's countries is internationalisation.

3. The premises for achieving international accounting convergence

International accounting convergence / harmonisation is, first of all, a necessity arising from the needs of the financial statements' users.

In summary we could consider that the main pressure factors in favour of harmonising the international accounting normalisation are:

- increasing financialisation and globalisation of national economies (can be considered the main factor but not the only one). Financialisation involves financial concentration (or concentration of capital) through conglomerate integration and it consists of re-grouping the entities performing similar or different activities. The goal of the capital concentration is purely financial, namely improvement of capital development through dispersing the risks into more similar or different activities, but located in different regions of the world. Internationalisation is a strategic objective of the big entity because it provides access to new funding sources, new outlet markets, it leads to obtaining fiscal advantages and to reducing the costs through the access to production

factors that have lower costs. The entities operating on the international financial markets pursue diverse aims, from investments in foreign securities to issuing shares and bonds. At the basis of grounding the investment decisions within the entity, the greatest part of the information is provided by accountancy. Therefore, accountancy has become nowadays a kind of universal language of business and under the pressure of capital markets internationalisation a harmonisation and normalisation phenomenon of the accounting bodies has started worldwide. The process of international accounting normalisation and convergence can take place regionally or globally, as desired.

- the European Union expansion process (together with the European Union expansion we also witness the establishment of a growing number of multinational companies). Although there is a single market and a single currency in the European Union, in the given context, there cannot be a single accountancy in Europe without appealing to the referential IASB, the idea of conceiving an independent harmonisation no longer being current at present when we witness the globalisation of businesses worldwide.
- increasing globalisation of the capital markets and the increasingly acute competition between these markets;
- privatisation of large state enterprises that require significant capital that cannot be provided by the market or by the capital markets of a single country;
- the need and the desire of multinational corporations leaders to reach an optimal convergence between the internal and external information system.

Accounting harmonisation and normalisation are also necessary due to the diversity of the entities that contribute to defining the accounting information demand and supply, but also because of the imbalances that may exist between supply and demand.

The need for international accounting normalisation also derives from the entities' desire to apply a uniform accounting system based on the International Financial Reporting Standards. If the entities are

required to draw up the financial statements according to various accounting referentials (international rules to inform the investors on the various financial markets in which they operate and the local rules for the local market, especially due to fiscal reasons), besides losing their credibility before the would-be investors, the use of two or more types of rules represents a difficult operation, but especially a costly one because restatements are necessary.

For these reasons, as well as due to the desire of the entities' leaders to achieve optimal convergence between the internal and external communication system, most entities plead in favour of international accounting standards.

The modern world has as main characteristic the fact that among its components there are interdependencies whose intensity is amplified ever more. Communication is vital, but its effective implementation brings into discussion the issue of understanding the messages that are sent. In accountancy there are several languages since the accounting systems have developed rather independently, within the tight background of the national economies. Nowadays, international trade and capital movements beyond the borders of the origin countries have taken huge proportions.

For example, at present, the purchase of Japanese shares by European, American or Australian investors is considered commonplace. However, a problem arises: in order to invest, they must compare various Japanese companies or they must compare them to others. They need documents to reflect the economic situation of the entities and the most important thing is that they must understand exactly the information provided by these documents. Thus there has appeared the need to bring all the accounting systems to a common denominator, something which can only be achieved through international accounting convergence with the aim of reducing the differences between the national accounting regulations.

From this point of view, harmonisation should allow the elimination of the main obstacles in achieving comparisons internationally. Multinational companies are now required to prepare two sets of financial statements: consolidated financial statements

according to the country's rules, to the parent company (for the needs of the capital market) and individual financial statements for each subsidiary, according to the local regulations. Therefore, if the parent company is listed on more than one financial market, it is necessary to draw up a second set of consolidated financial statements for the foreign capital markets. But the very lack of uniformity and comparability of the accounting information often represents an obstacle for the investors on the international markets.

Today multinational companies endorse the diversity of the accounting systems in various ways. They may first establish several sets of financial statements. At present, a private entity that issues shares in the U.S. will have to draw up its financial statements in accordance with the General Accepted Accounting Principles – U.S. GAAP, to annex to the financial statements a detailed reconciliation with U.S. GAAP or to present a comparative statement between the net assets and the results established according to the origin country's principles. This requirement, in addition to being very expensive, also has the inconvenience of leading to two different assessments of the own capitals and results. This does not generally mind accountants who are aware that profit is a relative concept whose dimension depends on the assessment rules, but it is quite difficultly accepted by the financial analysts who tend to ask themselves which is the correct dimension of the profit on which they can count. Thus, harmonisation becomes a major imperative.

Another motivation that determines accounting systems harmonisation is the desire to "unify" the conditions of competition between countries. If one or more states within an economic union have a permissive or favourable accounting system, the entities are tempted to transfer their registered office, thus changing competition.

In terms of accounting information for a good financial communication, the quantity-quality-price relationship should be optimised. The communication process aims at the balanced state of this report, but the balance is also evolving as new information needs occur, new financing techniques, new legal contexts or new problems are individualised. From the above it follows that

the balanced state in this report is not easily achieved nor maintained in the contemporary economy, which has a dynamic character.

4. Obstacles to achieving international accounting convergence

The limits of international accounting harmonisation can be mainly analysed by taking into account the historical context and the cultural differences between peoples. But international accounting harmonisation also faces other obstacles such as: the financing system, the legal system, taxation, accounting information users' characteristics, age and dimension of the accounting profession, the features of the local economy (inflation rate, economic growth rate, the cash flow and the balance of trade situation, citizens' education level, and so on).

Accountancy can be seen as a tool that allows the communication of economic information, in other words, a universal economic language, and yet it remains a particular tool of a national culture since it is influenced by the economic, social, legal and even political and religious developments in each country.

In order to show the influence of politics on accountancy we appeal to history and we can take as example the influence of the Marxist ideology on the accountancy of the entities in the former communist countries. Thus, the theory of double entry was reinterpreted based on the Marxist theory of the value-labour, a theory considering that the value of a commodity has an objective character and it is determined according to the quantity of labour contained in the commodity. In fact, socialist accountancy, which was based on the Marxist theory, was supposed to be a control tool for fulfilling the centralised plan and of state property integrity. Moreover, in China, during the '60s when the so-called Maoist Cultural Revolution was taking place the double entry accounting practice was abandoned in favour of the accountancy based on the "addition/subtraction" recording mechanism (if it can be called so). Later, people returned to double-entry bookkeeping.

Accounting is not only influenced by the political ideology, but also by religion, seen as a cultural component. The religious component has a great influence on

accountancy, especially in Islamic countries where it influences the Mohammedan business people's ethics and that is why it represents an important element to be taken into account in the globalisation process of businesses and in the harmonisation process of the accounting systems.

Starting from the influence of religion on contemporary financial and accounting practices we can speak about two types of companies:

- the Western world based on the Judeo-Christian tradition in which religion does not have a direct and noticeable influence on the conduct of business;
- the Islamic world in which the way of doing business must conform to certain religious precepts.

In the case of the Islamic countries we deal with a cultural intrusion of religion in developing businesses and in the accounting and financial practices. If in the Western countries the business ethics is imposed through the codes of the professional associations, the Muslim business people's ethics is subordinated to the Islamic teaching requirements which prescribe what is allowed and what is prohibited in businesses. That is why the business practices of the Islamic countries do not automatically accommodate to the accounting and financial practices in the Western countries and religion becomes a limiting element, or in the best case, it conditions international accounting harmonisation.

These aspects concerning the accounting and financial practices specific to the countries from the Islamic world draw attention on the fact that international accounting rules have a limited application within the companies from these countries. Also as a differentiation, worth to be mentioned, between the Western accounting practices and the ones from the Islamic countries there is also the fact that in certain Muslim countries accounting audit is doubled by a religious audit. The religious audit checks the compliance with the Islamic precepts by those conducting businesses.

A limitation of the international accounting harmonisation is also given by the fact that besides transnationals which are adherents to drawing up and presenting financial statements according to the IASB rules, there are also small and medium-sized

entities which represent an important segment in the economic “tissue” of each country. In general, they retain the economic, financial, social and cultural characteristics of the country in which they exist and operate. These are not interested in drawing up financial statements in accordance with the international accounting standards and they represent a highly resistant segment to the influences of the contemporary phenomena.

Another objective limitation of the international accounting harmonisation is the fact that IASB is a normaliser without coercive power, the enforcement of its rules is optional, despite the current trends manifested by the world’s countries in order to harmonise the national accounting systems with the international accounting standards.

5. Conclusions

Taking into consideration the previous presentations, we can say that the

international accounting harmonisation process is on the right path, but there is still much to do until reaching the ultimate goal which is represented by an international accounting system applicable internationally and governed by uniform rules and principles.

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The Improvement of the Standardized System of Reporting to Suppliers in Order to Comply with the Stipulations of the Order Of the Ministry of Public Finances no. 1248 from 2012

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Abstract

At European Union level it was taken the initiative of creating a system of prompt payment, which becomes relevant under the conditions of the present economic crisis, through adopting the legal dispositions of fighting the delayed payments for the transactions closed among economical agents or between them and public authorities.

The authors of the present paper aimed to design an improved system of reporting to suppliers, that answers both to the requirements regarding the subsectors' reporting procedure and the need to establish whether these debts are due or overdue.

The research aimed at assessing the practical utility of the solution proposed for the improvement of the procedure of reporting to suppliers and especially for the overdue payments in order to enhance the correctness, promptitude and quality in delivering accounting information to its users, representing a refinement of the efforts to present standardized reporting solutions outlined within subsequent studies.

Keywords: European System of Accounts ESA 95, subsector, debts, financial statements, arrears

JEL Classification M41

1. Romanian background

In order to illustrate the national situation, I analyzed the national and communitarian legal framework in force. The aim was to verify the hypothesis according to which the fluctuations of the legal framework influence the organization of accounting and the accuracy of the information provided.

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.

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.

Therefore, as article 20 illustrates (weak points) in the chapter regarding the analysis of the "Internal Environment" of the "Strategic Plan of the Ministry of Public Finance 2010-2013", approved by the Order of Ministry of Public Finance no. 19/2010, there are "Relatively frequent changes to the financial-fiscal regulations within the public accounting domain, State Treasury, revenues administration and information system".

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 consideration during the centralized period) based on principles which can lead to multiple valid solutions for the same issue (a fact that might generate controversies with the control authorities who could have another option).

Since the International Accounting Standards, regardless of their form, are constantly changing, becoming more and more complex, the Romanian accountant must become an international accountant, mastering the international accounting terms and principles.

Therefore, the Government's efforts to adopt the International Public Sector Accounting Standard (IPSAS) are welcomed and must continue and be consolidated in order to achieve a complete conformity within a reasonable time. If by any reason the endorsement of IPSAS becomes unachievable for a couple of years, all the reasons must be recorded within the financial statements' entries – especially those regarding the accounting policies.

The budgeting, recording and reporting of capital expenses must be clarified and simplified. The Fiscal Responsibility Law (FRL) defines the investment expenses as representing the capital expenses and transfers for development expenses. However, the term “capital expenses” is not defined and there might be a confusion regarding what should or should not be considered a capital expense. Likewise, the term “development expenses” is not defined either.

The budgeting classification and the chart of accounts must be analyzed in order to make a distinction between different types of information. Among others, this measure would facilitate a better budgeting and reporting system for capital expenses. For example, there is a certain confusion regarding the accounting recording of capital expenses financed through different sources. The main reason appears to be the use of economic classification for the identification of the financing sources and occasionally for the projects' too. These issues must be analyzed and furthermore investigate the possibility of introducing a distinct code for the financing source and for a project. The economic classification must be used to describe the type of the purchased asset, e.g. buildings, so that the source code indicates whether it is financed by European funds for example, or by general national revenues, and the project code should indicate the project for which the respective expenses are made.

The overdue payments represent a threat for fiscal discipline and for the control of expenses. The arrears represent a loan measure for financing the current year expenses, which must be reimbursed the next year – from the following year budget. At this time arrears constitute a particular issue and they must be carefully supervised in order to prevent a deterioration of the situation. Arrears represent only a part of the overdue payments as they are illustrated in Annex 30 (30b).

Arrears constitute a subcategory of the liability payments / creditors. Internal arrears are defined as liability payments / creditors which have not been paid during 90 days period or within the deadline indicated (regardless of any grace period stipulated through contract). In case there is no stipulation regarding due date, arrears are defined as liability payments / creditors which have not been paid within 90 days period or more starting with the invoice or contract date.

We can draw the conclusion that the hypothesis stated in the beginning of this chapter is sustained considering the fact that frequent legislative changes influence the quality of the provided accounting information due to the necessity of constant changes in the information system of public institutions.

2. The standardized reporting of debts, overdue payments and arrears to suppliers

The hypothesis of the current issue is derived from the following question: is there a need to improve the standardized reporting system to the suppliers following the European System of Accounts ESA 95 due to legislative changes? If the answer is yes, how can this be achieved?

In order to provide a solution, the legal framework was initially analyzed, as well as the standardized reporting system according to the requirements made up until the introduction of the Order of the Ministry of Public Finance no. 1248/2012, outlining the reporting solutions in correlation with the accounting informatics system. The process thus involved both empirical and historical research following the specific model of documents' investigation.

According to the position document no. 11 “Economical Monetary Union”, Romania has committed to report after the European System of Accounts ESA 95.

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.

The delimitation of 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 criterion is strictly statistical, the inclusion or exclusion of an institution into the public administrations’ list is not entirely based on its economic 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

According to the stipulations 1.3 and 1.4. for the approval of the methodological Norms for the application of stipulations in art. 49, paragraph (13¹) of the Law regarding local public finances no. 273/2006 and the modifications and addenda on methodological Norms for the elaboration and deposition of public institutions’ trimestral financial statements, as well as

several 2009 monthly financial reports approved by Order of the Ministry of Public Finances no. 629/2009,

“Starting with the application of the present methodological norms, for the public institutions entirely or partially financed through owned revenues/ activities entirely or partially financed through local subordination owned revenues, code 49 is no longer used for overdue payments, and is replaced in the completion of the form with the following codes, depending on the situation:

51 – for overdue payments of public institutions, entirely financed through owned revenues (the functioning section and the development section);

52 – for overdue payments of public institutions financed partially through owned revenues / activities entirely financed through owned revenues (the functioning section and the development section).

The balance accounts from the beginning of the year afferent to codes 51 and 52 must correspond with the balance accounts from the beginning of the year reported for code 49.

The balance accounts afferent to previous month for the reporting on September 2012 afferent to codes 51 and 52 summed up must correspond with the balance accounts at the end of the reported period for August 2012 for code 49.

The form “The Centralized situation of arrears for the administrative-territorial unit general budget on the date of...” (Annex 30b.1 to the financial statements) must be completed only by the main credit controller of the local budgets, for the arrears of the administrative-territorial unit’s general budget reported in the form presented in Annex 30b “Overdue payments”, for code 40.”

The facts mentioned above highlight the necessity of combining both the reporting system based on the requirements of completing the financial statements and those regarding the monthly reporting system.

In the following section the information regarding the reporting of debts towards suppliers is illustrated through analytical models.

First of all, the subsectors’ analyzing method was attempted in order to automatically transfer the balance sheet data

into "Annex 40 (a, b, c) Public institutions' assets and debts statement", correlated with the information from "Annex 30(b) Residual payments" which was found out to be filled with errors.

Therefore, the following structure was attained in the first case:

The first degree synthetic account representing the suppliers was divided into current and non-current suppliers; these accounts were subsequently divided into subsectors' accounts with regard to their inclusion or exclusion from the clearing due date of the current period.

Table 2. Suppliers (I)

Suppliers (I) from which		
Current suppliers from which		Non-current suppliers from which
Subsectors' suppliers – each sector follows the subsequent structure		Subsectors' suppliers
within clearing due date	within residuary due date	1. (S11) (S1311)
7, 30, 60, 90,	>< 30, 60, 90,	2. (S123,S124,S125)
180 days	120, 365 days	3. (S21,S22)

Source: S.Briciu, G.G.Dragu, R. Ivan, 2010:478-483

The limitation of this model consists in the difficulty in providing highly accurate monthly data due to the usage complexity and thus not responding to the users' needs. The second model was developed based on the criteria of clearing due dates and within each of them on activity subsectors:

Table 2. Suppliers (II)

Suppliers (II) from which		
Current suppliers from which		Non-current suppliers from which
within clearing and residual payments due date from which		Subsectors' suppliers
within clearing due date	within residuary due date	1. (S11) (S1311)
7, 30, 60, 90,	>< 30, 60, 90,	2. (S123,S124,S125)
180 days	120, 365 days	3. (S21,S22)
Each due date is established for each subsector;		

Source: S.Briciu, G.G.Dragu, R. Ivan, 2010:478-483

The calendar month was used for the clearing due date:

- from which past due debts period (less than 30 days, 30 to 60 days, 61 to 90 days new included category in addition to the

terms mentioned in Annex 30 "Past due debts" etc.) on subsectors for each of them.

Likewise, the 2nd degree synthetic account "Non-current suppliers" was divided into subsectors.

The solution for current period payment due date distribution was given by the calendar month clearing due date formula with the indication whether it is for the current or the following year. Therefore, the error rate was reduced in the case of classification according to clearing due dates so that invoices that had a 7, 30 or even 180 days due date could have matured within the same month.

Problems appear within sanitary sector where, according to payment regulations, suppliers have an up to 180 days due date, and starting with July these invoices must be included in the non-current debts even though they have less than a year deadline and could be paid until the end of year.

As a informatics solution to avoid data introduction errors, starting with the calendar month that follows the previous due date month, the accounts that were due in that month do no longer show a balance account and the fields can no longer be completed (the balance account of the subsectors due in January must be zero starting with February either as a consequence of payment or a transfer into the 30 days residual payment category).

In the following section we present the standard structure of the accounts highlighting the commercial nature with suppliers, for the grouping model focused on deadlines, as was previously mentioned, the way we envision the organization of the unique balance sheet at administrative-territorial unit level.

Characters registry regarding the structure of Suppliers group 40.

- 1) Characters 1-4 = 1st or 2nd degree accounting synthetic account
- 2) Character 5 = The type of current or non-current debts
- 3) Character 6 = The function of accounting account
- 4) Characters 7-8 = The financing source, a new solution in order to facilitate the centralizing activity at the level of administrative-territorial units
- 5) Characters 9-10 = pertaining to national programs (it is opted for the filter

character of these 2 necessary characters in the completion of columns 2, 2.1, of Annex 30b II "Synthesis of overdue payments and arrears at the date of...")

- 6) Characters 10-11 = pertaining to post-adherence external funds (it is opted for the filter character of these 2 necessary characters in the completion of columns 3, 3.1, of Annex 30b II "Synthesis of overdue payments and arrears at the date of...")
- 7) Characters 11-12 = pertaining to pre-adherence external funds (it is opted for the filter character of these 2 necessary characters in the completion of columns 4, 4.1, of Annex 30b II "Synthesis of overdue payments and arrears at the date of...")
- 8) Characters 12-14 = Within due date (7, 30, 60, 90, 180 days)
- 9) Characters 15-16 = Overdue payments (30, 60, 90 days)
- 10) Characters 17-19 = Arrears (91, 120, 365 days)
- 11) Characters 20-21 = The sector or subsector according to the European System of Accounts '95 (ESA '95)
- 12) Characters 13-30 = Other information regarding the analytical account (fiscal identification code, supplier code or other analytical data elaborated by the credit coordinator depending on the entity's needs).

We thus conclude that the hypothesis stating that it necessary to refine the standardized system of reporting to suppliers elaborated according to European System of accounts ESA 95 due to legislative changes is sustained by the current study.

Moreover, we acknowledge that occasionally these changes lead to inconveniences in the reporting system regarding the process as well as meeting deadlines, which constitutes a major risk factor in the present economic conditions in long term, paving the way for creative accounting.

3. Conclusions

Arrears represent overdue payments accumulated in time, as a result of not paying the liabilities towards suppliers, banks, budgets. Overdue payments in Romanian economy maintained after 2001 around 60

billion lei, reaching their highest point in 2003, when the overdue payments amounted to 63,5 billion lei and with a lowest point in 2006, coming to 53,1 billion lei. 2008 was characterized by a highest degree in the increase of arrears (increase of around 22% compared to 2007). Therefore, arrears reached 70,4 billion lei at the end of the year, compared to 57,8 billion lei at the end of 2003 [1].

One of the leading causes in maintaining a high level of arrears in economy is represented by the losses recorded by companies. Thus at the end of 2008 the losses of economic agents reached 42,9 billion lei, which represents 8,5% of GDP, compared to those recorded in 2007, when they represented 5,2% of GDP [2].

At European Union level it was taken the initiative of creating a system of prompt payment, which becomes relevant under the conditions of the present economic crisis, through adopting the legal dispositions of fighting the delayed payments for the transactions closed among economical agents or between them and public authorities.

According to the communitarian juridical order, a directive cannot be directly applied within the internal law of member states, requiring transposition national legislative acts, according to article 288 of the Treaty of the functioning of European Union.

Therefore, Directive 2011/7/EC regarding the fight against delayed payments within commercial transactions, due to its complexity and effects, creates a context that requires transposition measures in national legislation, respectively the modification/completion of existent normative acts or the elaboration of new ones depending on the case, concerning the mediation and alternative ways of solving litigations, elaborating an inventory of normative acts in force which include deadlines of more than 30 days and the possibility of their modification in the desired direction.

For example, for the health subsector, according to the law in force, the clearing terms for the invoices emitted by the suppliers of medicines and sanitary materials are as follows:

- 30 days for the validation of invoices for the medicine with or without personal contribution (starting with the date in which pharmacies submit the invoices to the health

insurance house) + 180 days in which the clearing can be made = 210 days (7 months)

- 30 days for the validation of invoices in the national health programs, to which another 90 days for clearing are added = 120 days (4 months); by the transposition of clearing terms directive for the consumption of medicine and sanitary materials used within the national health programs invoices should be cleared in maximum 60 days starting with their submission.

The preventive Accord closed with FMI/CE/BM took into consideration the transposition of Directive 2011/7/EC into Romanian legislation in due time, respectively 16 March 2013.

The issue of overdue payments poses a risk for the sustainability of public finances and thus represents a constant concern for the authorities, being carefully supervised within the agreements closed with international organisms, through quantitative and qualitative criteria (the extent of arrears for national economic agents and for local authorities).

At the level of public organizations there is a tendency to transfer the gained experience and to standardize organizational structures especially in the domain of local public administration. Standardization has a positive effect considering that it allows for making comparisons that are useful for control, but might also generate negative effects under the conditions of recording an excessive centralization tendency.

A paradox of the time we live in is that although hundreds of satellites monitor the planet's activity and the information technology is globally spread, enabling the collection, amassing, delivering and analysis of an impressive volume of data, the accuracy of economic-financial data remains tributary to the referential of reporting and manipulation of results [3].

Financial statements must convey a reliable image of the assets, debts, financial status (net assets / equity patrimony / equity capital), as well as financial and patrimony performance and patrimonial results. The application of accounting regulations regarding the accrual accounting entails the establishment of a set of **procedures** by the management of each public institution for all the undergone operations, starting with the elaboration of justificatory documents up to

the trimestral and annual financial statements.

As a direction for future research we are considering the following issues: the development of a new procedure for reporting the debts, the correlation between the analysis of the volume of overdue payments volume and arrears with the data provided by the special accrual accounts both to suppliers and other categories of partners – banks, employees, state budget at social and local level.

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Fiscal Pressure in the EU Member States. Recent Developments

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Abstract

Since 1970 there has been a tendency to increase taxation in the Member States, trend that persisted for three decades, given the extension of the public sector in the economy, and hence the growth of public spending.

In the late 90s, following the Treaty of Maastricht and then the Stability and Growth Pact, Member States were constrained to adopt measures to ensure fiscal consolidation (reducing annual budget deficits and public debt). Some have reduced spending, while others have instead focused on the increase of temporary taxes. There were, however, countries that, taking advantage of the boom period, proceeded to a reduction of the tax burden, especially on personal income taxation, taxation on companies and of social insurance contributions.

Keywords : tax burden, direct taxes, indirect taxes, social contributions, crisis.

J.E.L. Classification : H200, H300

1. The evolution of fiscal pressure in the EU

As specifies from the very beginning the last report of the European Commission regarding the taxation trends in the European Union, this remains an area with high taxes. In 2010, the average of fiscal pressure including social contributions in EU-27 amounted to 38.4% of GDP, exceeding by 40% the U.S. (24.8%) and Japan (26.9%). Similar facts are presented and compared with other non-European developed OECD

countries, where only Canada and New Zealand have fiscal pressure rates above 30% of GDP. This creates, of course, major competitiveness problems to firms within the European Union.

The data in Table 1 shows that at the EU-27 level, over the decade analyzed, there was a downward trend in the fiscal pressure (by 2 percentage points between the margins). It decreased slightly from 2000, but for a short period (two years), after which, under the pressure of reducing budget deficits, the tax burden resumed growth by 2007.

The first effects of the global economic crisis have already been felt on government revenues in 2008, although the economic growth turned negative in the EU only in following year, when the lowest level of mandatory tax levies to GDP (38.4%) was registered, level that has stabilized in 2010 in the context of a slight resumption of growth.

This trend is specific to most Member States, twenty of these recording a fiscal relaxation. The highest tax rate reductions were recorded in Slovakia (6 percentage points), Sweden (5.6 percentage points), Finland (5.1 pp), Bulgaria (4.2 pp), Greece (3.6 pp), Germany (3.2 pp). Seven other states have increased tax burden, Cyprus (5.8 pp), Malta (5.4 pp) and Estonia (3.2 pp) making themselves noticed. In the other states changes, in one way or another, were less significant, often under one percentage point.

In terms of future trends, the European Commission forecast in November 2011 an increase of the revenues in GDP by one percentage point. Concerning public expenditure, which during the period 2007-2010 has increased by five percentage points,

one can expect a decrease by two percentage points until 2013.

Table 1. Level and dynamics of tax burden (total taxes including social security contributions, as % of GDP) in EU Member States

	2007	2008	2009	2010	Differences 00/10
Belgium	43,9	44,2	43,4	43,9	-1,2
Bulgaria	33,3	32,3	29,0	27,4	-4,2
Czech	35,9	34,4	33,6	33,8	0,0
Denmark	48,9	47,8	47,7	47,6	-1,8
Germany	38,7	38,9	39,2	38,1	-3,2
Estonia	31,4	31,7	35,7	34,2	3,2
Ireland	31,3	29,6	28,2	28,2	-3,1
Greece	32,6	32,2	30,5	31,0	-3,6
Spain	37,1	33,0	30,7	31,9	-2,2
France	43,4	43,2	42,0	42,5	-1,6
Italy	42,7	42,7	42,8	42,3	0,8
Cyprus	40,1	38,6	35,3	35,7	5,8
Latvia	30,6	29,2	26,7	27,3	-2,4
Lithuania	29,5	30,0	29,2	27,1	-2,9
Luxembourg	35,7	35,5	37,6	37,1	-2,1
Hungary	40,4	40,3	40,1	37,7	-2,1
Malta	34,8	33,8	34,3	33,3	5,4
Netherlands	38,7	39,2	38,3	38,8	-1,2
Austria	41,7	42,7	42,6	42,0	-1,0
Poland	34,8	34,3	31,8	31,8	-0,8
Portugal	32,8	32,8	31,0	31,5	0,4
Romania	29,0	28,0	26,9	27,2	-3,0
Slovenia	37,7	37,2	37,6	38,0	0,7
Slovakia	29,3	29,2	28,8	28,1	-6,0
Finland	43,0	42,9	42,6	42,1	-5,1
Sweden	47,3	46,4	46,7	45,8	-5,6
Great Britain	36,3	37,0	34,8	35,6	-1,1
EU-27 *	39,4	39,3	38,4	38,4	-2,0

* Weighted average of tax revenue volume in each country

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

Analyzing the level of taxation among Member States, what strikes are the large disparities between them. The range of variation in 2010 is over twenty percentage points of GDP between the country with the highest level of taxation - Denmark (47.6%) and the country with the lowest taxation - Lithuania (27.1%), i.e. a difference of 75%.

Above the European average, next to Denmark, stand Sweden (45.8%), Belgium (43.9%), France (42.5%), Italy (42.3%), Finland (42.1%), and Austria (42%). Below the European average, Lithuania is followed by Romania (27.2%), Latvia (27.3%), Bulgaria (27.4%), Slovakia (28.1%), and Ireland (28.2%).

These disparities can be explained in different ways and related to:

- the level of development of each country, developed countries, older EU member states practicing a higher level of

taxation than newer admitted into the European family, most former command economies (first nine positions as the level of taxation are occupied by EU-15 members. A connection should be made here with the taxpayer' contribution power (income and wealth) which provides a certain degree of supportability of the tax burden.

- the choices made by each state about the degree of involvement in the economic and social life especially and the delivery of public or private of social protection services (pensions, health insurance, unemployment), education, culture, etc.. Not incidentally the group of states with the highest taxation is dominated by Scandinavian countries.

- technical problems, some states giving economic and social assistance mainly through fiscal facilities (which reduce the tax burden), while others provide such assistance via direct government spending; at the same time in some states social transfers are exempt from taxes, while in others they are taxed, at least when they exceed a certain threshold, increasing the tax rate.

- finally, the phenomenon of tax evasion, by its magnitude, can affect the overall tax burden.

If between 2000 and 2007 some progress towards fiscal convergence desired at EU level can be determined, this process was interrupted by the crisis, centrifugal tendencies finding their explanation in the different intensity recession manifested in every state and various fiscal policy solutions that governments have used to counter the crisis.

2. The structure of fiscal pressure in the EU

The tax burden structure induced by the three main categories of compulsory levies (indirect taxes, direct taxes and social contributions) can be analyzed based on the data in Table 2.

A first observation that can be made is that at EU-27 level there is an almost equal distribution of fiscal pressure between the three main categories of compulsory levies, with an insignificant difference in favour of indirect taxes.

Contrary to these averages, among member countries the situation is highly differentiated, few states having a structure

similar to the levies of the European Union taken in its entirety (Italy, Spain, Netherlands, and Austria).

Table 2. The structure of fiscal pressure in the EU in 2010 (direct taxes)

Country	Overall compulsory levies % GDP	Direct taxes	
		% of GDP	% of overall compulsory levies
Belgium	43,9	16,3	37,2
Bulgaria	27,4	5,1	18,8
Czech	33,8	7,0	20,8
Denmark	47,6	29,9	62,7
Germany	38,1	11,2	29,4
Estonia	34,2	6,8	19,9
Ireland	28,2	10,7	37,9
Greece	31,0	7,8	25,2
Spain	31,9	9,9	30,9
France	42,5	11,0	25,8
Italy	42,3	14,7	34,8
Cyprus	35,7	11,1	31,1
Latvia	27,3	7,4	27,1
Lithuania	27,1	4,7	17,4
Luxembourg	37,1	14,4	38,8
Hungary	37,7	8,5	22,6
Malta	33,3	13,4	40,1
Netherlands	33,8	12,2	31,5
Austria	42,0	12,7	30,3
Poland	31,8	7,0	21,9
Portugal	31,5	8,9	28,4
Romania	27,2	6,2	22,6
Slovenia	38,0	8,3	21,8
Slovakia	28,1	5,4	19,1
Finland	42,1	16,1	38,2
Sweden	45,8	19,4	42,2
Great Britain	35,6	15,8	44,4
EU-27 *	38,4	12,6	32,9

* Weighted average of tax revenue volume in each country

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

On principle, in developed countries members of the EU-15, direct taxes have major percentages, in seven of these (Denmark, UK, Sweden, Luxembourg, Finland, Belgium and Ireland) the share of direct taxes going beyond the indirect taxes. Interesting to note is that direct taxes, more "visible" for taxpayers, are higher in countries in which redistributive objectives are more pronounced, the group of seven being dominated by Scandinavian countries.

Instead, indirect taxes have a more important contribution in countries with lower development level, Bulgaria (55.4%), followed by Hungary (45.5%), Romania 45.2%, 43.8% Cyprus, and Poland 43.5% standing out. Among these, a notable exception is Malta, country where the participation of direct and indirect taxes to

the formation of public revenues is somewhat balanced.

Table 3. The structure of fiscal pressure in the EU in 2010 (indirect taxes)

Country	Overall compulsory levies % GDP	Indirect taxes	
		% of GDP	% of overall compulsory levies
Belgium	43,9	13,3	30,3
Bulgaria	27,4	15,2	55,4
Czech	33,8	11,5	34,0
Denmark	47,6	16,9	35,2
Germany	38,1	11,4	29,8
Estonia	34,2	14,2	41,6
Ireland	28,2	11,7	41,4
Greece	31,0	12,3	39,7
Spain	31,9	10,6	33,0
France	42,5	15,1	35,5
Italy	42,3	14,2	33,5
Cyprus	35,7	15,6	43,8
Latvia	27,3	11,5	42,2
Lithuania	27,1	12,1	44,7
Luxembourg	37,1	11,9	32,0
Hungary	37,7	17,2	45,5
Malta	33,3	13,9	41,8
Netherlands	33,8	12,5	32,2
Austria	42,0	14,7	35,0
Poland	31,8	13,8	43,5
Portugal	31,5	13,6	43,1
Romania	27,2	12,3	45,2
Slovenia	38,0	14,6	38,5
Slovakia	28,1	10,4	37,2
Finland	42,1	13,5	32,0
Sweden	45,8	18,2	39,7
Great Britain	35,6	13,2	36,9
EU-27 *	38,4	13,2	34,1

* Weighted average of tax revenue volume in each country

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

Important differences exist in terms of social contributions.

A particular case is represented by Denmark with an unbelievable level of social contributions (2.1%), in this country social protection (high, by the way) being ensured mainly due to taxes on personal income, which in 2010 accounted for over 80% of overall direct taxes. Lower social contributions are also found in the UK and Sweden, among the old member states Germany and France standing at the opposite.

Developing countries practice a high level of social contributions (the top hovering Czech Republic, Slovakia, Slovenia) in order to support social protection systems, which increases the tax burden on labour.

Table 4. The structure of fiscal pressure in the EU in 2010 (social contributions)

Country	Overall compulsory levies % GDP	Social contributions	
		% of GDP	% of overall compulsory levies
Belgium	43,9	14,2	32,4
Bulgaria	27,4	7,1	25,8
Czech	33,8	15,3	45,2
Denmark	47,6	1,0	2,1
Germany	38,1	15,5	40,8
Estonia	34,2	13,1	38,5
Ireland	28,2	5,8	20,7
Greece	31,0	10,9	35,1
Spain	31,9	12,3	38,6
France	42,5	16,7	39,3
Italy	42,3	13,4	31,7
Cyprus	35,7	9,0	25,1
Latvia	27,3	8,4	30,7
Lithuania	27,1	10,4	38,3
Luxembourg	37,1	10,8	29,2
Hungary	37,7	12,0	31,9
Malta	33,3	6,0	18,1
Netherlands	33,8	14,1	36,3
Austria	42,0	14,6	34,9
Poland	31,8	11,1	34,9
Portugal	31,5	9,0	28,5
Romania	27,2	8,8	32,2
Slovenia	38,0	15,2	40,1
Slovakia	28,1	12,3	43,7
Finland	42,1	12,5	29,8
Sweden	45,8	8,3	18,1
Great Britain	35,6	6,7	18,7
EU-27 *	38,4	12,7	33,0

* Weighted average of tax revenue volume in each country

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

In Romania, the fiscal pressure issue became topical after 1989, with the first signs that the Romanian economy will become a market economy, while the tax system modernization was strongly recommended, a modernization which continues even after 22 years of transition.

Taxation level recorded in 2010 placed Romania on the 26th place among EU-27 countries, only Lithuania having a lower level of taxation (27.1%). This level is comparable with that tax in Latvia (27.3%) and Bulgaria (27.4%). Compared to the European arithmetic average (35.6%), the tax burden in Romania is lower by 8.4 percentage points and compared to the highest tax burden country (Denmark - 47.6%) the gap is 20.4 points percentage.

Under these circumstances, the fiscal structure has known significant changes within a 10 years outlook, by increasing the

share of indirect taxes in the overall tax levy to 45.2% in 2010 (compared to 40.4% in 2000), which places us on third place in the EU after Bulgaria (55.4%) and Hungary (45.5%) and well above the European average (38.6%). In parallel, the share of direct taxes and, especially, social security contributions decreased (from 23.2% to 22.6% and from 36.7% to 32.2%). Even with this level social contributions exceed the EU-27 average (31.1%), while direct taxes are well below the European average (30.4%).

The fact that our tax system has as main pillar consumption taxes is not a surprise, being a particularly of countries with less developed economies and with a lower individual income level, which makes direct taxes to lack a solid tax base. This goes particularly noticeable if we eliminate from the analysis the social contributions and we consider only pure tax levies. We find in this case that almost two thirds (66%) of tax revenues are obtained through indirect taxes and only 34% revenues from direct taxes.

3. Conclusions

The analysis of international practices and the trends in fiscal policy allow us to formulate some conclusions and perspectives on the complex issues of tax burden:

- from the analysis of the level and structure of taxation it results that its level varies according to the functions that assumed especially in terms of social protection;

- after the tax reforms developed in European countries in the 90s of last century a process of reduction of marginal tax rates in most countries began, observing that their high levels distort the economic activity and encourage tax evasion, even the conception of transition to the method of using taxes as economic and social levers gaining ground;

- as a consequence of the accession of new countries to the EU, there will be an alignment of the level of taxation and redistribution to the values recorded in countries with lower taxation;

- the Romanian fiscal system has reached that level of maturity as other tax systems in the EU, but there are some changes needed for harmonization with EU legislation and the removal of deficiencies;

- the tax burden and the level of taxation

in Romania are only apparently low, because, in fact, a low level of gross domestic product, an unequal distribution of taxation and the large number of taxes, for a large part of tax payers is burdensome;

- a fairer tax redistribution through a reconsideration of the relationship between direct and indirect taxes, an improved tax collection and the reduction of their level, as well as support to investment and economic development to increase income per capita and general welfare is needed;

- a reassessment of the level and forms of social protection in Romania, as well as labour taxation should be needed, because achieving a comprehensive social protection has a negative impact on the economic development.

Tax reform carried out in Romania should not stop at the achievements to date, a rearrangement of the domestic tax system to draw a new qualitative and quantitative structure following on.

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Optimal Portfolio Selection in a Value at Risk Framework

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Abstract

The non-normality of asset return distributions has been a stylized fact in the empirical finance literature. Fat-tailedness, in particular, can have significant impact on the accuracy in computing value at risk (VaR), which became popular from the mid – 1990s as a primary measure of market risks arising from the trading activities of banks.

The primary purpose of this study is to develop methodology VaR. At first VAR was only an educated estimate of the market risk, relative to a previously specified portfolio. VAR of a portfolio is a single figure, expressed in units of currency, summarizing within a specified holding period on a previously given confidence level..

All of these methods have different statistical assumptions and VAR results depend on the chosen method for a specified portfolio.

Key word: methodology VaR, Monte Carlo simulation, Stress Testing, Back-Testing, Risk Metrics

Classification J.E.L.: G11

1. Introduction

Investment and the portfolio theory have made a significant contribution to the theory of risk and return applied to securities. Indeed the Capital Asset Pricing Model (CAPM) has undoubtedly become one of investment.

Risk in this context can generally be related to the volatility of the return on a given security or a portfolio of securities. While this has obvious importance to investment or merchant banks, it must be

stressed that the activities of most modern banking groups do cross over to some extent due to the increased role of securities and derivatives in intermediation. Reducing risk through diversification has already been briefly mentions for virtually all areas of banking as it can be applied to any portfolio and can serve to reduce to exposure to all banking risks.

The new techniques appeared in the market risk management at first. In this area the necessary database was available, and relatively simple solutions offered a much better management of market related risks. With the passage of time in parallel with the increasing sophistication of trade financial instruments and increasing complexity of the market risk, models developed substantially to cope with the new challenges. A new style, better management of the market risk became necessary according to the changed circumstances. The new derivative product offered efficient risk management solutions, but in every derivative product there is a potential for big losses as a consequence of a very high leverage. The derivatives related problems further exacerbated with the difficulties related to a large portfolios. From the available solutions the Value-At-risk methodology almost became the standard for the industry. [8]

The original VaR numbers were only estimate assuming normal market conditions, and did not tell anything about adverse market situations when the market price volatility could be several times grater than under normal circumstances. Senior management and other users should keep in mind limitations of the VaR estimate as well.

VaR numbers are still very useful. Without stress testing procedures however the VaR numbers do not tell anything about

market crash situations and about the huge changes in the value of the specified portfolio. This stress testing is absolutely necessary because financial market tend to react increased price volatility to important events from time to time.

Although Var has limitations, its importance is much further reaching. It is a powerful management tool, which increase the transparency of market risks (especially derivative related risks) and measure them in very easily understandable financial terms. With help of VaR senior managers can avoid such risk management disasters as the Orange country case and the infamous Procter&Gamble case. In both cases seniors managers were not aware of the risk taken and could not control their employees' actions adequately. VaR can help to understand very sophisticated financial products, such as the hyper leverage, which was responsible for huge losses in the later case. [6]

Barings, Daiwa, Orange County and Long Term Capital Management...these are some of the banks that have lost billions of dollars in financial markets. These losses in many cases were the consequence of inadequate risk management systems in place and in many cases the result of poorly monitored market risk by the senior management. To address this problem some of the world's leading banks and financial institutions are turning to Value at risk (VAR); this is an understandable method of calculating and controlling market risks. [4]

Financial innovations such as derivatives have also made these banks and financial institutions take financial risk management seriously as many banks have lost huge amounts owing to trading in derivatives. In other words one can say that derivatives have started the revolutions of financial risk management that is now leading to every bank and financial institution using VAR.

2. Overview of VaR

It is the method of assessing risk that uses standard statistical techniques routinely used in other technical fields. It can be defined as follows:

"VAR measures the worst expected loss over a given time interval under normal

market conditions at a given confidence level". [1]

It measures the volatility of the assets; the more volatile they are the greater is the risk of bankruptcy. If a portfolio manager holds a portfolio with a low volatility this means that the risk of making huge losses is very low. On the other hand, if an investment manager has invested in shares whose value fluctuates by large amounts, then apart from probability of making huge profits there is a greater risk of potential losses and this is what VAR measure. Apart from indicating losses VAR also indicates the time period over which these losses will occur.

These are many approaches to measuring VAR but so far the industry has not come to a consensus on the best method of calculating VAR. There are three main approaches to calculating VAR: the correlation method, historical simulation method and the Monte Carlo simulation method. A fourth method, the historical approach, is a simpler and less theoretical method than historical simulation. Each of these methods has its own sets of assumptions, so there is no consistent method for measuring risk. This is the reason why different VAR models give different VAR figures. Risk managers therefore have to seek to understand the limitations of each model and use the one or a combination of models that best fits their organizations. [5]

This is the simplest of all methods; it assumes that all the returns on the risk factors are normally distributed. Correlation's between the risk factors are constant and the delta (or price sensitivity to changes in a risk factor) of each portfolio constituent is constant. In this method the volatility of each risk factor is extracted from the historical observation period. The potential effect of each component of the portfolio on over all portfolios is then worked out from the component's delta and the risk factor's volatility. [10]

These effects are then aggregated across the whole portfolio using the correlations between the risk factors to give an overall volatility of the portfolio value. By scaling the volatility of risk factors, the desired confidence interval for VAR can be obtained.

Different methods are used to calculate relevant risk factor volatilities and correlations. The most straightforward method used is simple historic volatility; the

problem with such a method is that a single large market move can distort volatility over the required forecasting period.

The other method is weight unequally past observations, which is a more sophisticated approach. In this approach more weight is given to the recent observations, this is done so that the large jumps in volatility are not caused by past events that happened a long time ago. Generalized Autoregressive Conditional Heteroscedasticity, the Garch and exponentially weighted moving averages are the two popular methods used for unequal weighting. Garch volatilities capture more features of past changes in volatility. Both these models assume that future volatilities can be predicted from historic price movements. [9]

3. Historic-simulation method

The historic approach is simpler to understand than other methods. In this method the risk managers simply keep the historical record of daily profit and losses within the portfolio and then calculate the fifth percentile for 95 percent or 1 percent for 99 percent VAR. Apart from being simple, the historic approach is also more realistic. It is based on the actual results; therefore the historical system will pick up any major market events during the historic period. Another advantage of the historic method is that it does not require "mapping".

Apart from being simple and realistic it has some weaknesses. For example, it is unsuitable if the weightings of the portfolio change. This is the reason why it is not suitable for scenario analysis. Hence, it may produce VAR, which does not reflect the current situation. Even if no positions are created or old positions eliminated from portfolio, the aging process can change a portfolio's risk profile significantly over time. One way of remedying such a problem is to use historic simulation. [3]

The historic-simulation method provides a straightforward implementation of full valuation. This method is relatively simple to implement if historical data have been collected for daily marking to market. In this method longer periods increase the accuracy of estimates but irrelevant data could be used, thereby missing important changes in the

underlying process. In this method returns are measured simply over intervals that correspond to the length of the horizon. Therefore one can say that it deals directly with the choice of horizon for measuring VAR. Since the method relies on actual prices, it allows nonlinearities and non-normal distributions. Therefore, full valuation is obtained from the historical data.

However, historic simulation is not free of criticism. For example, only one sample path is used; the assumption for this is that past represents the immediate future fairly. Historic simulation will therefore miss a situation with temporary elevated volatility. Secondly, VAR is a statistical estimation and therefore it can be subject to error if the sample size is too short or too large. [2]

Another criticism is that the method puts the same weight to all the observations even if they are old. Thus the measure of risk can drop significantly after an old observation is dropped from the window.

In practice users adopt simplifications, which increase the speed of computation. However, too many simplifications are carried out the benefits of full valuation can be lost.

4. Monte Carlo simulation (MCS)

Historic simulation takes only one path for market evolution whereas the Monte Carlo approach directs a computer to generate a series of share prices using a "random walk" approach.

The Monte Carlo simulation is more flexible than the above mentioned approaches; however, this approach also takes historical distributions for risk factor returns such as historic simulation rather than assuming normal returns. This approach is more computer intense than other approaches.

It covers a wide range of possible values in financial variables and fully accounts for correlations. The risk manager then specifies a stochastic process for financial variables as well as process parameters; these parameters such as risk and correlations are derived from the historic data. Each simulation will be different but in total all will aggregate to the chosen parameters. Once all the simulations are done then VAR can be found by listing all the outcomes in order of profit and loss

and cutting off at the required confidence level. This cutting off points represents the VAR. [7]

Unlike the historic simulation, in the Monte Carlo simulation, the evolution of market factors is to simulate through mathematical modeling rather than taking directly from the historic data.

Advantages of MCS:

As compared with other approaches, the Monte Carlo simulation has advantages. Some these advantages many are as:

- the MCS approach is more effective in capturing risk profiles of portfolio;
- this approach, because of its modeling precision, is best approach in quantifying large market movements;
- since it generates a large collection of sample paths, it can be used to test run a wide range of possibilities.

Disadvantages:

- the portfolio has to be revalued many times in order to generate a large sample of simulated paths;
- mathematical sophistication is needed;
- this approach is time consuming when running a risk analysis

All of the above-mentioned methods have their own advantages. Perhaps the best way is to check VAR measures with different methodologies and then analyze the sources of differences.

5. Stress Testing

Stress Testing, sometimes called scenario analysis, examines the effect of stimulated large movements in key financial variables on the portfolio.

The advantage of using such as a method is that it many cover situations completely absent from the historical data. This approach compels managers to consider events that they might otherwise ignore.

The Stress Testing method is completely subjective, so bad scenarios will lead to wrong measures of VaR. The choice of scenarios may also be affected by the choice of portfolios itself. For instance if in one moth the portfolio may be invested in national fixed income market, in this case the scenario will the focus on interest rate changes in the market. If the scenario

changes over time, the measure of risk will also change owing to this scenario.

This approach is criticized mainly because of poorly handling of the correlation, which is an important component of portfolio risk. This system is beneficial mainly for the cases where the portfolio depends primarily on sources of risk. Stress testing should be used as a complement rather than a main approach to calculate risk.

6. Back-Testing

Back-Testing is the method to verify the validity VaR; it is also recommended by the Basel Committee. This Method compares actual trading results with the model generated risk measures. If the differences are not close to each other then the model does not raise ay question about the validity of the model used to calculate the VaR, but if the differences are large enough then it raises alarms against the validity.

For financial institutions it raises some problems, for instance the difficulty of stripping out the effects of intra-day trading from the profit and loss figures, in order to makes them comparable to the VaR figures.

Secondly, the Back-Testing framework involves the use of risk measures calibrated to one-day holding period. These problems have been recognized by the Basel Committee, and it recommends that banks should develop the capability to perform Back-Tests by hypothetical valuations to the overnight VaR. However, this does not end the problem and therefore a lot of work needs to be done in this area.

7. Risk Metrics

The drive to launch a system for the management of credit risk continued from the fourth quarter of 1997. This was after JP Morgan introduced its own risk management system called credit metrics. It was launched in April 1997. Credit metrics evaluates the VaR resulting from credit exposure to a broad to a broad rage of individual cash and derivatives assets. This method assesses the credit quality result the changes in the credit ratings.

Credit quality is assessed by constructing the "transition" matrix giving the probability of change in credit ratings over a given

period of time. From this the expected change in the market value from the change in ratings is calculated. Finally the individual value distributions are aggregated with correlations taken into account between the credits. This gives a distribution of potential losses for the whole portfolio of assets. The credit metrics method not only allows wider credit quality but also calculates the likelihood that different types of loan will turn sour at the same time, producing a lower capital requirement for a well/diversified portfolio.

The credit metrics method also establishes a common benchmark for credit risk measurement. This makes it easier for pricing instruments such as credit derivatives. Advantages of this approach are these: since price and rate histories can be easily observed, this approach can therefore handle a large number of markets in a transparent fashion.

Secondly, since it uses the Delta Valuation method it is computationally efficient. A part from advantages there are also some disadvantages. For example, the extrapolated volatilities and correlations used in this model are or necessarily the best estimates and may not reflect what is currently implied in the markets. Another disadvantage is that it uses the delta valuation method, which can only approximate the risks in non-linear positions.

Conclusions

From the above it can be concluded that risk management is fundamental to modern banking, and proper risk management processes should be seen as a vital and integral part of a bank's success. No matter how sophisticated, model banks use human judgment is still essential ingredient.

Therefore people at all levels in the hierarchy should have knowledge and understanding of risks management, and use the model to measure the risk management system present in the organization.

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An Analysis of the Human Capital Management Effectiveness, as Key-factor of the Organization's Performance

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Abstract

The paper aims to give a new perspective on the ways of analyzing and evaluate the human resource management factor in the grid o the company's performance. It also stretches on new ways of measuring the work capability of personnel (individually and/or in strategic personnel units), perceived not only as a source of profit thru productivity, but as a key-factor in the organization's competitiveness and success.

Key words: human capital analysis, performance appraisal, HRM Performance
JEL classification: M5, M12

1. Introduction

The quality of the human capital is crucial for any company, enabling it to maintain a competitive advantage in this knowledge economy era, away along with technology and innovation. These are the pillars of competitiveness in the sector.

However, the most competitive companies are often suffering from high turnover rates of qualified personnel thus find it hard to recruit the right talents at the right moments, while keeping straight the balance of costs.

In addition to conventional human resource management approaches, we find in practice that there is an urgent need to develop effective personnel selection mechanism to find the talents who are the most suitable to their own organizations.

We refer to all categories of personnel (direct productive and indirect productive ones, e.g. internal auditors, accountants - as an important role in regards to the human factor is played by „the quality of the professional accountant [...] as he holds a

significant role, ensuring the credibility of the accounting statements”[3]). It is why the recruitment process tends increasingly to be initiated „directly in the university environment, while we see more and more a professional environment submitted to many challenges and of a lack of highly qualified personnel”[2].

And recruiting the fit personnel is but the beginning of a process. We need to emphasize on the fact that after the recruitment process is completed, it is as well important to maintain a good process of continuous evaluation of the performance level of the human factor.

2. Human Resource Management (HRM) performance evaluation

Performing the various activities and tasks to produce the outputs in terms of the performance objectives (with its underlying performance measurements), must be within a responsibility framework. This will ensure proper linkages to accountability and clear communication of each team member's assigned activity, against what the output will be measured to ensure the overall performance objectives of the unit are met. In short, this is meant to spot the necessary benchmarking points and indicators against what the employee's results will be evaluated.

But evaluators need to be appraised as well, by means of specific techniques applicable to the processes and results of their work; this is the Human Resource Management policies and outcome.

Graham Andrewartha is one of the authors whose work is focused on the Human Resource evaluation techniques; a study called Andrewartha Correll Human Resources Evaluation (ACHR) and developed by the author in 1995 aims to

attain an abstract illustration of two controlling dimensions of human resources management, as in flexibility and strategic focus.

The ACHR is an organizational environment survey/employee behavior survey, used specifically in the human resources management practices, in order to support that part of the HR evaluation process that might lack in objectivity if done in-house.

The method allows as well adding other carefully designed issues relating to the organization at a certain moment in time.

The output is to obtain an organization average score on each dimension; averages can be calculated separately for each business unit, section or department. This facilitates significant comparison of the perception on Human Resources Management (HRM) techniques across different business units of the same organization.

It also enables a differential appraisal of perceived value or impact of the implementation of new HRM policies, such as team development, quality control, restructuring, personnel rotation between posts and/or duty stations, fixed-term appointments and similar initiatives.

The two mentioned dimensions have different value ranges, going from less to more, full extent on each element:

- For the element *Strategic Focus* the range goes from a focus on reactive, immediate, operational management issues through to an edge on long term, strategic issues.

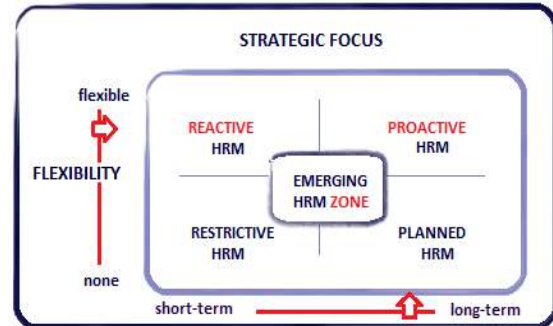
- For the element *Flexibility* the range goes from a traditional, flat adherence to established practices and protocols through to a flexible response, taking each new situation on its intrinsic worth, allowing resourceful solutions and options.

The result of the combination of the two axes is a matrix (Fig. 1) that shows four types of Human Resources Management, framing a "free" zone, with emergent potential. The four resulting zones state the relevant types of Human Resources Management bridging the two concepts: flexibility and strategic focus.

The four resulting quadrants show virtually extreme situations, in practice concepts being more collided, as even though we find good matches especially in quadrants

Reactive, Planned and *Proactive*, we mainly see combinations of approaches in HRM typology.

Fig. 1 Matrix of Human Resources Management typology



In the *Restrictive quadrant*, Human Resources Management is accomplished with both low flexibility and a low strategy focus. It is the case of the organizations focused on preset, firmly established HR procedures, which are often applied in reaction to events. There is little forward planning activity in place and Human Resources Management practices are restricted. This would be the case of public organizations, which need less flexibility in reaction, as less confronted to adversative situations in the past. This I to be changed in our view, as nothing is surer than uncertainty especially in economic environments.

In the *Reactive quadrant*, Human Resources Management is put in place with high flexibility, but a low strategy focus. HR practices tend to be flexible and accessible but most of the activity arise post-event and mainly in response to external/internal situations. Human Resources Management is responsive but is still defined by historical background and traditions. There is a small amount of long term strategic Human Resources Management planning. This would apply to small and medium sized organizations, which either grew faster than they were able to adapt the management practices accordingly, or reside in a less challenging sector, with low-specialized personnel; this allows the organization to rely more on daily short-term decisions concerning personnel and maybe operational decisions in general.

In the *Planned quadrant* there is low flexibility, and high strategic focus. In this sector we find organizations that plan HR ahead efficiently, using strategic thinking and

anticipation. The application of HR practices, whilst planned, is nevertheless mostly bounded by rules and regulations. It goes especially for international (public) organizations that tend to plan ahead based on 2-3 years budgets for all (including personnel) expenditures. This lack of flexibility is due partly to respect of highly restrictive HR rules (regarding recruitment, appointment, separation, retirement), in order to ensure equal, full and free access to all categories of applicants and partly to lack of willingness to change what has been established and what was proven to be working. This kind of inflexibility acquires to the employee's mentality as well, starting with HR people themselves, which creates rigid mindsets and future inadaptability.

In the *Proactive quadrant*, Human Resources Management is effected with both high flexibility and a high strategic focus. HR is extensively valued for its role as a strategic business partner, with key contribution to the leadership, to the business strategy formulation and change management. The approach promotes forward and flexible thinking within a considered and open structure, operating on learning organization philosophy. The HR entity is seen as a professional, strategic and tactical provider to the organizational direction and activity, and not as a processing component. It is and should be the case of majority of companies,

whether public or private, but is seen mostly on the private sector, especially with large organizations. Amongst other (previous mentioned advantages), it also ensures a good work climate, competitive yet professional, where employees may beneficiate from advancing professional pathways, having a securer long-term vision on their future careers.

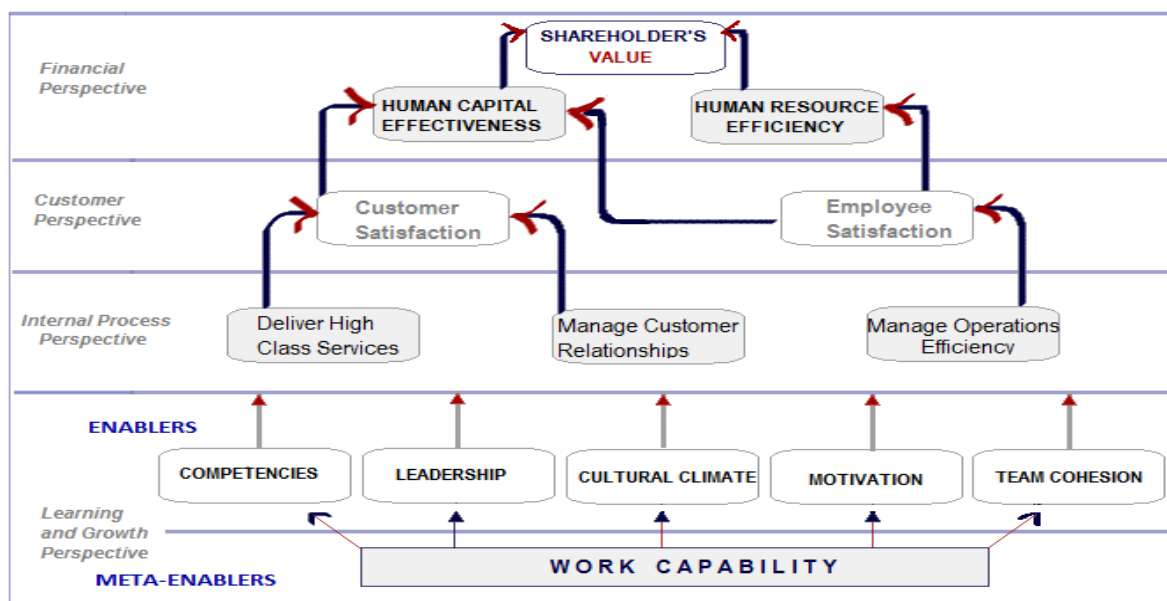
3. Work Capability Dimension

We shall not further refer to the work capability as a change or adaptation of an employee schedule, duties and responsibilities as consequence to an unexpected event (such as injury, temporary incapacity to work as per Job description requirements). This is the most common definition of terms, but we discuss mainly about the personnel's ability to create value, thru a series of entrenched layers.

Thus, the structure of the business is mainly deployable on four different layers (Fig.2), as follows:

- financial layer
- customer relations layer
- internal business process layer
- human capital layer (or the learning and growth perspective)

Fig. 2 Dimensions of the Work Capability Strategy Map



Source: adapted from © Laske and Associates, LLC, 2002 [7]

The strategic objectives of the first three layers appear as what we could call "Human Resources receivables". The human capital layer (or the learning and growth perspective) is set up in two sub-layers, that is:

- enablers, that help execute the designated strategic actions (it refers to competencies, team synergies, leadership, organizational culture) and
- capabilities (called meta-enablers) that trigger the enablers and measure the potential growth.

It is quite obvious that in order to improve the short and the long-term pragmatism of the organization personnel policy, there is needed to increase the number of Human Resources evaluation levels. By doing so, we take into account the organizational actual work capabilities which establish its level of current and future performance.

In order to analyze and quantify the work capability in sufficient perceptiveness means to open a timeframe through which we would be able to visualize the capability as it appears now, in the near future and in the far future.

The *current capability* is the level applicable to a person or strategic personnel unit at a given moment, for a specific job.

The *current potential capability* states for the maximal level of work a person or strategic personnel unit could carry out at any specified moment in time, in a preferred field of work and given environmental sustain.

The *future potential capability* states the predicted level of aptitude that a person or strategic personnel unit might possess at some specific time and for a precise set of tasks.

In the Human Resources analysis, the actual measurement of the three kinds of capabilities described above can be realized thru a capability grid or thru a capability metric system called Corporate Development Readiness and Effectiveness Measure (CDREM™). In CDREM, "variables together form an index; each index is specific to a particular enabler (as previously defined), such as leadership or team synergy and each enabler is measured in three different but interrelated time dimensions of capability: current applied, current potential, and future potential"[8].

When measuring team performance, we report results in a Capability Grid, while

group performance (15 to 50 people) is reported in the form of a Capability Metric.

In this way, it is possible to estimate not only the present performance, but the current and future potential performance two to five years ahead. The Capability Metric system is extrapolative. It gives insight into three aspects of capability: present performance, current potential (2 years ahead), and future potential (5 years ahead). The factors of the metric diverge according to whether we are looking at the present, or the near and far future. How can this measurement be done? It relays on criteria, which in liaison with significance coefficients gives an overall estimate for the three types of capability, as depicted previously.

Criteria for current performance are behavioral, while those for potential performance are developmental.

In summary, Capability Grid and Metrics are partly interview, partly questionnaire based instruments. Grid and Metric help the organization to make a step further than conservative performance management concept and evaluation, by detaching the input intangibles of the performance. Those two described dimensions, together with a third class of information - an analysis of the cultural environment in which performance takes place- it covers most of the aspects of an analytical human capital performance analysis.

Conclusions

The organization naturally seeks ways to become more competitive in its sector, exploiting all possible sources of competitive advantage, thus pursuing a progressively more proactive HR performance management.

Due particularly to new ERP solutions implemented in many structures of the company, it is now possible to obtain the predictive data on several aspects of its activity, including the Human Capital performance.

Once a year or in some cases even once every six months it takes place a staff performance assessment process, which creates firstly a traceable professional path for every staff that undergoes the evaluation, and secondly it traces down any underperformance, lack of motivation, or

even failure that employees may face. This helps both the organization and the employee to improve communication, to adjust expectations and to correct missteps when necessary. It is a good practice that is being implemented by more and more of medium and large organizations, not without reserves from the personnel that fears change.

It remains to be seen whether the management of the organization can adjust its present conservative approach and take the next step toward performance and increased competitiveness.

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Corporate Governance Codes and their Implementation

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Abstract

As national economies become interconnected through global trade and communication, local standards of corporate governance have become increasingly important to investors. In this study we compare the thematic content of governance codes based on the nature of the issuer. We find that issuer identity plays an important role in deciding what themes will be emphasized within a code and helps to explain code evolution.

Key words: corporate governance, investors, corporate governance codes, global governance practices, comply and explain

J.E.L.: C10, G10, G30.

I. Introduction

The concept "corporate governance" has attracted various definitions.

Corporate governance is the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as, the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs. By doing this, it also provides the structure through which the company objectives are set, and the means of attaining those objectives and monitoring performance [5].

Corporate governance is concerned with ways of bringing the interests of (investors and managers) into line and ensuring that firms are run for the benefit of investors[3].

Codes of corporate governance are a set of 'best practice' recommendations regarding the behavior and structure of the board of directors of a firm. Codes of corporate governance attempt to improve the firm's corporate governance overall, especially when other mechanisms, such as takeover markets and the legal environment, fail to guarantee adequate protection of shareholders' rights.

In such order, the European Commission's communication for the Council and the European Parliament entitled "Modernising Company Law and Enhancing Corporate Governance in the European Union – A plan to move forward, 21 May 2003, COM (2003)" put the regulatory basis of the legal provision of institutionalization of the *Societas Privata Europaea*, unfortunately not yet entered into force, but of maximum interest from the point of view of the capital's flexibility in terms of interest for investments. Such new supranational form of deployment of international affairs facilitates the spirit of competition, its advantages rising higher, when compared to lower costs of implementation of the investments on the Single Market, but also to the regulatory unification of the establishing rules [7].

The first code of good governance came into being in the USA in the late 1970s in the midst of great corporate ferment, with business, legal, academic, and political constituencies squaring off on what the role of the board of directors should be. The development of codes grew rapidly in the early 1990s, following the 1992 Cadbury Committee Report: Financial Aspects of Corporate Governance in the UK. The Cadbury Report became the flagship guideline that deliberately challenged the effectiveness of voluntary regulation and

British corporate democracy. The OECD Principles of Corporate Governance were endorsed by OECD Ministers in 1999 and have since become an international benchmark for policy makers, investors, corporations and other stakeholders worldwide. Thus, at the end of 2010, European Corporate Governance Institute report corporate governance codes for 86 countries.

II. Data Description

The sample used in this study consists of twenty-two members of the European Union selected on the basis of their adoption of a national corporate governance code. The first formal adoption of a national code of corporate governance for our sample countries occurs in 1995, while the most recent adopter in our sample is in 2012. The actual national corporate governance codes and related data concerning the dates of code adoption are obtained from the website of the European Corporate Governance Institute.

We describe our set of sample codes in Table 1 with a listing of their adoption dates and a history of their subsequent revision. We separate our sample of governance codes according to their legal regime as defined by LaPorta et al [2]. This allows us to compare groups of countries using a characteristic that has important implications for corporate governance and is widely established in the literature.

La Porta et al (2008) find that common-law countries have a stronger protection of legal protection investor rights than civil-law countries. Amongst the civil-law countries there is a difference between French-, German- and Scandinavian-civil-law-countries with those of German and Scandinavian having a stronger protection.

Table 1: Chronology of Code Adoption and Revision

Country*	Year of first adoption	Year of first revision	Number of revisions
Common Law			
United Kingdom	1992	2003	35
German Civil			
Austria	2002	2005	5
Germany	1998	2000	9
Switzerland	2002	2006	2
French Civil			
Belgium	1998	1999	3
France	1995	1998	7
Greece	1999	2001	1
Italy	1998	1999	6
Luxembourg	2006	2009	1
Portugal	1999	2001	5
Spain	1996	1998	5
Finland	2003	2006	3
Norway	2004	2005	6
Sweden	2001	2003	4
Former Socialist			
Czech Republic	2001	2004	1
Estonia	2006	-	0
Hungary	2002	2007	2
Latvia	2005	2010	1
Poland	2002	2004	2
Romania	2000	2009	1
Slovakia	2002	2008	1
Slovenia	2004	2005	3

Source: www.ecgi.org

* The legal origin classification is from La Porta et al. (2008)

III. Code Variability and Country Clustering

We observe that the United Kingdom, the only common law country in our sample, is a relatively early adopter of corporate governance codes. Although France reports the first adoption in 1998, the U.K. issued a series of studies and public statements on the need for corporate governance and reform beginning in 1992 with the Cadbury Report. In 2000, the U.K. completed its internal debate over governance by formally adopting a national code of corporate governance.

The United Kingdom Corporate Governance Code has been instrumental in spreading best boardroom practice throughout the listed sector since it was first issued in 1992. It operates on the principle of 'comply or explain'. It sets out good practice covering issues such as board composition and effectiveness, the role of board committees, risk management, remuneration and relations with shareholders. The new edition of the Code was published in

September 2012 and applies to reporting periods beginning on or 1 October 2012.

Austria adopted a Code on Corporate Governance in 2002, updated 2005. It is a self-regulatory instrument, using "comply or explain" and is supported by the auditor, financial analysts and asset managers professions. Adherence is voluntary and results in a public declaration of commitment. The code was drawn up by a working party, composed of representatives of industry and academia; it also proceeds to an evaluation of the compliance with the code. The Austrian Code of Corporate Governance provides Austrian public limited companies with a regulatory framework for the management and monitoring of the company. It contains internationally accepted standards of sound corporate governance along with the rules of Austrian stock corporation law that are significant in this context.

The German Corporate Governance Code aims to promote the confidence of national and international investors, customers, employees and the public in the governance of exchange-listed German corporations. The Code brings together important statutory requirements, takes account of nationally and internationally recognized standards in the form of recommendations and provides suggestions for good and responsible corporate governance.

In Switzerland, the Swiss Exchange has issued in 2002 a Corporate Governance Directive, revised in 2006. The Swiss Code of Best Practice for Corporate Governance contains a recommendation for good governance inspired by international practice. It is a recommendation, and is essentially not binding.

The first committee chaired by Marc Viénot issued a Report in 1995 that was wholly aspirational in nature and emphasised that then-current French law and regulation was sufficient to support good governance practices by French companies. In December 2004 the Belgian corporate governance committee, active within the Belgian employers' association, published a code applicable to Belgian listed companies. As in other states the code is essentially focusing on the functioning of the board and its relationship with management.

The French civil law countries exhibit the widest range in adoption dates of any of our legal regime sub-samples. As noted previously, France implemented the first formal national corporate governance code in 1995. Luxembourg is among the latest adopters, with its code being adopted only in 2006. The three earliest adopters among the French civil law countries have all revised their codes at least once since initial adoption. The adopters among the French civil law countries have all revised their codes at least once since initial adoption.

In 1999, the Hellenic Capital Markets Committee produced a White Paper titled "Principles on Corporate Governance in Greece – Recommendations for its Competitive Transformation", also known as the "Blue Book", which was closely modelled on the OECD Principles. SEV also developed a limited number of broad corporate governance principles in its "Principles of corporate governance by the Federation of Greek Industries" published in 2001.

In Italy, along with the significant changes in the company law, a Corporate Governance code or "Codice di Disciplina" has been adopted - in a renewed version in 2006 - by the Borsa Italiana with support from the Association of Companies Assonime.

In Portugal the Corporate Governance recommendations have already been issued by the CMVM, the securities regulator in 1999.

In Spain, a new corporate governance code has been in effect since 2005. It was drawn up by a special committee appointed by the government and composed of public officials, business representatives and experts. The purpose was to replace the previous Olivencia and Aldama reports.

In Finland Corporate Governance Recommendations for Listed Companies became effective in 2004. The work to establish a code started in the beginning of 2003 when a working group was formed by Helsinki Stock Exchange, the Central Chamber of Commerce of Finland, the Confederation of Finnish Industry and Employers.

The Norwegian Code of Practice for Corporate Governance was first presented in

2004 and a last revised version was issued in 2011.

The last subset of our sample countries are those that we refer to as former Socialist states.

The Czech republic Revised Corporate Governance Code was published in 2001. While it largely follows the OECD model, it also has links with the UK Combined Code. It is a voluntary code. As a country that uses the dual board model, the guidance proposes good practice for the supervisory and management boards. Updated 2004.

A voluntary corporate governance code was adopted in Estonia on 1 January 2006. Furthermore, some “Corporate Governance Recommendations” were developed by the Financial Supervisory Authority (FSA) in co-operation with the Tallinn Stock Exchange (TSE) and are intended to enhance corporate governance and transparency among listed companies.

In Romania, corporate governance has emerged in its regulatory and conceptual form in the early 2000s. The first corporate governance code was adopted in 2001. In 2009, it was replaced by a new corporate governance code, which is based on OECD principles. The new code is applied voluntarily by companies traded on a regulated market operated by the Bucharest Stock Exchange.

IV. Conclusion

Corporate governance refers mainly to the organisation of the relationship between the owners and managers of a corporation. The ways in which countries structure this relationship take different forms across the globe, reflecting different economic circumstances and national traditions. Corporate governance systems must be seen and understood in the context of the societies in which they function. Much conventional wisdom circulates on the characteristics of national systems, but it is not always supported by empirical evidence.

The convergence of national corporate governance codes is important to the EU from the specific perspective of completing the single market for financial services. Individual and communal interests are at stake that extend beyond safeguarding the interests of investors.

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The General Risks Arising from the Faulty Application of the Accounting Principles

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Abstract

The identification of accounting risks is not always the easiest action undertaken by the entity because the changes occurring at all levels of aggregation of the economy cannot be entirely anticipated. Therefore, the problem of the risks that entities have to face has become an extremely serious one, requiring the establishment of measures and strategies in order to limit them.

Keywords: strategies, accounting risks, crisis, accounting principles, entity

JEL Code: M41, M10

1. Introduction:

Accounting quantifies, processes and transmits financial information about an entity, it makes the connection between the activities carried out and the decision-makers. Nevertheless, there is a series of risks arising from the activities carried out or the faulty application of the accounting regulations, a fact which generates a series of threats that affect the smooth running of the entity when the appropriate measures are not implemented in terms of minimising them. Thus, under the current conditions, it is necessary to identify the risks that the entity has to face and to propose strategies for their administration in order to survive in the context of the economic crisis.

2. The general risks arising from the faulty application of the accounting principles:

The loyal image is an objective aiming at the fair, real, objective presentation of the entity. The information presented in the financial statements reflects this aim of loyal image. However, the faulty application of the

accounting principles may overshadow this goal, generating a number of risks.

Thus, starting from the faulty application of the accounting principles a number of risks has been identified and presented, as follows:

1. The principle of activity continuity

It requires that an entity conducts its activity in the best conditions, without going into liquidation or reducing its activity. As a result, there is a number of accounting practices that generate a series of detailed risks as follows:

a. Delimitation of certain financial or accounting exercises throughout the entity's life, depending on which the following are established: financial position, financial performance and cash flows of an entity - the risk arising from the misunderstanding or misinterpretation of this principle can lead to the formation of a misleading image of the financial position, of the financial performance that can influence the economic decision of the financial statements' users.

b. The use of the historical cost and of the current (utility) value for assessing the assets, equity and debts, income and expenses – the assessment of the balance-related items using the historical cost and the current (utility) value generates an underrating risk of the assets and expenses and an overrating risk of the equity, debt and income related items.

c. The delimitation in time of the revenues and expenses - this type of activity creates the possibility of a false recognition of the above-mentioned elements in a period of time in which should not have been recognised, thus there is a risk of assessing and presenting the results of the entity that do not reflect a loyal image.

d. The impact of inflation on the accounting activities – the inflationist risk may influence the decrease of the purchasing power, which is reflected in the entity's purchase of goods and services.

2) The principle of accounting methods consistency and of assessment in accountancy

It consists of applying the rules and procedures related to the accounting and accurate assessment of the balance sheet items. By applying this principle a fair presentation of the financial position is ensured, as well as the comparability in time of the financial information. Non-compliance or misinterpretation of this principle generates an assessment risk, namely the situation in which the financial statements users are affected due to non-compliance with the comparability criterion which results in an assessment that affects their decisions.

3) The principle of prudence

It aims at the correct assessment of the assets, equity, debts, income and expenses in order to avoid overrating or underrating of the result. According to this principle, the overrating of the assets and income, respectively the underrating of the debts and expenses are not allowed by taking into account the devaluations, losses and possible risks generated by the activity of the current year or previous year. Thus, the risk of transfer of uncertainties in the future years will be avoided. The non-compliance with the principle or its circumvention leads to a distorted image of the financial position as well as to presenting an image of the entity's performance non-compliant with the reality.

4) The principle of the year independence

The principle implies that transactions and other events are taken into account only when they have occurred and not when payment or collection of funds is due. According to the regulations in Romania, this principle aims at delimiting in time the income and expenditure relating to the financial year for which the report is made, without taking into consideration the date of receipt of the payments. The consequence of applying this principle is that the income will be affected in the year in which they were incurred, respectively their registration upon acquisition, as well as registration of costs as they are being incurred.

The risk of not applying this principle is the presentation of a higher or lower performance in the annual financial statements depending on the registration or non-registration of income and expenses in

accounting. Tracking certain documents (invoices from suppliers, respectively invoices from customers) via certain non-accounting tools (cash flow) reduces the risk of non-payment.

5) The principle of separate assessment of assets and debts

According to this principle, it is necessary to assess separately the assets and the debts. Non-compliance with this principle generates the risk of an erroneous assessment of the financial statements components, which affects the entity's financial position and financial performance.

6) The principle of intangibility

It refers to the fact that the opening balance sheet for each financial year must correspond to the closing balance of the previous financial year. Non-compliance with this principle entails the loss of all qualitative characteristics of the information drawn from the financial statements. It also automatically leads to the non-compliance with the other accounting principles.

7) The principle of non-compensation

According to this principle, the compensation between the assets and debts or between items of income and expenses is not allowed. Therefore, all the claims and debts must be recorded separately in the accounts based on evidence. Nonetheless, any offset between claims and debts to the same entity can be registered only after accounting of the revenue and appropriate expenditures and by compliance with the regulations in force. Non-compliance with this principle leads to a wrong image of the entity's financial image and performance. In this case, the calculation of any performance indicators is questionable in terms of relevance of the results.

8) The principle of prevalence of the economic aspect over the legal aspect

It argues that the presentation of the values of the balance sheet and profit and loss account components is made by taking into account the economic substance of the transaction made, not only their legal form. The misinterpretation of this principle leads to an inaccurate presentation as compared to the economic reality of an entity's rights and obligations within the financial statements.

9) The principle of the significance threshold

It requires that the financial statements present all the information whose importance

may affect the external users' decisions. The risk of non-compliance with this principle may generate unnecessary costs, which also affects the entity's financial performance.

Risk management strategies resulting from the faulty application of the accounting principles:

- regular training of the staff from the financial-accounting department concerning the accounting principles provided for by law and any possible amendments;
- perfect compliance with the general accounting principles as they are stipulated and detailed by the legislation in force;
- their updating once with the modification of the law;
- the chief of the financial-accounting department must follow the compliance with the accounting principles in the financial-accounting activity and to intervene when deviations from it are noticed.

3. Conclusions:

The economic crisis creates a multitude of threats on the activities performed by an entity. In this context, it is necessary to identify the threats and to suggest measures to limit them so that the entity can perform a

culture that embraces risk and to perceive it at corporate level. The proper management of accounting risks aims at a true and fair image of the entity and the measures on the proper management contribute to rendering efficient the operations performed.

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Foreign Direct Investments and Their Impact Upon Exterior Commerce. The Case of Romania

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Abstract

In the context of globalization, the problem of the Foreign Direct Investments (FDI) and their influence upon modernizing the emergent economies had been some crucial concepts and facts within the major preoccupation of economists. FDI, through their core elements, assure economic development and prosperity, the necessity of tracking them and an efficient usage deriving from the need of integration and fulfillment of puzzling the national economies in the world wide economy. Regarding Romania, due to the high level of the FDI which had been accomplished by the foreign investors on the local market, the Romanian economy is much more exposed to the international financial market turbulences, because it is dependent vis – á – vis of western economies and influenced by the decision taken in the far side of the world.

Cuvinte cheie: foreign direct investments, trade balance, economic growth, inflation.

Clasificare J.E.L.: G12, F16, F21.

1. Introduction

Foreign Direct Investments (FDI) represents a way of development and not to consumption. However, FDI are often hijacked throughout engaging in balancing the payment balance affected by the imports increases in the situations in which the exports don't increase accordingly. This fact is resulting from the first years of transition in Hungary, or from the last years in Bulgaria

and Romania. Tracking FDI for facing the financial restrictions impose by the payment balance disequilibrium is not a strong argument in the condition in which tracking foreign capital can affect current account equilibrium.

FDI must constitute an instrument among others being at governments' disposal for attaining some concrete objectives, subordinated to the general objective, surviving and making functional the national economies in the frame of a European unique market.

On the other side of the economy, there is a very important and crucial factor that refers to the influx of FDI for the implementation and diffusion on the proper manner in order to organize the whole environment with the positive factors of growth and competitiveness in the emerging economies [1].

The trends remarked above have been reinforced by the liberalization of the new markets especially in the service sectors, the reduction of the capital movement restrains, and the creation of a friendly environment for FDI in a growing number of countries [2].

FDI is often seen as a major source of financing for emerging markets in recent years. It is certainly true that FDI provides very important financing for such countries, but the actual financing may be different from how it is portrayed [3].

As a consequence of globalization upon the relationships between territories, the territorial competition in terms of investments must not be ignored, because this fact is leading to a clearly image upon international investment market.

2. Assessing the Foreign Direct Investments and their importance

FDI, financial markets, banking system, and in general financial system are complementary elements in the implementation and dispersion process of gathering new technologies as a base for improving economic growth. The well functioning of the financial mechanism as a way of developing monetary and financial streams from the economy throughout objective interdependence with the real flows compete or inhibit the economy development process [4], [5].

The conclusion reached after several years of studies dealing with the relationship between FDI and economic development is that the effects of FDI are quite complex. From a macro perspective they are often regarded as generators of employment, high productivity, competitiveness and technology spillovers. Especially for the least developing countries FDI means higher exports, access to international markets and currencies, being an important source of financing, substituting bank loans [6], [7].

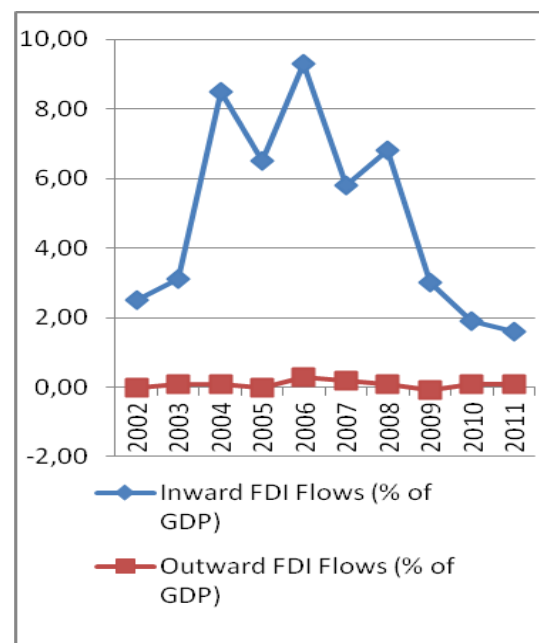
One of the advantages of integration is the increased openness of the economy to the outer world with beneficial effects on the flow received direct foreign investments, bilateral flows of workforce, productivity, etc. Within this context the Romanian economy draw higher inflows of foreign direct investments which will accelerate, by driving effects, the process of European integration [8].

FDI must be encouraged in countries with lack of natural resources or in the places in which the active offer being subject to privatization has been considerable diminished. Instead, it must be avoided the creation of an economy dominated by foreign enterprises, while national enterprises don't have the capacity of self financing the dynamical growth. For the increasing of the gross capital formation and being able to internalize transfers from the foreign investors, it must be imposed the development of the financial sector. The promotion policies of FDI must not be transformed in a substitute for developing of the internal investments potential.

3. Evidence of Foreign Direct Investments and their correlation upon the exterior commerce in Romania

Romania's position regarding the FDI was very lax in comparison with some other emerging countries and in comparison with expectations, being the second large country from Central and Eastern Europe after Poland. FDI had attained a maximum level of 9 % of GDP in the aftermath of the 2006, following Poland, Hungary and Czech Republic. Beyond the sharp decreasing of the FDI in the last three years (according to the figure no. 1), these have represented only 9% of GDP in 2006 (the biggest number until now); their impact upon economic growth must be considered limited, especially after the 2006s'.

Figure 1. Foreign Direct Investments in Romania in 2002 – 2011 period



Source: Author's elaboration based of IMF and UNECE databases

The reason for the Romania pitfall regarding attraction of the FDI are enriched in a several factor list [9], [10]. Certainly, within the most important factors were the lower privatization rhythms.

After we have shown previously [9], [11], the inflow of the FDI in Central and Eastern European Countries and especially in Romania was tied to the privatization

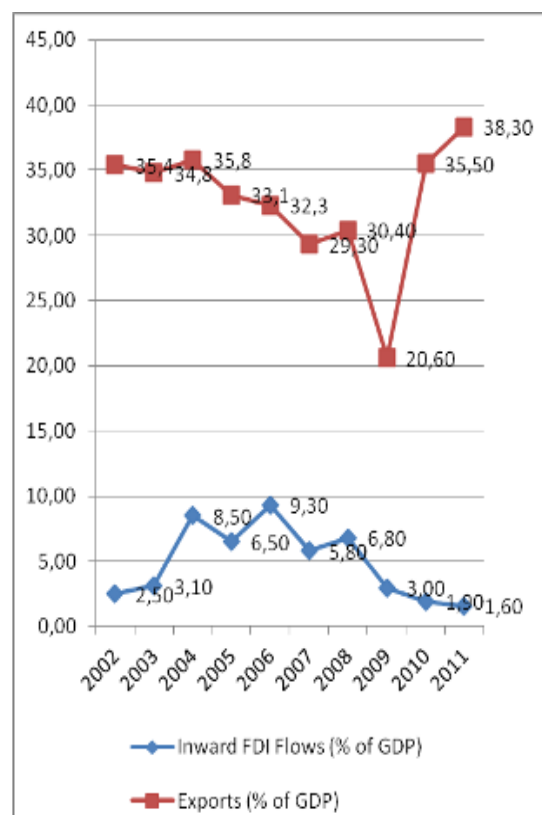
processes.

Romania has started the privatization measures in 1997, fulfilling only minor transactions until then. Consequently, FDI were beneath 2 % of GDP in the 1990 – 1996 periods.

Another threat for the Romanian economy is the damaging of the commercial balance and the *slow motion* exports in the context of the Euro Zone recession beginning. Amid to reducing the country rating and eventually necessity of adopting the restrictive fiscal policy, the evolution of the exchange rate will have to suffer. According to our opinion, the forecasts regarding the reduction until 40% of the current account deficits throughout FDI are true, than it appears the risk of diminishing the foreign reserves.

Amid to these appreciations, the projections from the banking system indicates that in the late December 2012 and in the early January 2013 the Euro – Ron will be over 4,6.

Figure 2. The correlation between exports and FDI in Romania in 2002 – 2011 period



Source: Author's elaboration based of IMF and UNECE databases.

Analyzing the evolution on the inward FDI flows in Romania corresponding to the evolution of the last years export, we can observe some interesting sights. Similar to the previous views, we can't observe a significant statistical relationship between the two time series (figure 2). FDI were almost triple in 2004 in comparison with the last three years, although exports don't follow the ascending trend, being at first constant, and decreasing significantly in 2009 and being rebounded in 2011.

FDI had tripled in 2006 over 2002, but again, the exports don't increased accordingly, being in line with precedent years. The growing rate on export has decreased significantly in 2009, in compliance with the decrease registered by the FDI.

These findings lead to the conclusion that from the statistical point of view the connection between exports and FDI cannot be sustained in the Romanian economy. This fact is true and if we consider that in general the percentage of the foreign associates in the manufacturing export was very low in comparison with Hungary and Poland (33,4% in 1999 in comparison with 88,8% in Hungary and 59,8% in Poland) [3].

Moreover, the influence of FDI regarding the Romanian export competitiveness can be founded in a quantitative manner. Many Romanian industrial sectors had been labeled as inefficient, with outdated technology, and a doomed quality per price product ratio. Regarding the companies, they had been a missing a know-how regarding international marketing. Therefore, FDI have become essential, because they have induced technology, management knowledge, increased productivity and the capability of accessing new markets due to the new logistical controls. Likewise, FDI had helped many enterprises in avoiding insolvency and continuing the ongoing exports.

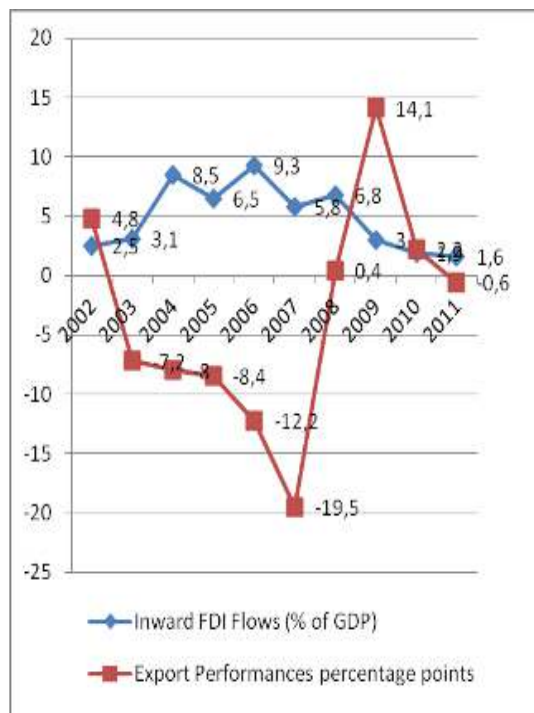
The question raised by our findings is if the sectors which disposed the most FDI had strengthened in time the Romanian comparative advantage, because industry is dominating for the products and goods export.

According to some authors, the most important sectors (metallurgy, fuel and miner, alimentary and automobile one), sectors which that have encompass the vats

majority quantity of FDI and with the most foreign penetration explains the fact that the lowest presence of the FDI in wood, textile and footwear industry, (sectors privileged in Romania) is overrun by a large scale practices used by subcontracting intermediaries [12].

Figure 3 presents the correlation between FDI and export performances in Romania during the last ten years. As we can see, the export performances register a pitfall at the end of 2007 and a revival in the 2009. Starting from 2010 the evolution of these two indicators has been similarly.

Figure 3. The correlation between FDI and export performances in Romania in 2002 – 2011 period



Source: Author's elaboration based of IMF and UNECE databases.

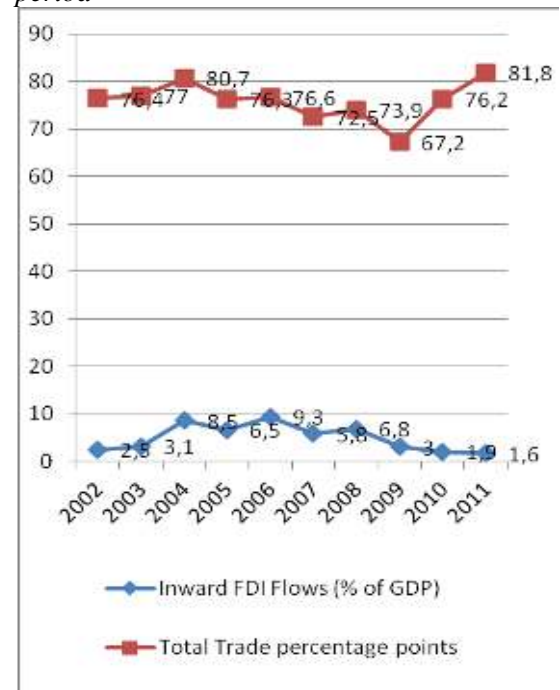
Some other clues regarding the relationship between FDI and exports are those offered by the ranking of the biggest companies in Romania and the exporting companies. Companies that are part of oil industry register a high increase lately due to the increasing oil prices. Some other major export actors are from the steel, automobile, electric and chemical industries.

In the process of investigating the nature of these companies we can observe that the most Romanian companies are owned by

foreigners. At first sight, we can track some delusive conclusions, namely that foreign owners had been playing a major role in supporting exports. Instead, a large part of Romanian biggest companies are oriented over the internal market, namely: Metro (German chain cash – and – carry), Romtelecom (phone operator, nowadays Greek property) and Orange (mobile phone operator, under the French control).

Even the biggest companies from Romania, Petrom oil company (soled in 2004 to OMW Austria) and steel company Sidex (bought in 2001 by the Ispat giant), and lately Mittal Steel which are in the top of the exports have failed in the hands of the foreign owners. These have been the first exporters even before the situation in which FDI have become attractive in Romania. A similar situation can be identified with the Petrom Refinery (the former Petromidia refinery) and other three companies being in the first exporters.

Figure 4. The correlation between FDI and Total trade in Romania in 2002 – 2011 period



Source: Author's elaboration based of IMF and UNECE databases.

Beyond Solectum (American electronic industry company) and Draexlmaier (German company from the automobile industry) both companies started from the ground zero,

cases in which the companies don't existed before the appearance of FDI, an example in which FDI had played an important role for the export orientation of the Dacia Automobile.

The national automobile constructor bought in 1999 by Renault doesn't exported almost nothing before the privatization and starting form the Logan model of the Renault company al the end of 2004, export have increased rapidly.

Figure 4 presents the relationship between the inflow of the FDI and the total trade. As we can see, there is no significant correlation between these two variables, although they register some similar trends.

4. Conclusions

The efforts for tracking FDI must be oriented upon those investments which will encompass economic growth.

In the next period, Romania can consolidate its' role in strengthened a large variety of multinational companies which operate in the Romanian market, the regional pole position being conferred not only due to it's geopolitical size, but also due to the border position of the European Union with vast possibilities beyond Caucasus region, Central Asia, Balkans, Turkey.

I the 2008 – 2012 period, Romania still has a need in strengthened it's FDI, because their represent a safe source for the economic growth, and on the other hand, the device for the Know-how transfer: technologies, procedures and processes, structures and organizational cultures and some new mentalities. Consequently, FDI represents the main source for the clearing of the current account deficit.

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Effectiveness of Various Types of Analysis in Investment Decisions on the Stock Market: Fundamental Analysis and Technical Analysis

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Abstract

The investor interested in efficient capital market investments should make an analysis of quoted shares to meet a series of questions: what to buy?, when to buy? and when to sell?. Such analysis can be done in two directions: technical and fundamental analysis. One of the elements to be considered in the fundamental analysis is the accounting information provided by the company's periodic reports (balance sheet, profit and loss account, etc.) and the evolution of the results and economic and financial indicators of the company. This article wants to determine whether technical or fundamental analysis is more efficient and what is the role and place of accounting information in making investment decisions.

Keywords: accounting information, technical analysis, fundamental analysis, accounting, capital market

JEL Classification: M41 Accounting

1. Introduction

Placing disposables on the stock market cannot be done „by ear” but must be based on a careful analysis of company's activity and market in general. The decision to purchase shares should not be taken at random.

Technical analysis is the process of studying the history of securities in an effort to determine the likely future courses. The specialists in technical analysis assume that the forces of supply and demand are reflected in traded securities prices and volumes. By examining these structures, they can make

predictions about the meaning and value of future evolutions of securities courses. In a more simplistic accept, technical analysis is:

- The study of quotes generated by the market, under a graphic form, in order to predict future price movements, based on indicators or graphic formats;
- The analysis of probability of the market movement (price) in a certain direction, using the previous values recorded of the price.

In the narrower sense of technical analysis, it is considered that the price fluctuations reflect forces and influences both rational and emotional. Price movements, whatever the factors causing them are, once published, will persist over another period of time and thus can be detected [1].

Technician's work is oriented in two directions: to identify the trend and to determine the end of it, moment when prices start to move in the opposite direction.

2. Technical analysis versus fundamental analysis

By using pressure indicators, specialists in technical analysis collect information about the evolution of the entire market by the following three types of signals [2]:

- indicators that show what kind of investors buy and sell shares;
- indicators that assess the market activity;
- indicators that reveal the psychology of individuals.

The second type of analysis, the fundamental one [3], is used by capital market players, who, in order to earn benefits, invest in medium and long term actions, at least one year. Fundamental

analysis consists in selection of potential securities to invest in, based on information about company's financial statements, field in which it operates and its position on the market [4].

At the same time, fundamental analysis seeks to determine a theoretical course of actions, namely to determine whether securities are overvalued, undervalued or fairly valued. Information necessary for the analysis are obtained from company's financial reports and based on them it may be developed forecasts on future income flows, dividends and market prices. Finally, the results are correlated with the influences that national and international political and economic environment have on the company.

Fundamental analysis serves to answer questions, such as:

- Is the company's revenue growing?
- Is it actually making a profit?
- Is it in a strong-enough position to beat out its competitors in the future?
- Is it able to repay its debts?
- Is management trying to "cook the books"?

It should be considered the following issues that through a combined use can make investment decision to be made effective [3]:

- latest news and information related to the issuing company can influence the course;
- company's shareholding;
- evolution of economic sector the issuing company is part of and the financial and economic environment as a whole. Macroeconomic indicators that may provide information about a country at a particular period are: gross domestic product, inflation, interest rate, exchange rate, fiscal policy, political environment;
- analysis of the company's periodic reports (balance sheet, profit and loss account, etc.) and evolution of the company's results and financial indicators.

Technical analysis and fundamental analysis are the two main schools of thought in the financial markets [6]. As we've mentioned, technical analysis looks at the price movement of a security and uses this data to predict its future price movements. Fundamental analysis, on the other hand, looks at economic factors, known as fundamentals.

During July-August 2010 were carried out researches on the capital market in Romania in order to determine whether technical or fundamental analysis is more efficient, and what is the role and place of accounting information in making investment decisions. The case study has resulted in the issuing and sending by e-mail questionnaires to complete by various capital market players in Romania. In this paper we will refer only to one of the questions that make up the questionnaire, question that is strictly related to the object of research in this paper.

According to the results of the research conducted, 68% of the respondents consider most appropriate the use of fundamental analysis to make investment decisions on the capital market to the detriment of technical analysis. In general, fundamental analysis is more used in making investment decisions on medium and long term.

3. Advantages and disadvantages of fundamental analysis

The greatest benefit derived from study of fundamental analysis is the ability to understand the causes that drive the market action. By understanding market dynamics, we can be confident in maintaining a position as long as the cause that triggered the trade exists [4]. A thorough grasp of fundamental analysis also ensures that we do not lose our composure in the face of market volatility. Those who employ fundamental studies in gauging the price action are confident that they are on the tracks of the greatest geniuses of forex trading [2]. All those who successfully made millions or billions in this business were users of fundamental analysis; and there is no reason to doubt that if we were to use the same methods we can achieve the similar, if not the same results with them. Other advantages are [6]:

- Allow identifying the factors that influence action price evolution;
- The relationship between factors and price can be established with mathematical and statistical methods;
- The analysis results are used by brokers and agents investors less confident in their abilities.

Among the disadvantages of fundamental analysis we can include:

- Requires a lot of work because the data must be representative;
- Indicates the general trend of stock prices because it takes into account data from issuers for long periods and the market change frequently;
- The results can be used for long term by investors having a significant capital.

4. Advantages and disadvantages of technical analysis

Technical analysis is simple and straightforward, with tools available to everyone from the seasoned hedge fund manager, to the novice retail trader. In addition, technical tools are easier to interpret than fundamental indicators, the understanding of which usually requires a period of diligent study [1]. Finally, since technical analysis focuses on the price action exclusively, the technical trader has only one needle in his compass: the price, on which any calculation about profits or losses must be based.

Technical studies have been refined and perfected over the years, and by using them we are making use of the heritage of thousands of experienced and knowledgeable traders who have contributed to the effort. By mastering the various aspects of technical trading, we can also minimize the role of guesswork and conjectures in analyzing the price action. While technical studies can give conflicting signals about the future, the error, if any, is on the part of the interpreter. By recognizing our flaws, we can better our analytical skills, and with better skills, wealth and success will be just a single blink away. Other advantages of technical analysis are:

- Share prices of the underlying graphs are easily obtained (in the press, the Internet);
- Indicators can be calculated using simple software;
- The methods and tools used for actions can be also applied to other types of securities;
- Allow the identification of the purchase or sale;
- Allow the identification of the future behavior of stock prices;
- The results are used by sophisticated investors and stockbrokers.

Among the disadvantages of technical analysis we can include:

- Requires constant observation of the market;
- Purchase or sales signals given by technicians may coincide with ones of the market and the analysis may not reach its goal.

5. Accounting Information as a main part of fundamental analysis

Specifically, fundamental analysis refers to the comparative study of some financial indicators of the issuing company. These economic and financial indicators are calculated based on information provided by financial and accounting statements of the company, balance sheet, profit and loss account etc. In addition, it should be taken into account in the calculation of some of these indicators also the market price of securities, reflecting investors' interest for that instrument, which is formed by confronting the demand and supply [7]. This way it is calculated a theoretical course of securities, being called accounting value that is comparable to the market value. From this comparison results if the securities are overvalued or undervalued, this being the first step for investors in adopting the correct decision

In Romania, concerning the analysis of periodic reports if the companies, since 2009, by Order no. 3055/2009 (art. 3, paragraph 1) [9] regarding the approval of accounting rules in accordance with European directives, legal entities which at the balance sheet date exceed the limit of two of the following three criteria, named forward size criteria:

- total assets: 3.65 million Euros;
- net turnover: 7.3 million Euros;
- average number of employees during the financial year: 50.

In these enterprises, accounting information are provided by the annual financial statements comprising [5]:

- balance sheet;
- profit and loss account;
- statement of changes in equity;
- cash flow statement;
- explanatory notes to the annual financial statements.

Article 6 of this Order mentions that companies whose securities are admitted on a regulated market, as defined by current legislation on capital markets, prepare annual financial statements with five components, as they are referred to in article 3 - paragraph (1), regardless of total assets, net turnover or number of employees [9].

The four principal qualitative characteristics of accounting information are intelligibility, relevance, reliability and comparability [9].

- *Intelligibility.* An essential quality of information provided by financial statements is that they should be easily understood by users. To this end, it is assumed that users have sufficient knowledge of business and economic activities, the accounting concepts and their desire to study the information with due attention. However, information on complex problems that should be included in financial statements because of their relevance in making economic decisions should not be excluded solely on the ground that might be too difficult to understand for some users.
- *Relevance.* To be useful, information must be relevant to decisions by users. Information is relevant when influence economic decisions of users, and helping them to evaluate past events, present or future, to confirm or correct their previous evaluations. Information relevance is influenced by nature and materiality. In some cases, the nature of the information is sufficient by itself to determine its relevance. In other cases, both the nature and materiality are important.
- *Reliability.* To be useful, information must also be credible. Information is credible when it does not contain significant errors, not biased, and users can be confident that what is right, and wanted to represent what is expected or reasonably to represent. To be credible, the information must represent faithfully the transactions and other events and it is proposed to represent them or are expected, reasonably, to represent them. For present credible information on events and transactions which aims to represent them, they need to be recorded and presented in accordance with their substance and economic reality, and not

just their legal form [10]. To be credible, the information in financial statements must be complete. An omission can cause information to be false or misleading and thus have no credible character and become deficient in terms of relevancy.

- *Comparability.* Users must be able to compare financial statements of an entity over time to identify trends in its financial position and performance. Users must be able to compare financial statements of different entities to evaluate their financial position and performance. Thus, measuring and presenting financial effect of the same transactions and events should be performed in a consistent manner within an entity and the time for that entity and in a consistent manner for different entities.

When we think to invest in an enterprise is necessary to make an overview of its situation, past performance and its future prospects [4]. This will depend, in large part, on the evolution of stock prices and/or on dividends related to the investors, the two basic sources of income expected from any action.

For this purpose, instead of carefully examine each balance sheet account balances, it can be use a set of indicators that transform the information arising from the financial statements of companies in order to facilitate their interpretation [10].

There is no limited set of indicators; they may be constructed depending on variables that need to be taken into account [8]. However, it is necessary to take certain precautions when carrying out such an analysis. First, not all indicators should be considered separately but on the contrary, it should be considered as a set of indicators for an overall assessment of each company situation.

Explanatory Note 9 for balance 12/31/2009 presents a group of indicators that can give information about the company as follows:

1. *Liquidity Ratios:*

a) the current liquidity ratio

Current assets

Current liabilities

- recommended acceptable value - at around 2;

- provides guarantee to cover current debt from current assets.

b) immediate liquidity indicator

$$\frac{\text{Current assets stock}}{\text{Current liabilities}}$$

2. Risk indicators

a) indebtedness indicator:

$$\frac{\text{borrowed capital}}{\text{equity}} \times 100$$

$$\frac{\text{borrowed capital}}{\text{employed capital}} \times 100$$

where:

borrowed capital=loans over a year

employed capital= borrowed capital+ equity

b) interest coverage indicator-determines how many times an entity may pay interest costs. The indicator value is lower, the entity is considered more risky position.

$$\frac{\text{profit before interest and tax payments}}{\text{interest expenses}}$$

3. Indicators of activity (management indicators) - provides information on:

- Speed entry and exit of cash flows of the entity;
- Entity's ability to control working capital and basic business activities of the entity;
- Rotational speed of stock (inventory turns) - approximate number of times the stock has been run throughout the year.

$$\frac{\text{sales cost}}{\text{average stock}}$$

- Number of storage days - indicate the number of days in which goods are stored in the unit

$$\frac{\text{average stock}}{\text{sales cost}} \times 365$$

- Rotational speed of flow – customers: calculate effectiveness entity in its debt collection; expresses the number of days until the date on which the debtors pay their debts to the entity. A rising value of the indicator may indicate problems with credit monitoring to customers and therefore more difficult receivable claims (bad customers payers) [8].

$$\frac{\text{average balance customers}}{\text{turnover}} \times 365$$

- Rotational speed of credit - provider: approximate number of days that the entity obtains credit from its suppliers. Ideally, should include only commercial lenders.

$$\frac{\text{average balance providers}}{\text{acquisition of goods (without service)}} \times 365$$

And to approximate purchases can be used cost of sales or turnover.

- Rotational speed of fixed assets [11]: assessing management effectiveness of fixed assets by examining the value of turnover generated by a certain amount of fixed assets.

$$\frac{\text{turnover}}{\text{assets}}$$

-rotation of the total assets:

$$\frac{\text{turnover}}{\text{total assets}}$$

4. Indicators of profitability

a) return on capital employed - means profits entity get from the money invested in the business:

$$\frac{\text{profit before interest and income tax payments}}{\text{employed capital}}$$

b) gross margin on sales:

$$\frac{\text{gross profit from sales}}{\text{turnover}}$$

The analysis of accounting information provided by the company's financial statements can be made by applying certain techniques or analysis tools. Internal users of accounting information have access to all company information, financial statements being analyzed under a more detailed and concise form. The analysis of accounting information pretends the following objectives [2]:

- knowledge of economical and financial situation of the enterprise;
- determining the causes which led to the current situation;
- determining the possible lines of action in case of a possible imbalance;
- forecast the future evolution of the company.

6. Conclusion

In fact, the optimal solution is to combine technical analysis with fundamental analysis

on short term. Although technical analysis and fundamental analysis are seen by many as polar opposites - the oil and water of investing - many market participants have experienced great success by combining the two. Nicholas Darvas in his book “How I Made \$2,000,000 In The Stock Market”, described how he selected winning stocks by combining technical analysis with the fundamental analysis of the companies. In conclusion, neither fundamental analysis nor technical analysis is more good for investments decision than the other. Both have their merits and should be used at the right times. If you are investing for a long-term, the fundamental analysis should play a more important role in determining the type of industry and company you choose. The technical analysis should play a more important role when deciding the entry and exit points of an investment. If you are a speculator, then all you are concerned with is the short-term, hence the technical charts.

As we have seen, 68% of the investors consider most appropriate the use of fundamental analysis to make investment decisions on the capital market to the detriment of technical analysis. When we talk about the fundamental analysis, performance of an investment is related to the quality of accounting and financial information reflects the reality of a transaction or transactions of securities. Current and potential investors are constantly evaluating publicly traded companies in order to make the best decisions that bring them benefits and to satisfy their present and future interests. Investment decision can be made on the following analysis of the capital market but also in terms of financial analysis based on accounting information [7]. Knowledge and use of accounting information relevant to the enterprise is the fundamental raw material in making all management decisions and investment in capital markets. Users of accounting information act, operate and make decisions constantly, using and understanding accounting information provided by financial statements. Account information may be the best friend of current and potential investor if is used and understood properly.

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Social Protection Public Expenditures and Income Inequality

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Abstract

For a sample of 29 European countries, the efficiency of social protection public expenditures in providing income support and diminishing income inequality is assessed in a panel framework. An increase in the size of the government intervention through social protection public expenditure is found to be associated with a decrease in income inequality. Also, we found evidence of the Kuznets effect. Not least, the results pointed out that a lower income inequality could be found in economies with high levels of employment, high tertiary education achievement, low levels of corruption and low levels of old age dependency ratio.

Keywords: Social Protection Public Expenditures, Income Inequality.

J.E.L. Codes: H53, D31, C33

1. Introduction

Income inequality is a major topic in economic research and a target of various policy measures. This widely shared interest come from both economic and social consequences of income inequality.

As pointed out first by Kuznets [17], it seems that between income inequality and economic growth there is an inverse U-shape relationship. The influential empirical works of Barro ([4], [5]) pointed out that increasing inequality is associated with lower growth rates in poor countries, while in rich countries is associated with higher growth rate.

Apart from its effects on macroeconomic performances, income inequality hinders prosperity, slows down the establishment of good quality institutions and limits the access to higher education [9].

Given these economic and social

consequences of income inequality, often government authorities assume the objective of flattening the distribution of income within the society through the implementation of various redistributive policies. For instance, the use of progressive taxation in combination with generous social security spending could contribute to reductions in income inequality.

This paper is concerned with the estimation of social security public expenditure impact on income inequality, taking into account various other economic, social and institutional determinants as well. The focus here is on size of the government intervention through social security spending, given the fact that at individual level what matters is the overall amount of social benefits received and not their type.

The rest of the paper is organized as follows. In the next section, a literature review on income inequality determinants is provided. Section 3 presents the data, the empirical model and the methodology used and also a brief discussion of the obtained results. Section 4 concludes.

2. Literature review

There is a vast literature on income inequality determinants, which include economic, social and institutional factors as well.

The seminal paper of Kuznets [17] highlighted a U-shape relation between the level of economic development and income inequality. At empirical level, this relation was confirmed in Barro ([4], [5]). However, this finding has been challenged on both theoretical and empirical grounds. For instance, Robinson [23] using a simple theoretical model pointed out that in a developing economy, without any targeted policies, the income inequality will remain stable or will increase in the long-run. Some

empirical analyses (see [3]) highlighted that the quadratic relationship between economic development and income inequality holds only when in the model are included some restrictions which are not supported by the empirical data.

Another strand of literature pointed out that labour market could play a role in explaining income inequality. The effects of unemployment on income inequality were usually studied in a framework of analysis provided in Blinder and Esaki [7]. For instance, Gustafsson and Palmer (see [12]) found that unemployment affects negatively the distribution of income. Decomposing unemployment in structural and cyclical components, Mocan (see [21]) found that only structural unemployment has a negative impact on income inequality. Labour demand orientation toward higher skill intensity could also affect income distribution [1]. Other characteristics of the labour market were found to be connected with income inequality as well, such as the percentage of the labour force in agriculture and union density [2] and labour market regulations [16].

The level of financial development seems to affect income inequality in a non-linear manner. Greenwood and Jovanovic (see [11]) suggested that in the first stages of economic development financial development will widen the income gap between the rich and the poor, and in the latter ones it will reduce income inequality. The beneficial impact of financial development on the income of the poor was also highlighted in Beck, Demirguc-Kunt and Levine (see [6]).

Education also plays a role in shaping the distribution of income. Knight and Sabot (see [15]) emphasized that the overall effect of education on income inequality will result after balancing two contrary effects, the "composition" effect and the "wage compression" effect. An increase in the group within the society with a higher education level will trigger on the one hand an initial increase and a later decrease in income inequality – the "composition" effect and on the other hand, an increase in the better skilled labour supply and a subsequent decrease in the education premium embodied in the wages which will reduce income inequality – the "wage compression" effect. At the empirical level, De Gregorio and Lee (see [8]) confirmed a significant but small

negative effect of education level on income inequality and also highlighted the distributional effects of education inequality.

Given that income redistribution is often an objective assumed and pursued by governments, one could expect that public intervention in this matter to have a significant impact on income inequality. In line with these theoretical assumptions, Milanovic (see [19]) found that the size of the public sector and the social security public expenditures are negatively related with income inequality. However, using a sample of African countries, Odedokun and Round (see [22]) found that only social security spending is reducing income inequality, while the overall size of the public sector has an opposite effect.

The impact of demography on the distribution of income was studied in various empirical works (see for instance [14] for the case of United Kingdom and [12] for the case of Sweden). However, the empirical results were inconclusive. Nonetheless, one would expect that increasing dependency rates to increase income inequality, given the fact that the income of the dependent persons tends to be lower than the income of working persons.

Not least, there are some social and political determinants of income inequality. Corruption was found to affect income distribution in an inverted U-shaped way and to provide a good explanation for a large proportion of the income inequality differential across a sample of 47 developing and industrial countries [18]. Also, increased corruption was found to be positively correlated with income inequality in a panel of 21 African countries [13]. Democratization was found to be a significant determinant of decreasing income inequality only in Judeo-Christian societies, while in Muslim and Confucian societies this effect is insignificant [20].

3. Data, Methodology and Results

The empirical sample consisted in 29 European countries (Belgium, Bulgaria, Czech Republic, Denmark, Germany, Estonia, Ireland, Greece, Spain, France, Italy, Cyprus, Latvia, Lithuania, Luxembourg, Hungary, Malta, Netherlands, Austria, Poland, Portugal, Romania, Slovenia,

Slovakia, Finland, Sweden, United Kingdom, Iceland and Norway). Data used for all the variables of the empirical model ranged from 2005 to 2010. The data source was Eurostat statistical database.

In our empirical model we used as a measure of income inequality the Gini Index (GINI). The index is scaled between 0 (perfect income equality) and 100 (maximum income inequality). Thus, an increase in the index value is reflecting an increase in the income inequality. Conversely, a decrease of the index points out to a reduction in income inequality.

Seeking to highlight the effect on income inequality of government intervention through social security system, we used as the independent variable of interest the social protection public expenditures (SPPE) expressed as a percentage of gross domestic product. Social protection public expenditure were defined according to European Commission (see [10]) as all benefits publicly provided to households or individuals in order to ease the burden of various risks and needs related to sickness/healthcare, disability, old age, survivors, family/children, unemployment, housing and social exclusion. We used in our empirical model the overall social protection public expenditures as independent variable, given the fact that for households or individuals is the total amount of social benefits that they value, and not the specific type of the respective social benefits.

A set of control variables derived from the appropriate literature was used as well. To account for economic factors which influence income distribution between individuals, we used as independent variables the gross domestic product per capita (GDPPC) expressed in euro per inhabitant (as a proxy for the level of development) and the employment rate (ER) (as a proxy for economic conditions in the labour market). In order to check for the Kuznets hypothesis a squared term of gross domestic product per capita was used in the empirical specification.

Also, some social determinants of income distribution highlighted in the literature were used as well. In this field, our choice was to use as control variables some measures of education and corruption. To proxy the education level, we used tertiary education

achievement (TEA), indicator defined as the share of the population aged 30-34 years who have successfully completed university or university-like education with an education level ISCED 1997 of 5-6. To proxy the corruption level within the society, we used the Corruption Perception Index (CPI) developed by Transparency International which ranges from 0 (high level of corruption) to 10 (low level of corruption).

Not least, given the fact that all the countries of the sample experience a demographic transition, we choose to use as control variables the children dependency rate (CDR) the old age dependency rate (OADR).

Given that all variables are percentages, in order to avoid scaling issues, the gross domestic product per capita variable was transformed in natural logarithms.

Descriptive statistics are given in Table 1.

Table 1. Descriptive Statistics

	GINI	SPPE	GDPPC	ER
Mean	29.38	15.99	24816.6	70.70
Median	28.55	15.80	22800.0	70.80
Maximum	39.20	25.40	78600.0	86.70
Minimum	22.70	8.30	3000.0	57.60
Std. Dev.	4.09	4.08	16397.7	6.24
Skewness	0.36	0.11	1.16	0.07
Kurtosis	2.03	2.25	4.46	2.54
Jarque-Bera	10.47	4.50	54.49	1.69
Probability	0.01	0.11	0.00	0.43
Observations	174	174	174	174

	CPI	TEA	CDR	OADR
Mean	6.60	32.07	24.14	23.13
Median	6.60	34.70	23.06	23.79
Maximum	9.70	49.90	33.89	31.37
Minimum	3.00	11.40	19.33	15.80
Std. Dev.	1.87	10.45	3.36	3.61
Skewness	-0.03	-0.23	0.62	-0.14
Kurtosis	1.72	1.72	2.45	2.60
Jarque-Bera	11.88	13.47	13.40	1.75
Probability	0.00	0.00	0.00	0.42
Observations	174	174	174	174

A model with individual effects was our preferred empirical specification. The general form of the model was the following:

$$\text{GINI}_{it} = \alpha + \beta_1 \text{SPPE}_{it} + \beta_2 \ln \text{GDPPC}_{it} + \beta_3 (\ln \text{GDPPC}_{it})^2 + \beta_4 \text{ER}_{it} + \beta_5 \text{CPI}_{it} + \beta_6 \text{TEA}_{it} + \beta_7 \text{CDR}_{it} + \beta_8 \text{OADR}_{it} + \varepsilon_{it}$$

where:

GINI – Gini Index;

SPPE – social protection public expenditures;

GDPPC – gross domestic product per capita;

ER – employment rate;

CPI – Corruption Perception Index;

TEA – tertiary education achievement;

CDR – children dependency rate;

OADR – old age dependency rate;

$\varepsilon_{it} = \alpha_i + \lambda_t + u_{it}$, where α_i represent the cross section effects, λ_t represent the time effects and u_{it} represent an idiosyncratic error term.

The estimation strategy followed the traditional steps.

First, in order to validate the individual effects and to identify their respective type (fixed or random), a two-way fixed effects OLS estimation was carried out. The results of the estimation are given in column 1 of Table 2.

An F-test for the validity of cross-section fixed effects was employed. The null hypothesis that all $\alpha_i = 0$ could be rejected ($F(28,132)=18.18$, $p\text{-value}=0.0000$). Another F-test for the validity of time effects was used as well. The null hypothesis that all $\lambda_t = 0$ could not be rejected ($F(5,132)=0.76$, $p\text{-value}=0.58$). Given that only cross-section effects are valid we estimated the model without time effects.

Next, the model was estimated using cross-section random effects. The results of the estimation are given in column 2 of Table 2. In order to discriminate between fixed and random effects, a Hausman test was employed. The null hypothesis of the Hausman test is that both estimators are consistent, and the alternative hypothesis is that only the fixed effect estimator is consistent. The high value of the test ($\chi^2(6)=21.61$, $p\text{-value}=0.0057$) led to rejection of the null hypothesis. Thus, the fixed effects estimator should be used.

Finally, the problems of serial correlation and heteroskedasticity were addressed. Durbin-Watson statistic showed evidence of serial correlation in the residuals. In order to

correct these problems, we changed the method of estimation, using Feasible Generalized Least Squares instead of simple OLS. Also, we corrected for potential heteroskedasticity by computing White robust standard errors. The results of the estimation are given in column 3 of Table 2. The value of Durbin-Watson statistic highlighted the absence of serial correlation in the residuals. The low value of Jarque-Bera test could not reject the null hypothesis of residuals normality.

Table 2. Gini Index Estimation

Variable	[1] OLS Fixed Effects	[2] OLS Random Effects	[3] FGLS Fixed Effects
C	-271.6***	-165.6***	-116.6***
SPPE	-0.08	-0.20*	-0.23***
GDPPC	61.39***	39.45***	33.38***
GDPPC ²	-3.20***	-2.08***	-1.76***
ER	0.02	-0.00	-0.15***
CPI	-0.20	-0.67**	-0.28*
TEA	-0.20***	-0.03	-0.13***
CDR	0.34	0.35**	-0.10
OADR	0.33	0.42**	0.50***
Obs.	174	174	174
Adj. R ²	0.86	0.11	0.95
F-stat	27.49***	3.75**	84.46***
DW ^a	1.61	1.30	1.83
JB ^b	56.05***	5.53*	2.22

(***), (**) and (*) denotes statistical significance at the 1%, 5% and 10% levels, respectively.

^a DW – Durbin-Watson test for serial correlation.

^b JB – Jarque-Bera test for residuals normality.

An increase in the size of the government intervention through social protection public expenditures will lead to a decrease in the Gini Index value, thus lowering income inequality. This result points to the fact that in our sample of European Countries, income redistribution is still an objective pursued by governments through public social security systems.

Our results confirmed the Kuznets hypothesis regarding a U-shaped relation between gross domestic product per capita and income inequality. Thus, in the first and the late stages of economic development, further increases in the level of overall productivity will decrease income inequality. However, in the middle stages of economic

development, further increases in the level of gross domestic product per capital will increase income inequality.

The other economic factor taken into account, the employment rate was found to be negatively and significantly associated with the Gini Index. As expected, an increase in the employment level will lead to a reduction in income inequality.

Also, negative and statistically significant coefficients were estimated for the two social factors included in the empirical model. Increasing percentage of population with tertiary education appears to be an income inequality reduction factor. Also, an increase in the Corruption Perception Index (a decrease in the level of the corruption within the society) is associated with a decrease of the Gini Index (a reduction in income inequality).

Not least, the demographic dynamics were found to have an impact on income inequality. However, it seems that only an increase in the old age dependency rate will trigger an increase of the income inequality. The children dependency rate was found to have an insignificant impact on income inequality.

4. Conclusions

Using traditional panel techniques, our empirical investigation provided evidence regarding the impact of social protection public expenditures on income distribution, but also highlighted other potential determinants of income inequality.

First, social protection public expenditures were found to lower income inequality in our sample of European countries. This result points to the fact that governments are implementing efficient redistributive policies.

Second, our results confirmed the controversial Kuznets effect. In European countries, we found evidence of an inverse U-shaped relation between income level and income inequality.

Third, other significant determinants of income inequality were identified as well. These findings provide useful information for government authorities. Promoting policies aimed at increasing employment, reducing corruption or increasing education achievement will all contribute to significant

reductions in income inequality. Not least, a strong and positive effect on income inequality is given by increasing old age dependency ratio. Apart from putting a continuous pressure on pension systems, the increasing share of old age population has an additional negative effect, raising income inequality.

5. Acknowledgments

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The Impact of Open Market Variables on FDI. Case of Romania

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Abstract

This scientific approach intends to make an impact analysis which, using the quantitative methods, quantifies the effects generated by the elements that constitute open markets (trade freedom, investment freedom and financial freedom) on FDI. Knowing these effects allows to subsequently adopt the specific strategies and to develop multiple scenarios that can make the Romanian economy more attractive for foreign direct investment in terms of sustainability. To highlight the impact of the analyzed elements of FDI we have used specific quantitative analysis and statistical techniques that lead to the quantitative quantification as well as a number of causal explanations designed to better describe the phenomenon.

Keywords: foreign direct investment, determinants, multiple regression equation,
JEL : C53, E66, F21

1. Introduction

Financing the economic activities, the source of funds needed in finance, is an old problem, constant within each economy regardless of level of development, an aspect that is emphasized particularly in crisis situations. The relations and the influence factors regarding the implications of FDI on national economies have been studied since the early '50s, when the transfer of funds from the developed countries to the developing ones began to be accentuated, and transnational companies began to manifest themselves more and more intensely at worldwide level [1].

Many economists have analyzed the development stages of transnational

corporations [2], [3], [4], [5], or the motivations underlying the realization of FDI in a particular economy [5], [6]. They developed trends, theories and schools that define the main issues related to the finance of multinational companies and to the international finance. Presently, more than ever we deal with the problem of analyzing the effects that certain national policies and strategies have on foreign direct investment. It is known that FDI can produce positive or negative effects on the economy [7], the governmental policies, the negotiation of the way in which these financial flows enter or leave a country decisively influences all capital movements. There are countries that negotiate their access conditions, particularly regarding the resources, in a way that generates the maximization of positive effects, while in other countries entering or relocating FDI mostly creates negative effects.

From the analyses and the studies made at global level, an economy differs in attractiveness to another economy through a series of determinants [5], [6]. Numerous financial institutions or foundations analyze the factors which contribute to the attractiveness of an economy. The elements vary from one institution to another according to their importance. For investors, these analyses represent true landmarks in adopting the financial decision.

2. Model and empirical research

The determinants of FDI or the factors influencing these investments are analyzed by category or individually by various organizations. One of the most striking analysis is performed by the Heritage Foundation which calculates that annual index of economic freedom in a country [8]. The analysis uses ten variables that

contribute to the determination of the ranking by country: property rights, freedom from corruption, fiscal freedom, government spending, business freedom, labor freedom, monetary freedom, trade freedom, investment freedom and financial freedom). The last three indicators are part of the category of indicators that evidence the opening of the market in the respective country.

According to the Heritage Foundation, trade freedom expresses: *“trade freedom reflects an economy’s openness to the import of goods and services from around the world and the citizen’s ability to interact freely as buyer or seller in the international marketplace. Trade restrictions can manifest themselves in the form of tariffs, export taxes, trade quotas, or outright trade bans. However, trade restrictions also appear in more subtle ways, particularly in the form of regulatory barriers. The degree to which government hinders the free flow of foreign commerce has a direct bearing on the ability of individuals to pursue their economic goals and maximize their productivity and well-being”*[8].

In terms of investment freedom we must consider that: *“a free and open investment environment provides maximum entrepreneurial opportunities and incentives for expanded economic activity, greater productivity, and job creation. The benefits of such an environment flow not only to the individual companies that take the entrepreneurial risk in expectation of greater return, but also to society as a whole. An effective investment framework will be characterized by transparency and equity, supporting all types of firms rather than just large or strategically important companies, and will encourage rather than discourage innovation and competition”*[8].

Financial freedom implies *“a transparent and open financial system ensures fairness in access to financing and promotes entrepreneurship. An open banking environment encourages competition to provide the most efficient financial intermediation between households and firms and between investors and entrepreneurs”* [8].

Based on these considerations, we can quantify the impact that the open market (trade freedom, investment freedom and financial market) has on foreign direct

investment. In this sense the model is based on a multiple regression equation:

$$Y_t = a_0 + a_1X_{1t} + a_2X_{2t} + \dots + a_kX_{kt} + e_t, t = 1, 2, \dots, n \quad (1)$$

where: a_0 – is the constant value, a_1 - a_k are equation parameters, and x_{1t} - x_{kt} are variables of the function, e_t – standard error.

In this context, the equation becomes:

$$FDI = a_0 + a_1(TF) + a_2(IF) + a_3(FF) + e_t \quad (2)$$

where: TF represents trade freedom; IF – investment freedom, and FF – financial freedom.

The statistical data of these indicators are presented in Table no. 1

Table no.1: Values of the analyzed indicators

YEAR	FDI LOG	TF	IF	FF
2012	3,059563	87.1	80.0	50.0
2011	3,111934	87.6	80.0	50.0
2010	3,083503	87.5	75.0	50.0
2009	3,289143	85.8	60.0	50.0
2008	3,714581	86.0	60.0	50.0
2007	3,717088	84.0	50.0	60.0
2006	3,95708	68.4	50.0	50.0
2005	3,860338	70.4	30.0	50.0
2004	3,977541	57.6	30.0	50.0
2003	3,542576	60.2	50.0	50.0
2002	3,346353	74.4	50.0	30.0
2001	3,282622	73.4	50.0	30.0

Source: <http://bnr.ro/Publicatii-periodice-204.aspx>; [9].

<http://www.heritage.org/index/country/romania>[10].

With regard to foreign direct investment, their values were logarithmically analyzed in order not to produce significant redundancies generated by the different sizes between the analyzed phenomenon and the variables that characterize it.

Table no.2. Statistical Analysis

	FDI LOG	TF	IF	FF
Mean	3.495194	76.86667	55.41667	46.66667
Median	3.444465	79.20000	50.00000	50.00000
Maximum	3.977541	87.60000	80.00000	50.00000
Minimum	3.059563	57.60000	30.00000	30.00000
Std. Dev.	0.343099	10.98630	16.71395	7.784989
Skewness	0.119055	-0.527539	0.076931	-1.788854
Kurtosis	1.523089	1.871811	2.182445	4.200000
Jarque-Bera	1.118981	1.193001	0.346035	7.120000
Probability	0.571500	0.550736	0.841123	0.028439
Sum	41.94232	922.4000	665.0000	560.0000
Sum Sq. Dev.	1.294889	1327.687	3072.917	666.6667
Observations	12	12	12	12

Source: data processed by the authors in the software Eviews 7

The statistical analysis outlines a relatively low standard deviation for FDI, their average value being 3.44 units. On the other hand, for the variables that characterize the phenomenon we can observe that the standard deviation is high, which highlights the major differences between the values of the statistical series of the variables. In the case of trade freedom, the deviation is 10.98 units, the variation of investment freedom is 16.71 units, and the variation of financial freedom is 7.78. It should be appreciated that in the last three years the values have increased for the first two variables while in the case of the third variable the values have remained stable. Regarding the analysis of the distribution of the data series we can observe that there is a difference of the deviation in relation to the symmetrical distribution around the average (skewness). So in the case of foreign direct investment and the variable of investment freedom there are positive values indicating a bias to the left with extreme values to the right, while the negative values recorded for trade freedom and financial freedom indicate an inclination to the right with extreme values to the left. The degree of flatness (kurtosis) indicates a platikurtic distribution for foreign direct investment, trade freedom and investment freedom, while for financial freedom the distribution is leptokurtic.

Table no.3. Matrix correlation

	FDI_LOG	TF	IF	FF
FDI_LOG	1.000000	-0.638014	-0.819204	0.246015
TF	-0.638014	1.000000	0.787262	0.126132
IF	-0.819204	0.787262	1.000000	0.151378
FF	0.246015	0.126132	0.151378	1.000000

Source: Source: data processed by the authors in the software Eviews 7

The analysis of the correlations existing between the analyzed phenomenon (FDI) and the variables that characterize it (TF, IF and FF) shows a strong link between FDI and IF, a link of medium intensity between FDI and TF and a weak connection between FDI and FF. In this context, we consider that the influence of the financial freedom variable on FDI is small, while the other two variables

have a greater influence highlighted also by the intensity of correlations.

The regression equation is highlighted below:

$$\text{FDI_LOG} = 0.0003515823731 \cdot \text{TF} - 0.01817489147 \cdot \text{IF} + 0.01668661854 \cdot \text{FF} + 3.696651624 \quad (3)$$

The coefficients of the variables shows how the phenomenon is changed in the situation in which the value of the variables changes with one unit. It appears that for the variables of trade freedom and financial freedom the positive modification with one unit leads to a favorable modification of the phenomenon. It is not the same thing that happens in the case of investment freedom whose favorable change leads to an adverse change of the phenomenon.

R-squared has the value 0.81 (Appendix 1), while adjusted R-squared has the value 0.74, indicating that the variables explain the influence of the phenomenon in 81%, the difference being explained by other factors not included in the model. F-prob is below 5%, so the model is statistically valid.

3. Conclusions

As a result of the conducted research, we have found that FDI is influenced by the conditions generally named open market. The explanatory variables differently affect the phenomenon from a quantitative perspective. Although the correlation analysis shows that there is a correlation between the analyzed phenomenon and trade freedom, the coefficient attached to the variable produces a much smaller change than for financial freedom variable whose intensity of correlation is small but its influence is much greater. The investment freedom variable with which the phenomenon is most highly correlated, presents a negative influence whether the variable is positively changed.

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- [10] ***Economic Freedom Index(2012) retrived from <http://www.heritage.org/index/book/chapter-1>

Appendix no.1

Dependent Variable: FDI_LOG

Method: Least Squares

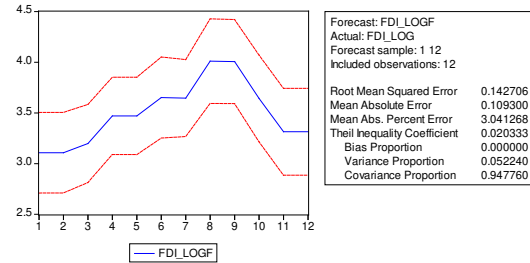
Sample: 1 12

Included observations: 12

Variable	Coefficient	Std. Error	t-Statistic	Prob.
TF	0.000352	0.007780	0.045193	0.9651
IF	-0.018175	0.005132	-3.541570	0.0076
FF	0.016687	0.006849	2.436534	0.0408
C	3.696652	0.506819	7.293824	0.0001

R-squared	0.811273	Mean dependent var	3.495194
Adjusted R-squared	0.740501	S.D. dependent var	0.343099
S.E. of	0.174779	Akaike info	-0.389393

regression		criterion	
Sum squared resid	0.244380	Schwarz criterion	-0.227757
Log likelihood	6.336357	F-statistic	11.46311
Durbin-Watson stat	2.244564	Prob(F-statistic)	0.002876



Romanian Investment Funds Risk-Adjusted Performance Evaluation

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Abstract

Romanian mutual funds industry managed to maintain an increasing trend despite of the dramatically consequences that the current financial crisis had on our weakened capital market..

Mutual funds' managers have resorted to fundamental adjustments of portfolios' structures considering the investors' decreased risk tolerance. The negative evolution of the stock market and the investors' reduced risk tolerance proved to be simulative factors for the proliferation of money market and bond funds.

The purpose of this paper is to analyze recent evolutions of Romanian mutual funds industry and to assess their risk-adjusted performance.

Key words: mutual funds, risk-adjusted performance, performance evaluation.

J.E.L Classification: G12, G20, G23.

1. Introduction

The current financial crisis deeply affected the Romanian capital market and determined a change in investors tolerance to risk. Yet, the negative evolution of the stock market and the investors' reduced risk tolerance proved to be simulative factors for the proliferation of mutual funds and especially money market and bond funds. Money funds and bond funds are targeted mainly at prudent investors as an alternative to bank loans. Investors' loyalty and the attraction of new investors (physical personalities), given that the interest on

fixed-term deposits exceed the profitability of these funds, are two very ambitious objectives.

The following tables present the main indicators of the Romanian Mutual Funds industry over the last four years.

Table 1. Main indicators of Romanian investment funds (2008-2009)

Indicators	2008	2009
Number of investors	90,694	164,446
Number of funds	52	51
Net asset (mil. Lei)	940.70	3,350.35
Net asset growth (%)	8	8
Net assets/investor (Lei)	-1.42%	256.15%
	10,372	20,374

Source: AAF Reports at 31st December of each year

Table 2. Main indicators of Romanian investment funds (2010-2011)

Indicators	2010	2011
Number of investors	221,862	235,973
Number of funds	57	64
Net asset (mil. Lei)	5,488.071	8,000.259
Net asset growth (%)	63.81%	45.78%
Net assets/investor (Lei)	24,736	33,903

Source: AAF Reports at 31st December of each year

In 2008 the total net assets have decreased by almost 4 million Lei (from 954.261 in

2007). Yet in 2009 the increase in net assets is spectacular especially due to the investors' need to protect themselves from the consequences of the financial crisis by investing in money funds. 2010 and 2011 brought an amazing increase for the mutual fund industry.

If at the end of 2007 the proportion of bank deposits/certificates of deposits in the global portfolio equaled 23.61% in average, one year later it almost doubled to 41.28%.

Table 3. Total assets structure

Asset structure %	2008	2009
Cash	4.20%	2.70%
Treasury bills	15.21%	15.30%
Bank deposits/certificates of deposits	41.28%	45.04%
Bonds	24.71%	27.33%
Stocks listed	11.94%	6.70%
Derivatives	0.01%	0.04%
Other assets	2.66%	2.88%

Source: AAF Reports at 31st December of each year

In 2010 the level of stocks reached its minimum for this period of 4 years, with 5.06% in total assets, while treasury bills reached the maximum percentage of 18.97% in total assets.

In 2011 the percentage of bonds in total assets represented 52.61%, the investors becoming more and more interested in these safe securities with quite attractive yields. The percentage in total for the bank deposits decreased to 20.83%.

After a long period of decreasing trends in 2011, in the stocks listed category, it can be observed a small increase, from 5.06% in the previous year to 6.27%, in the current.

Table 4 presents the assets structure during 2010 and 2011.

Table 4. Total assets structure

Asset structure %	2010	2011
Cash	0.72%	1.93%
Treasury bills	.97%	14.68%
Bank deposits/certificates of deposits	27.63%	20.83%
Bonds	44.40%	52.61%
Stocks listed	5.06%	6.27%
Derivatives	0.02%	-0.13%
Other assets	3.20%	3.82%

Source: AAF Reports at 31st December of each year

Table 5. Global view of Romanian mutual funds' returns (2008-2009)

Year	2008	2009
BET Index	-70.47%	61.68%
Inflation rates	7.85%	5.59%
Interest rates on deposits	9.51%	11.99%
Equity funds return	-68.13%	53.87%
Balanced funds return	-26.06%	18.96%
Bond funds return	9.6%	11.6%
Money funds return	9%	13.7%
Investment funds portfolio return	-32.29%	23.81%

Source: Authors' processing

Table 6. Global view of Romanian mutual funds' returns (2010-2011)

Year	2010	2011
BET Index	12.32%	-17.68%
Inflation rates	6.09%	5.79%
Interest rates on deposits	7.31%	6.29%
Equity funds return	6.61%	-16.62%
Balanced funds return	5.3%	-5.03%
Bond funds return	8.1%	7.6%
Money funds return	8.1%	6.23%
Investment funds	6.14%	-2.62%

portfolio return		
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Source: Authors' processing

2. Theoretical approach of risk-adjusted performance measures

The interest for mutual funds performance evaluation has increased during the last decades together with the role played by institutional investors on the financial markets.

Many recent studies have tried to answer the question whether active management adds value to the portfolio. For a „mean-variance” investor the question may be expressed differently: adding stocks to an actively managed mutual fund portfolio will affect the efficient frontier? If the answer is negative than the investor should rather prefer low commissions index funds.

The most elementary performance measure is a fund's return over a certain period. It is a simple and relevant measure for the investors but it fails in identifying the manager's stock-picking ability.

The expected return of a mutual fund is influenced by three factors:

- market performance and other risk factors;
- fund's exposure to risk factors;
- the stock-picking ability of the fund's manager.

In order to detect a mutual fund exposure to risk factors several risk-adjusted performance measures have been developed.

If the market model is an empirical one, the capital asset pricing model shows that at equilibrium the expected return on a financial asset equals the risk-free rate plus a risk premium proportional to the asset's systematic risk.

Portfolio managers try to obtain the highest possible return for a given level of risk. His contribution is evaluated in comparison to a passive investment strategy. Portfolio risk is either estimated by the systematic risk (portfolio's β) or by the total risk (portfolio's standard deviation).

Systematic risk-based portfolio performance measures are based on the CAPM and allow a comparison of portfolios with the same level of systematic risk.

Treynor's ratio (RT) is a return-volatility ratio computed by dividing portfolio return in excess over the risk-free rate to portfolio's

volatility. In a paper published in 1965, Treynor presented this portfolio measure which is based on the CAPM:

$$E(R_p) = R_f + \beta_p(E(R_m) - R_f)$$

where: R_p , portfolio's P return; R_m , market return; R_f , risk-free rate; β_p , portfolio's systematic risk.

$$\frac{\bar{R}_p - \bar{R}_f}{\beta_p} = \frac{\bar{R}_m - \bar{R}_f}{\beta_m}$$

At equilibrium the excess return of a well diversified portfolio per unit of systematic risk should equal the market excess return over the risk-free rate.

$$R_T = \frac{\bar{R}_p - \bar{R}_f}{\beta_p}$$

Sharpe's ratio is a similar performance index constructed in a risk-return approach. It is based on the existent relationship between the expected return of a well diversified portfolio and its risk.

$$E(R_p) = R_f + \frac{\sigma_p(E(R_m) - R_f)}{\sigma_m}$$

If effective return equals in average the expected return, the relation may be rewritten as follows:

$$\frac{\bar{R}_p - \bar{R}_f}{\sigma_p} = \frac{\bar{R}_m - \bar{R}_f}{\sigma_m}$$

It shows that in case of a well diversified portfolio, at equilibrium the risk premium per unit of total risk should equal the risk premium of the market portfolio per unit of systematic risk.

Sharpe's ratio corresponds to the right term of the above relation:

$$RS_p = \frac{\bar{R}_p - \bar{R}_f}{\sigma(R_p)}$$

Jensen's coefficient (J_p) measures the return unexplained by the CAPM. If managers expectations achieve in average the equation of the CAPM may be empirically estimated based on a regression model:

$$R_{p_t} - R_{f_t} = \beta_p(R_{m_t} - R_{f_t}) + \varepsilon_t$$

where all variables are ex-post data and ε_t is the residual variable.

It is possible to identify an inferior or a superior fund performance in comparison to the market portfolio by observing the value of the intercept in the following regression:

$$R_{p_t} - R_{f_t} = \alpha_p + \beta_p (R_{m_t} - R_{f_t}) + \varepsilon_t$$

If managers expectations are averagely achieved, the performance measure proposed by Jensen will verify the equation:

$$\alpha_p = (\bar{R}_p - R_f) - \beta_p (\bar{R}_m - R_f)$$

In order to rank portfolios Jensen's alpha must be divided to the beta coefficient of each portfolio under comparison.

3. Empirical approach of risk-adjusted performance measures

The objective of mutual funds performance evaluation is to establish if funds managers are able to add value and to adopt the proper investment strategy. Portfolios managers justify their existence if in average they attain superior performance to passive investment strategy. The correct evaluation of mutual funds performance plays an essential part in the efficient functioning of these entities.

Our sample includes Romanian equity and balanced mutual funds which were observed between 2005-2011, mutual funds being long-term investment vehicles. The table below presents the results of traditional performance evaluation measures, the benchmark portfolio being the BET Index:

Table 7. Risk-adjusted performance measures

Mutal fund	RT _p	RS _p	J _p
Active Dinamic	-0.02	-0.11	-0.01
BT clasic	-0.001	-0.005	-0.0001
BCR Dinamic	-0.01	-0.06	-0.002
Fortuna	-0.017	-0.097	-0.003
FON	-0.03	-0.21	-0.01

Integro	-0.012	-0.07	-0.003
Intercapital	0.07	0.09	0.03
KD Maximus	-0.01	-0.11	-0.01
Napoca	0.01	0.03	0.01
Omninvest	-0.02	-0.16	-0.01
Transilvania	-0.016	-0.12	-0.004

Source: Authors' processing

Except for Intercapital and Napoca Romanian mutual funds don't generate risk-adjusted performance and we wouldn't expect them to considering the dramatically consequences of the financial crisis which led to negative real rates of return and a terrible bust of the capital market.

4. Conclusions

The Romanian mutual funds industry seems to continue a positive trend and in the same time the process of convergence to other European fund markets in terms of market indicators and market infrastructure. The Romanian market benefits from harmonized regulation to best standards and practices, which stimulate growth. Romanian mutual funds don't generate risk-adjusted performance and we wouldn't expect such a result taking into account recent evolutions of our financial market. Yet, Romanian investors' trust in these investment vehicles is increasing and their perspectives remain promising. There still are sufficient aspects connected to the administration and functioning of these entities, which need to be revised. In the same time it is necessary to harmonize the regulation concerning the process of founding, administration and functioning of collective investment schemes with the European regulation, but without the automatic adoption of rules that don't synchronize with the present features of the Romanian capital market.

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The Influence of Conflicts of Interest on Firm Value

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Abstract

Agency theory was first developed by Jensen and Meckling. This theory has made substantial additions in financial theory because the corporation is not approached from unique perspective, that the shareholders and maximise their wealth, but try to offer solutions to harmonize the interests of stakeholders. In his business, company management must consider conflicts arising from bringing together a multitude of interests. If not recognized and properly regulated, these conflicts can jeopardize the effectiveness and may lead to reduced market value of the firm. Agency theory integrates the complexity of decision making within the firm, arguing the composition of the financial structure of the firm to maximize its value. Considering these circumstances, our paper examines application of the agency theory in Romania.

Keywords: Corporate governance; conflicts of interest; stakeholders.

JEL Classification: G32, D 23.

1. Introduction

Basically, the concept of corporate governance refers to the coordination of interests of various company stakeholders: shareholders, managers, employees, lenders, clients, suppliers, the state, et.al. Within every company an ensemble of particular relations develops, between natural or legal persons, with a stake in the business. In the progress of the entrepreneurial activity, the company's management or governance must take into account the subsistent conflicts, generated by the co-existence of various interests, within the corporation.

As case studies show, the company's performance and value are, concurrently and greatly, influenced, by corporate governance,

i.e. by the management and control systems and operations, implemented on a company level. Also, analyses done by numerous researchers in the field, indeed, show that, a company's financial structure holds an important role in the economy of productive companies. The Modigliani & Miller financial design endorses this statement, as it represents the base upon which the financial science and practice subsequently developed.

Further researches identified optimum capital structure patterns, which entice the maximization of the company's value. Thus, the design proposed by Jensen & Meckling shows that a financial structure may be obtained by making a favorable compromise between additional revenues and agency costs. The latter, predominantly, refer to, monitoring expenses held by the owners, justified by the existing discrepancies between the agent managers' interests and those of the principals. Agency costs can be lowered by debt, as the authors explain. This design nominates a theory for control within the company, which was later named the agency theory. According to this theory, the corporation consists of an ensemble of individuals, each with a specific utility function. If we are to look at this from a, completely opposite, view point, from that of the major principle of the corporate finances, we can assert that the affiliation of the capital is irrelevant, and may be chosen with the purpose of minimizing agency costs.

2. The agency theory, conflicts of interest and the value of the company

Formally speaking, the agency theory originated in the 1970's, but its fundamental concepts derive from a long and colorful history. Among its main influential factors, we list the ownership rights theories, organization management and economy, contractual law and political philosophy. By causing a new leap in the evolution of

finance, the agency theory signs up as a leading role model in financial-economical literature.

The agency theory was elaborated by Jensen & Meckling (1976), based on the bench/marks set by Fama & Miller (1972). This control theory integrates the complexity of the decision making process within the company, by motivating the make-up of the company's financial structure, in order to maximize its value. The managers' behavior influences the current results by each decision made, but their decisions have an, especially, powerful impact on the financing policy and strategy. Thus, the agency theory reflects the inefficiencies that arise from the conflict of interests between managers (directors) and shareholders (owners).

The agency theory states that the company may be regarded as an ensemble of contracts between the stakeholders. The general agent relation is formed in virtue of the contractual bond between the principal and the agent. The principal gives the agent decision making authority, for the fulfillments of certain tasks. The most remarkable agency relations present within companies are those between shareholders and managers and lenders and shareholders. These relations are not specifically harmonious, as the agency theory refers to the conflicts of interest between the principal and the agent.

The most important conflicts of interests, in regard to the impact on corporate value and performance, are those between the owners and the company managers. The agency theory shows that the manager is not preoccupied only by the maximization of the owners' assets, as he, himself, has a utility position to maximize. Thus, results the need to institute a proper and severe examination of the means by which the managers fulfill their contractual duties. Such a measure, however, may lead to a drop in efficiency for the agents, by creating a tense atmosphere at the workplace, unsuitable for gaining performance.

In order to solve conflicts between shareholders and lenders, most often, it resorts to ushering restrictive clauses in the loan agreements. These clauses are meant to reduce the moral hazard risk, induced by the shareholders' or managers' reprehensible behavior. Coerced by shareholders, managers

can involve the company in shady projects, but, the lenders will not realize the real risk level of the investment project until after granting the loan and the project's start. Lenders may include restrictions regarding the financing, dividend, investment policies, etc.

The board of directors represents the headstone of the corporate governance system and the interface between the shareholders and managers (Onofrei M., 2007). At the same time, it represents the link between the managers and the stakeholders involved in the company's activity. In order to achieve the target of maximizing the company's value, shareholders must ensure, through the board of directors, that they hold an agreeable amount of control over managers, with the purpose of (at least) preserving profitability.

The conflicts of interest have implications regarding corporate governance and business ethics. The agency costs are a certainty, subscribing expenses performed in order to support an efficient agency relation. To this extent we can also mention the expenses for the gratification of management performances (through bonuses). This way, managers are interested in acting in the shareholders' best interests.

In the agency theory pattern suggested by Jensen & Meckling, the company is considered to be a get-together of adversaries and partners, each with his own interests. The result is that managers are not exclusively interested in maximizing the owners' fortune, as they have their own utility position to maximize. Agency costs are generated by conflicts of interests. The authors identify a solution for reducing these costs: the call to debt (Jensen M. C., Meckling W. H., 1976).

One design of the optimum financial structure that integrates the two fundamental approaches, respectively the classical and that supported by the agency theory, is the one suggested by Leland in 1998. The design takes in the interaction between the financing decision and the administration strategy for the investment risk. According to the author, following the target of maximizing the shareholders' assets, after contracting additional debt, may lead to a series of conflicts between the agents, and agency costs: monitoring expenses made by the principal and warranty expenses made by the

agent. This article also examines the problem of risk management. Hedging allows for a higher debt burden. It is shown that the benefits of risk coverage are higher when agency costs are lowered.

Choosing the investment financing pattern and the relation with an optimum risk exposure, prove to be an essential factor of the economical performance of corporations. Scholarly financial literature is rich in analyses of the capital structure decision, qualitatively speaking. Be that as it may, it has yet to offer enough specialized benchmarks. The theoretical construction that approaches the capital structure remains imprecise, as opposed to the precision offered by the Black & Scholes (1973) design for option evaluation, with its add-ins.

One explanation for the companies' preference for loans is offered by Ross, in the signaling theory. To this extent, indebtedness represents a means of transmitting performance signals to the market, as well as signals referring to the risks characteristic to the activity (Ross S., 1977). It was suggested that an incentive system be created for managers, based on the fairness of the signals sent on the market.

The design starts from the hypotheses of the perfect financial markets (the absence of trading costs and tax effects, investor divisibility et.al.), but under conditions of informational asymmetry. The asymmetrically distributed information speaks of the company's performance, including its investment projects and its ability to handle risks. The financial structure becomes a means of identifying the various categories of companies activating on the market, by ensuring their classification based on their performance class (Stancu I., 2003).

The conflicts between managers and shareholders arise because the managers hold less than 100% of the residual interest. Thus, the agents will not intercept the entire earnings of their effective activity, but will be subject to a cost determined by their "abstinence" from the inefficient use of the controlled resources. Ultimately, managers will not hesitate to "take advantage". The resulting inefficiency gets lower, the higher the capital share they own is (Harris M., Raviv A., 1991). By maintaining the managers' investment at a constant, in absolute values, the indebted will raise their

capital held percentage and reduce conflict generated costs.

Managers will maintain the company activating, even if investors would much rather have it liquidated. A higher indebtedness level supports the liquidation decision (bankruptcy becomes a probability), as it is associated with a high value of the company and a low probability of reorganization after declaring bankruptcy.

Numerous researches use the Fama-French methodology (1998), based on tax effects, in order to study the relation between financing decisions and the company's value, also considering other relevant factors: agency costs, asymmetrical information, etc. Generally, regression results show that non-tax effects advance on the tax effects of the financing (Wu X., Xu L., 2005). It turns out that this approach is useful in order to reveal information on the company's value, when non-tax effects are predominant.

In the Fama-French study, the authors made cross/sectional regressions in order to study the means by which the company's value is linked to dividends and debts. Basically, the main objective of the research is measuring tax effects, resulting from the evaluation of dividends and debts. Meanwhile, the influence of these effects on the company's value is also analyzed. It is shown that the value is positively correlated to dividends and negatively linked to debts. We deduce that dividends and debts send information on profitability (net expected cash-flows). This information, omitted by control variables, neatly advances on the fiscal effects of the financing decision.

3. The analysis of the agency theory in the case of Romania

In order to test the conformity with the principles of the agency theory on the Romanian market, Dragota (2006) used sample of companies listed on the BSE during 1997-2003. According to the methodology suggested by Rajan & Zingales (1995), banks and financial investment services companies were eliminated from the sample, as their debt level is strongly influenced by a series of exogenous factors.

Accounting and stock exchange information were obtained from several sources, respectively: web sites that supply

specialty information; the data base available through the Reuters press agency, including company enlistments; financial-accounting information from the Ministry of Economy and Finances. Although, officially, the information obtained from balance sheets and profit and loss accounts are made public, the actual elaboration of an empirical study is hindered by the lack of a public data base. To synthesize, the conclusions of this reference research are as follows:

- Romanian companies have a high indebtedting level, which is significantly explained by the balance of operation debts, that carry no interest;

- Profitable companies have less debt because they command enough private resources in order to finance investment projects;

- Private capital companies have started invoking, more often than none, long term resources, which constitutes a sign of recovery for the economical environment.

By using the information available in the balance sheets and resulting accounts of the companies listed on the BSE and RASDAQ, in the period 2001-2004, Robu (2005) analyzed the link between the stock price and the financial and accounting data, based on the following indicators in absolute capacity, share level wise: net profit, dividend, accounting value and sales. These indicators are relevant to investors, as they reflect the performances of the company under conditions of high irregularity of the ownership equity. For each individual indicator the following were calculated: arithmetic average, median, maximum and minimum limits. According to the results, the relations between the financial rates and the stock exchange performances of the companies in the sample, are generally frail in intensity and can be quantified only with the help of certain non-linear designs.

There are several theories regarding the contribution of the administration techniques to the creation of value for shareholders. Nonetheless, the imperfections of the capital market – agency costs, trading costs, taxes, and the growth of the external financing costs – reflect the means by which the value of the company may amplify.

A recent paper tackles the contribution of corporate governance policies to the risk management system, on a company level.

The research analyses the importance of management strategies from the perspective of the profitability and the financial leverage, as eloquent variables. The research steps are complex ones, integrating quantitative and qualitative information. The quantitative information represents financial indicators sampled from the accounting balance and the profit and loss account, while the qualitative perspective includes “dummy” variables, which reflect agency and monitoring costs.

Empirical results show a positive contribution of the dummy variables, in relation to the financial leverage. This way, even if the managers’ benefits are proportional to performances, which are susceptible to motivating them in order to ensure adequate management strategies and for being somewhat reserved towards indebtedting the company, this would not attract a lower financial leverage. This aspect might be interpreted as proof for the fact that the companies under analysis are receptive to external financing.

4. Conclusions

The agency theory tries to offer solutions for the harmonization of the stakeholders’ interests. Thus, in the course of its activity, the company management will have to consider conflicts arising from uniting a multitude of interests. Conflicts of interest might endanger efficiency and lead to a lower market value of the company if they are not identified and regulated accordingly. As a result, the means of financing is inseparably linked to the business organization method, the particular relations built between various persons directly or indirectly involved in the business, meaning the management or corporate governance.

In short, the company’s structure may be defined by a special complexity, in relation to objective agency conflicts and the effort to minimize agency costs. The fact that the company actors do not, all, have the sale objective, generally, leads to certain conflicts of interests, which in turn generate value loss. For this, the objective of the agency theory is that of creating an agency relation structure that will minimize agency costs and value losses.

The need to regulate the relation between stakeholders (shareholders, managers,

employees, creditors and other stakeholders), as well as that of resolving the conflicts between them, has become an issue of incentive for investors, as well as the general public.

Under these circumstances, the pioneering role of the OECD is commendable, seeing as how it managed to synthesize the basic tenets for applying corporate governance in 1999. These principles are meant to support the government efforts to perfect the legal framework and regulate corporate governance, on a national level.

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Is the Options Market in Romania an Option for Investors?

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Abstract

The second segment of the derivatives market in Romania, the options contracts has always been the "poor relative" of the futures market. This paper aims to analyze the main features of the options market in Romania in an attempt to determine the necessity and opportunity for its existence in the Romanian capital market landscape.

After analyzing the volume, value and the typology of the options contracts traded at Sibiu Stock Exchange in the last decade, we can conclude that we are facing a watershed moment for the options market, the dramatic decrease in the number of contracts traded putting into question the future existence of the market.

Although in terms of the types of contracts traded, investors have real alternatives for hedging and speculation, they seem to bypass the options segment and preferred the futures contracts. The explanation for this behavior consists, in our opinion, both in the illiquidity of the market and the lack of financial culture and experience of the investor.

Key words: options contracts, Sibex, volume of trades, market liquidity

J.E.L. classification: G23

1. Introduction

The Romanian options market has had a more hesitating evolution compared with the futures market. In their approximately 15 years of existence on the Romanian capital market, options have failed to arouse great interest from investors, who prefer futures contracts. Therefore, we consider justified the attempt to find a response to the question: is the options market in Romania an option for investors?

In order to give an answer to this question, we will try to identify the main

trends observed in the Romanian options market in the pre and post crisis period of time.

2. The Romanian options market evolution and trends

In terms of the range of products offered, the options market in Romania now has two categories of options: standard and binary. The underlying assets for the standard options are the futures contracts on shares of companies traded on the Bucharest Stock Exchange, currencies and gold. As of 2011 binary options were introduced to trading. They represent a type of exotic options that require payment of a fixed income if, at maturity, the price of the underlying asset reaches or passes a certain threshold.

The options traded at Sibex are American style, which gives investors greater flexibility, allowing them to require the sell (or the buy) to take place at any time up to the maturity date. Under these two aspects, Sibex can be included in the same category as most of the European stock exchanges, both in terms of the types of underlying assets as well as in terms of the options style.

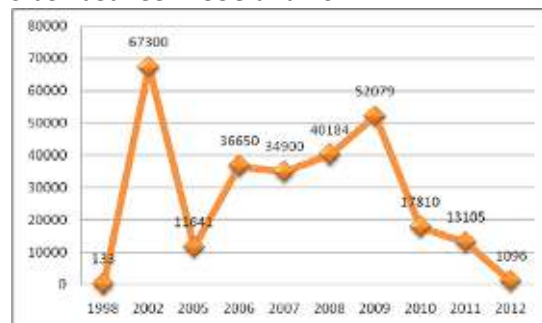
2.1. The evolution of the volume of trades

If the volume of futures contracts traded included Sibiu Exchange in the top 10 European exchanges in 2008, the same can't be said about the options market, whose share in the Sibex transaction volume never exceeded two percent.

The number of option contracts concluded in the last 15 years at Sibex had an upward trend, from 133 contracts in 1998 (this value is not relevant as options transactions were introduced in November), reaching 52.079 contracts in 2009. The highest number of contracts traded was reached in 2002, when 67.300 options were closed. Then a period of

decline in the volume of transactions followed, due to the same reasons as the futures market slump, and, since 2005 a new upward trend that ended in 2009. That was followed in 2010 by a decrease in trading volume almost to the volume of 2005. 2011 brought a further decrease in the volume of transactions, but less than in 2010. In the second semester of 2011 the market gave the impression of a recovery, but it was short-lived, 2012 bringing the lowest trading volume in the history of the options market in Romania, letting aside the first year of trading.

Figure 1. The volume of options traded at Sibex between 1998 and 2012



Data source: Sibex annual reports

The post-crisis evolution of the options market was different from that of the futures market. If we compared turnovers in the 2007-2009 period we might be tempted to believe that the onset of the crisis was actually beneficial for the options market. In 2009 the total number of contracts increased by 30% over the previous year, the largest difference of 8.5 times, being recorded in November. Thus, 2009 was the second best year for options market since 2002. But the next three years have shown that lack of liquidity, a general characteristic of the capital market in Romania, has not spared even the options market.

In 2010 the volume of trading in options decreased from month to month so that in October reached a low of only 116 contracts. Compared to 2009, the total volume of options traded fell to 66.22%, the largest decline, in October, being of 98.22% while the only month that saw a higher volume over the last year was May with a 260.18% rise. The downward trend continued in 2011, when there were only traded a total of 13,105 contracts, with 26.13% less than in 2010.

After mid-2011, we can talk about a market rebound, trading volumes being higher compared to the same period of the previous year. September and October 2011 marked trading volumes of even 800% higher than the previous year, but this was not enough to offset losses in the first half.

Due to the loss of investors' interest in standard options, the Sibiu Exchange launched in April 2011 two exotic binary contracts, CALL options and RANGE options, with the exchange rate between the national currency and European currency and between Euro and U.S. dollar as underlying assets and weekly maturities.

Binary options are products designed especially for speculators giving the possibility of gain from estimating a certain trend in the underlying assets' price. In CALL binary options, the buyer relies on a price growth above a certain threshold; the seller is willing to pay a premium for a fixed amount negotiated if his predictions come true. If at maturity the price of the underlying asset exceeds the barrier, the seller pays a fixed amount, but if the price does not reach over the barrier, the seller retains the premium while and the purchaser gets nothing. In RANGE binary options, an interval of variation is established for the price of the underlying asset and if the due price is outside the barriers, the seller retains the premium and the purchaser gets nothing.

Although requested by investors binary options have not enjoyed the success expected, only 19 CALL RON/EUR contracts being traded during 2011, in the first two months from the introduction. The year 2012 brought with it a dramatic decrease in the volume of trading in options, the number of trading reaching only 8% of the previous year's amount. So, in our opinion, it is safe to say that 2012 marks the biggest market contraction since its launch in 1998.

By analyzing the volume of transactions with options carried out at Sibex during the financial crisis and afterwards we can conclude that investors do not have at their disposal a dynamic market, which is a first impediment for considering options a viable alternative for hedging or speculation.

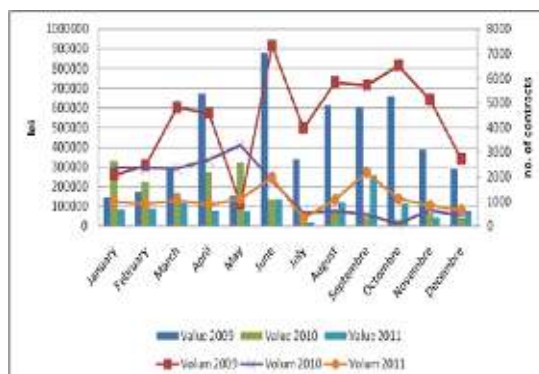
2.2. The evolution of the value of trades

A second aspect which we will examine below is the evolution of the value of options transactions. In this context it should be noted, first, the positive dynamics of stock market volatility in Romania in the pre and post crisis [1].

If in terms of the volume of transactions the amount of 2009 exceeded that of 2008, the total value of contracts decreased to 94.5% from the previous year. The largest decrease of 80% was recorded in January, while the largest difference was recorded in November, when the turnover was 257% higher than the same month last year. The reason why the large number of transactions did not materialize in a large value is the small value of the underlying assets' prices. The same trend can be distinguished in regards to the futures market evolution during this period.

In 2010, the downward trend of option value set in the previous year continued, traded amounts registering a decrease of 66.53%, the largest negative difference being recorded in October of 95.49% while the single better month of 2010 compared to 2009, May, achieved an increase of 107.57%.

Figure 2. The correlation between the volume and the value of options transactions during 2009-2011

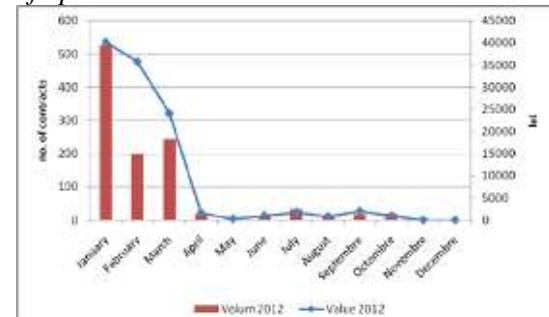


Data source: Sibex annual reports

For the years 2011 and 2012 the positive correlation between the volume and value of transactions remained, the months with the highest volume of contracts traded being the same months with the highest value of transactions. Overall, the transactions made in 2011 represented 69% of the previous year, while the volume in 2011 was 73.8% of

that of 2010. In 2012 compared to 2011, a volume of only 8.3% of the previous year led to a value of only 9%.

Figure 3. The monthly volume and value of options trades in 2012



Data source: Sibex annual reports

Therefore, a second setback for investors interested in option contracts can be stressed out: the lack of market liquidity.

2.3. The typology of option contracts traded at Sibex

A final tier of analysis that we will consider is that of the typology of option contracts traded on Sibex.

In terms of the type of wrights being achieved from buying the option contract, investors in Sibiu preferred to protect their short investments through call options. This demonstrates, in our view, the speculative nature of transactions conducted at Sibex.

Regarding the underlying 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 the futures contracts for SIF 5 shares (DESIF5), followed by options on futures contracts for the lei/euro exchange rate. Compared to other European markets, we notice both similarities and differences. A more comprehensive analysis of the similarities and differences between the Romanian options market and the European markets can be found in a 2010 paper by the same author [2].

The predominant preference of investors for the financial products (options based on share prices and currency exchange rates) can be explained by the high volatility of the financial sector, especially that of the exchange rate. Combining this feature with the prevalence of call type options we

conclude that the options market in Romania is a market mostly speculative.

3. Conclusions

Options on futures contracts traded in Sibiu offers real advantages for investors that can use them for both risk management and speculative operations. Call type options allow the purchase of the underlying asset at a predetermined price while put options allow protection against price erosion. Options' trading offers the opportunity to benefit from the price movements of the underlying asset without paying the full price. In addition, there is no obligation to purchase or sell the underlying futures contract and the actual risk is limited to the premium paid when purchasing the options.

In spite these obvious advantages, the capital market in Romania does not seem to be ready to use options to their full capacity at for at least two reasons: the low liquidity of the entire Romanian capital market and lack the experience and financial culture of the investors.

Given the evolution of the volume and value of transactions with options lately, its future existence is, in our opinion,

questionable. Although the Sibiu Exchange always tried to adapt to the requirements of investors in terms of the typology of contracts traded, they still have not responded as expected.

In our opinion, the coming years will be decisive in terms of the capacity of the capital market in Romania to trade options at a level comparable to other European markets.

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The Analysis of the Correlation between the Banking System Profile and its Involvement in Transactions with Financial Derivatives

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Abstract

The use of derivatives by commercial banks is a thorny problem lately, mainly because of the opinion of some experts that that activity led to the global financial crisis. This paper does not aim to analyze the effects that the use of derivatives by banks has on their performances, but to determine a profile of banks interested in using derivatives. To do this we will try to establish a statistical correlation between the volume of derivative transactions and two important components of the commercial banks' balance sheet: total value of assets and loans granted. The data used refers to the Czech banking system.

The conclusions drawn from the analysis revealed a direct correlation between the banks' size and the size of their intermediation activities, on one hand, and their involvement in derivative transactions, on the other hand.

Key words: financial derivatives, banking system, total assets, total loans, correlation

J.E.L. classification: G21

1. Introduction

The use of financial derivatives by credit institutions increased in importance during the recent decades. Studies on the increased role of derivatives in banking activities focused on two areas: the analysis of the motivations behind the use of derivatives by banks and the effects that this use has on bank risk [1].

Among the reasons why banks are interested in using derivatives we can include mainly hedging transactions generated by traditional intermediation activities and, to a lesser extent, in the opinion of some authors,

speculative operations [2]. Increased interest rate risk is another incentive to use derivatives according to experts [3] or [4]. There are also studies on the influence that the size of the banks [5] and ownership structure [6] have on the involvement of banks in transactions with derivatives.

In the second category of studies, many authors have tried to identify how the use of derivatives affects banking risks by reducing certain risk categories and generating other threats. From this perspective there are conflicting opinions among experts. A number of authors [7] consider that the use of derivatives reduces risks, while other specialists [8] and [9] consider that their use amplifies risks for banks.

In the following chapter we will try to test the existence of a link between the volume of transactions with derivatives and one component of commercial banks balance sheet: the total assets volume, first, and the value of customer loans, secondly, using data related to the Czech banking system.

2. The analysis of the correlation between the banking systems' value of total assets and total loans and the value of financial derivatives transactions

Derivatives transactions in the Czech banking system started in 1993. In comparison, in Romania the only available data to date covers the period between 2001 and 2002 when the value of transactions conducted by banks in this segment was, according to the National Bank, between \$ 82.5 and \$ 185.8 million, comparable to that achieved by the Czech market in 1995. The data that we use are denominated in the currency of the Czech Republic (Czech Koruna) and refers to the monthly evolution of the chosen indicators during 1993-2010, a period which we consider sufficiently large

in statistical terms to enable us to establish the existence and the meaning of the link between the indicators mentioned above.

The value of derivative transactions taken into consideration is the fair value of these contracts, as it is found in the aggregated balance sheet of the commercial banks in the Czech Republic, excluding the Central Bank. Loans refer to loans to nonbank institutions only, both in national currency and in foreign currency and do not include the governmental loans.

Figure 1. The value of transactions with financial derivatives performed by the Czech banking system between 1993-2010



Data source: Czech National Bank statistics

The analysis of the data series regarding the value of transactions with derivatives demonstrates heterogeneity, the coefficient of variation is over 100%, which leads to the conclusion that the arithmetic mean is not relevant to characterize the series:

Table 1. Statistical indicators of the evolution of derivatives transactions carried out by the Czech banking system

Arithmetic mean	49902.4
Series minimum (31.12.1999)	1067.0
Series maximum (31.01.2009)	235262.1
Variation range	234195.1
Maximum deviation	185359.7
Minimum deviation	-48835.4
Variance	2562698341
Standard deviation	50623.10
Variance coefficient	1.01

Next we go through the following steps for each of the relationships that we want to consider:

- the statistical analysis of data series through middle position and variation indicators;
- the graphical determination of the existence of a relationship between the

derivative transactions (independent variable) and the value of the indicators taken into account;

- the determination of the shape of the link function using linear regression;
- the determination of the strength of the link using the simple correlation coefficient.

We consider that the relationship between the two variables takes the form of a linear function of the type:

$$Y_{xi} = a + b * x_i \quad (1)$$

where:

Y – the endogenous variable or dependent variable

x – the exogenous variable or independent variable

a – the error term (noise) – captures all other factors which influence the dependent variable y, other than x

b – the regression coefficient

The parameters of the regression function are estimated by the least squares method based on the following system of equations:

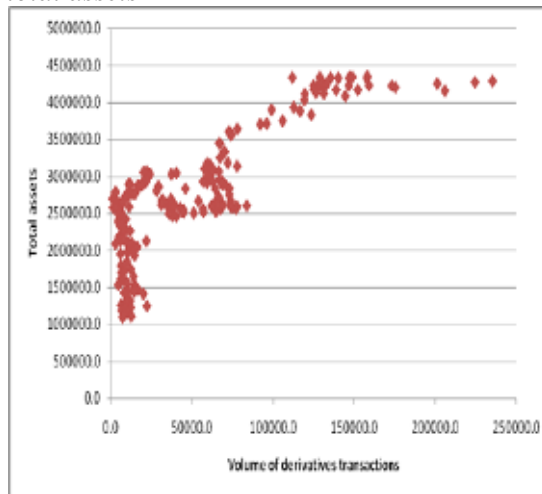
$$\begin{aligned} a &= \frac{\sum y_i * \sum x_i^2 - \sum x_i * \sum x_i y_i}{n \sum x_i^2 - (\sum x_i)^2} \\ b &= \frac{n \sum x_i y_i - \sum x_i * \sum y_i}{n \sum x_i^2 - (\sum x_i)^2} \end{aligned} \quad (2)$$

In order to test the intensity of the relationship between the two variables we use the simple correlation coefficient (Bravais-Pearson):

$$\begin{aligned} r_{y/x} &= \frac{n \sum x_i y_i - \sum x_i * \sum y_i}{\sqrt{[n \sum x_i^2 - (\sum x_i)^2] * [n \sum y_i^2 - (\sum y_i)^2]}} \end{aligned} \quad (3)$$

The first correlation that we will try to determine is that between the volume of derivative transactions (independent variable) and total assets (dependent variable). The scatter plot chart reflects a relationship of interdependence between the two variables.

Figure 2. The correlation between the volume of derivative transactions and the total assets



Data source: Czech National Bank statistics

The statistical evolution of the total bank assets is characterized by the following indicators:

Table 2. Statistical indicators of the evolution of total assets of the Czech banking system

Arithmetic mean	2732390.2
Series minimum (31.03.1993)	1097835.0
Series maximum (31.08.2010)	4347267.9
Variation range	3249432.9
Maximum deviation	1614877.7
Minimum deviation	-1634555.2
Variance	748110324676.24
Standard deviation	864933.7111
Variance coefficient	0.316548383

As it can be noticed, the variance coefficient is much smaller in this case compared to than the value calculated for the derivative transactions, which implies that the arithmetic mean is relevant in this case.

After performing the necessary calculations, the following values are obtained for the regression parameters a and b:

$$a = 2022935,3$$

$$b = 14,21$$

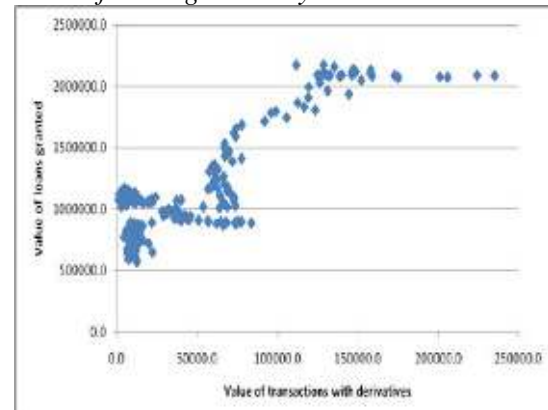
The positive sign of the parameter b signifies a direct link between the value of bank assets and the value of derivative transactions.

Therefore the regression function is, by substituting the values obtained for the parameters a and b in formula (1):

$$Y = 2022935,3 + 14,21 x_i$$

The second correlation that we intend to analyze is between the value of derivatives transactions (independent variable) and the value of loans granted by banks to customers. Following the same steps as in the first analysis we found the results below:

Figure 3. The correlation between the value of derivatives transactions and the value of loans granted by banks



Data source: Czech National Bank statistics

Table 3. Statistical indicators of the evolution of loans granted by the Czech banking system

Arithmetic mean	1189729.66
Series minimum (31.01.1993)	570277.50
Series maximum (30.11.2010)	2175190.80
Variation range	1604913.30
Maximum deviation	985461.14
Minimum deviation	-619452.16
Variance	196806054139.86
Standard deviation	443628.28
Variance coefficient	0.37

By applying the calculation formulas we obtained the following values for the regression parameters and for the linear regression function:

$$a = 817228,1$$

$$b = 7,46$$

$$Y_{xi} = 817228,1 + 7,46 * x_i$$

As well as in the case of the first correlation, a direct relation is proved to exist between the two variables, a one unit increase of the variable x (the derivative transactions in our case) leading to an increased value for the variable y (value of loans).

To determine which of the two links previously analyzed is the most powerful we compared the simple linear correlation coefficients (Pearson) for the 2 pairs of data:

Table 4. The values of the Pearson coefficient for the two series

Correlation between the value of transactions with derivatives and:	Pearson coefficient
- the total assets value	0,832088
- the value of loans granted	0,851797

The results obtained show that the strongest influence on the value of their derivatives transactions is exerted by the value of loans granted. However the difference in value between the two analyzed data series is small, proving that the value of the total assets owned by the banking system is also a factor of influence for the value of transactions with financial derivatives carried out by banks.

3. Conclusions

We thus conclude that the value of derivatives transactions varies proportionally to the value of assets and loans, but is most strongly influenced by the amount of loans. This means, in our opinion, that there is a relationship between the volume of traditional operations performed by banks and their interest in the use of derivatives. The size of the banks, characterized by asset

value, also has a direct influence, the value of derivatives transactions increasing with increasing assets value.

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Tax Evasion in the Context of Globalization

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Abstract

Tax evasion is the logical result of flaws and inadequacies of an imperfect and erroneous assimilated legislation, of faulty methods of application, the scale reaching unimaginable quotes, increased during the economic crisis, aimed at circumvention and fraud the state in terms of fiscal by different methods. Tax evasion has consequences, primarily at a macroeconomic level, consisting of depriving the state of revenue due, thereby decreasing the room for maneuver in economic and social matters.

Keywords: evasion, taxation, globalization, taxes, state budget

J.E.L Classification: D20, F20, F60, G00, H30

1. Introduction

In any economy, the main purpose of a tax system is to provide a stable and consistent source of public revenue. In this process, a factor of particular importance is the reduction of tax evasion, given that it contributes to reducing the effectiveness of state institutions, as well as being a generator factor of corruption.

Tax evasion is the logical result of flaws and inadequacies of an imperfect and erroneous assimilated legislation, of faulty methods of application, and also of non-provision of the legislator, whose excessive taxation is as guilty as those that are provoked by this evasion.

Tax evasion has become a social danger affecting the economy of a state, along with social disorders. Tax evasion is thus, synthesizing, evading by any means in whole or in part from paying taxes, fees and other amounts owed to the state budget, local budgets, social security and special extra-budgetary funds by Romanian or foreign

individuals and legal entities. Depending on the place of manifestation, intensity, methods used, the antithesis of fiscal economic legislation, but also moral and tolerance society, fraud can take certain forms such as tax evasion, smuggling, fraud, and forms Unnoticed or speculative particular interpretations the legal provisions in order to evade or avoid tax (Boiță, M., 2009) [1]. Concerning this phenomenon, tax evasion is as ancient and ubiquitous in society as how old is the existence of the state and tax laws. The field of manifestation of the tax evasion is as large as it is wide and varied the scope of taxes.

2. Legal speculations of international and national fiscal policies

Legal tax evasion allows evading a portion of taxable matter, without this being considered misdemeanor or felony. Its frequency is higher in the periods in which are modified or are introduced new laws and when the state intentionally uses the tax to promote incentive economic policies to certain socio-professional categories or in certain areas of activity.

Legal tax evasion can take different forms:

- granting certain tax facilities (in the form of exonerations, partial exemptions, reductions, deductions) is a favorable frame for detouring from tax obligations payment by certain processes;

- granting exemptions defined in time, in the case of the establishment of new companies, from the payment of profit tax, is an example. In some countries, companies of persons have the right to choose that income be imposed either as capital firms, either for self-employed persons;

- when the state is facing more specific financial difficulties takes out of the scope of taxes income from bank deposits and from

investment in the form of securities issued state bonds.

- also, when the general expenses of companies are not regulated, there is a trend to overestimate them by unjustified economic increasing them. Overstatement of depreciation, by the legal establishment of a depreciation fund in an amount greater than the physical and moral depreciation of fixed assets is one way of reducing the tax base;

- income taxation of certain categories of individuals based on average income rules, creates conditions for taxpayers with incomes higher than average, for not paying tax on that difference;

- an additional possibility of producing legal tax evasion consists, as stressed earlier, the existence of tax havens, where are established and register their office address both individuals and legal entities to which are directing their profits obtained in other countries, eluding thus IRS. An offshore company is a financial instrument for planning and avoidance of taxes, raising the profitability of a business, coordination of productive activities in full freedom currency, but also in a comforting anonymity.

A tax haven is used generally to complicate and discourage attempts to document unreported income, to analyze the flow of funds and to demolish the arguments of defense by parrying sources of funds that are not taxable.

Moreover, tax havens are used to generate documents with appearance of legitimacy.

The main motivations for using fiscal "tax havens" can be grouped as follows:

- transactions that are motivated from this regard, but are consistent with the spirit and letter of the law, are considered "tax planning". Tax planning technique consists in directing profits from the real place of achieve them to the mother company with the headquarter in a tax havens, and can take various forms from service to the prices of import - export favorable distorted;

- transactions that benefit from some legal or administrative unintended slips are considered cases of "tax avoidance", which takes the form of captive insurance companies, investment companies, some forms of services and construction performed by entities such as the tax havens.

3. Reducing the taxable base by illegal speculation of national and international fiscal policies

Fraudulent evasion (illegal) requires deliberate circumvention of the fiscal law that is sanctioned by the law through pecuniary and imprisonment measures. As it is a social phenomenon with implications for financing public expenditure, fraudulent tax evasion consists in illegal concealment, in whole or in part, by taxpayers of taxable matter in order to reduce or eliminate tax obligations incumbent on them. Although there are a variety of methods to which taxpayers resort to illegal evades, we agree with the classification conforming to which illegal tax evasion takes the following forms [2]:

a) Traditional evasion that:

- consist in partial or whole evade from the payment of the tax obligations by completing and submitting incorrect documents, or by failure to produce documents required by law;

- includes the following main processes:

- drawing false fiscal statements or failure to produce them;

- intentional reduction of receivables with the purpose to reduce Value Added Tax (VAT) and taxable income through cash receivables without receipt and sales without invoice;

- deliberate increase of expenses to reduce taxable income;

- production and selling economic goods and services illegally;

- professional activities clandestinely rewarded (on the black);

- reducing the value of inheritances received and transactions with real estate.

b) Legal evasion consists in hiding the true nature of an organism or a contract to avoid tax obligations (for example, when an Association contract is converted, in secret, in an employment contract for its beneficiary to obtain certain benefits from the quality of employee);

c) Accounting evasion, difficult to identify in practice, consists in creating the impression of proper accounting records, using false documents in order to artificially increase costs, reducing revenue, reducing taxable income and therefore the tax liability owed to the State;

d) Evasion by evaluation consists in reducing the value of the stocks, overestimation of depreciation and provisions with the purpose of displacement of profit in time.

The lack of legal regulations, existing gaps in those in force, combined with the lack of cooperation of those responsible, with the establishment of commercial companies have been speculated by various creative individuals who have created a lot of companies apparently operating legally, but that cannot be identified at the legal office said. The establishment and operation of these "ghost companies", possibly through false identity documents, leases, isn't an end in itself, but to circumvent the law, often in tax matters. The experience so far shows that "great specialists" in ghost companies are mainly foreign citizens of Chinese origin and those from the Arab world. Also, a company that works correctly to a point, after which conflict with the law can become "business with ghost associates" by assigning (selling) it, along with the debts to suppliers and state, to people who cannot be identified, on the basis of false documents.

The consequences of the function of such "model of companies" are disastrous. These companies apparently legally established benefits from sales invoices, which immediately turn to supply bills drawn on at the "customer demand" at a purchase price almost equal to the sales one, fixed inputs, fictitious services, generating both unpaid taxes and fraudulent indirect tax recoveries.

4. Including an offshore company in the business relations of two companies. Case Study

When it takes place a commercial transaction or otherwise between two companies, goods or services depart from one direction and from the other one documents and money. The tax base would be represented by the difference between the price at which the goods were purchased, along with other expenses, and the price at which they are sold. An offshore company can be inserted into the middle of the transaction, with the profit obtained recorded in its books, instead of the original company. In this way, taxable profits are transferred from a high-tax jurisdiction to one with low

fees or no fees at all. The offshore company receives orders directly from the customer and commodities will continue to go from the manufacturer to the buyer. This interposition in the marketing chain is advantageous both for the vendor of goods and for the buyer as well. For example, a multinational company can be incorporated in an appropriate jurisdiction and used to finance subsidiaries located in countries with high taxes. The main advantages to be gained by the holder are:

- by using the double taxation avoidance Agreements (Double Tax Treaty) may be granted loans at attractive interest rates to subsidiaries;

- interest will be deductible by the subsidiary's profits and the tax that would normally be withheld on interest at source may be reduced or eliminated;

- also by using conventions (agreements) to avoid double taxation, taxes that would be levied on dividends paid by the subsidiary to the mother holding company may be reduced or eliminated;

- it may be possible to arrange a sale of subsidiary shares without applying tax for the capital gains at source or in the offshore company accounts;

- also it may be receive fees that will flow to the offshore company. The individual will then receive a salary for their services that will be chargeable wherever the employee is resident, but the difference between the fee and wage can be held offshore and reinvested without charge.

5. Conclusions

Analyzing the evasion phenomenon in depth, in the causes that produce it, extremely important is the repercussion state of taxes. Financial phenomenon of repercussion appeared when the taxpayers tried to reduce, as much as possible, the effects caused on their income by taxes levied by the state. Repercussion [3] means, summarizing, the transmission actions by tax payer's subjects, of their economic effects to other economic and social sectors, on other subjects, at other levels in other markets or other national or regional economies.

Repercussion manifested itself only when tax payers subjects (taxpayers legally) enter into economic relations with other subjects to

which they attempt to transfer their tax burden. On preventing and combating tax evasion it must be said that tax evasion, both in its legal form and in its fraudulent one, cannot be completely eradicated and this because perfect tax laws doesn't exist and taxpayer inventiveness has no limits and, more than that, however drastic the sanctions are there will always be taxpayers for which defrauding IRS gains will outweigh the risks to which they are exposed. Under these conditions, the fight against tax evasion considers limiting it and its adverse effects to the maximum possible, this being done on two levels, first in terms of prevention, and secondly in terms of the repression phenomenon.

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Conceptual Framework Regarding the Account Consolidation Methods

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Abstract

The existence of several methods of account consolidation is due to the existence of several views on consolidation, depending on the type of information which was requested and on the persons interested in the information provided by the consolidated accounts. Once the applied methods have been established, we need to choose the consolidation procedure, depending on the group's complexity and on the type of links between the societies encompassed within the consolidation perimeter.

Keywords: global encompassing; proportional encompassing; equity method.

J.E.L Classification: G3; G32; G34

1.Introduction

Account consolidation is an ensemble of techniques which allow for the drafting of the consolidated financial situations for a group of societies which is treated as a single entity. Theoretically, consolidation consists in substituting the value of equity securities owned by the consolidated company, with the part of the net situation of the consolidated society, which is from the outcome of the exercise corresponding to the equity securities owned. From a practical point of view, the accounts which are registered in the consolidated accounts must be drafted, on principle, at the same date as those of the consolidated company and must refer to the same reporting period. Should the date of closure of the business of a company included in the consolidation is more than three months prior to the date of closure for the consolidation, the consolidated accounts must be established on the basis of interim accounts.

2. General notions of consolidation methods

Account consolidation is a process which each society group organizes depending on its structure, on its information and transaction flow between its companies, on the professional reasoning exercised by the consolidated accounts drafters. Thus, the entire account consolidation process may be organised based on accounting methods or not.

Organisation based on accounting methods requires a consolidation log where, respecting the principle of the double party, we register all the operations requested for the completion of consolidated accounts, starting with blending restatements, account sums, and ending with eliminating reciprocal procedures and eliminating equity securities. For systematically building consolidation operations we can draft a register, Ledger, and the balances established therein can then be made into a consolidated trial balance, which will serve to prepare the balance sheet and the consolidated profit and loss account. The rigor of this type of organisation serves to large groups, with numerous branches, and which apply consolidation directly by the mother-company.

Organisation not based on accounting methods, as opposed to that based on accounting methods, requires drafting a consolidation panel which each group builds according to its own information needs. Regularly, this type of organisation is suitable for small company groups or for groups using level consolidation.

In practice there are three methods of account consolidation, depending on the control exercised by the consolidating company on the consolidated companies and according to the links that exist between societies; the method of global integration, the method of proportional integration and the equity method.

By control we understand the power of directing the financial and operational policies of a company in order to obtain advantages by undergoing a controlled company activity. Thus:

- if a company is under the exclusive control of the consolidating company, the substitution is made by entirely encompassing the balance sheet and the results account of the consolidated company into the balance sheet and the results account of the consolidating, dominating company;
- if a company is under the shared control of a small number of shareholders, thus being a multi-group company, the substitution is made by encompassing the balance sheet and the results account of the consolidated company, proportionally to the interests that the consolidating company has in it;
- if the consolidated company is under the notable influence of the consolidating company, the equity method will be used.

The 7th European Directive mostly presents global encompassing, but allows using the other two methods as well. Certain branches will be emphasised in particular cases when global encompassing would falsify the global group image and especially for:

- the branch having a completely different activity from that of the group;
- the foreign branch undergoing severe restrictions, compromising its being ruled by the mother-company;
- the branch whose encompassing proves to be impossible, as the information needed for establishing consolidated accounts cannot be obtained without exaggerated expenses or on normal terms.

3. Account consolidation by global encompassing

Global encompassing, used in order to consolidate companies exclusively controlled by the mother-company, consists of:

- encompassing within the accounts of the consolidating company elements of the balance sheet and of the loss and profit account of the consolidated company, after eventual restatements in order to harmonise them with the accounting principles of the group. The elements of the balance sheet and of the loss and profit account of the

consolidated company are aligned with those of the mother-company;

- eliminating reciprocal operations, as well as of the equities of the consolidated company, held by the group companies, correlated with the elimination of the share of own capital owned by the consolidated company;
- distributing own capitals and results between the consolidating company and minorities.

In the case of global encompassing, there are two specific columns for the consolidated accounts:

- consolidated reserves - represents the share of the mother-company of the accumulated reserves when the consolidated company was acquired or created;
- minority interests - correspond to the share of the own capitals out of the own capitals of the consolidated company which belong to the shareholders, other than the mother-company.

This method is characterised by the global encompassing of balance sheets and of results accounts of the branches at the level of the mother-company. It is the case of companies undergoing the exclusive control of the dominating company, which conducts their financial and operational policies. This exclusive control can be in law or in fact, which means that it can manifest the existence of an exclusive in fact control, even if from the legal point of view the condition of majority of the voting rights (50% plus 1) is not met, according to the shares held. In the situations when the owned branches control, in their turn, sub-branches, the consolidation procedure is a bit more complex, and in the case of mutual participations there are further aspects to be taken into consideration.

The method of global encompassing is a consolidation method stipulated in all accounting texts referring to consolidation. Historically, global encompassing is the first consolidation method. Global consolidation, which perfectly illustrates the principle of prevalence of economic reality over form or legal ownership, is considered the quintessential consolidation method. In the situation when a company is exclusively controlled by the dominating company, therefore its financial and operational policy is conducted by another company which thus

gains certain advantages, the method of global encompassing will be used. The exclusive control refers to owning, directly or indirectly, the majority of voting rights, i.e. more than 50%, but exclusive control can equally result from a contract or a statutory clause.

The stages of the consolidation process when applying global encompassing are:

1. Proper consolidation, consisting of:
 - account blending, taking into account the treatment imposed by adopting a unique method;
 - eliminating the fiscal influence from the accounts.
2. The proper consolidation, which requires:
 - aggregation of accounts in a consolidating support - consolidating panel or journal;
 - elimination of accounts and mutual operations;
 - elimination of group internal results;
 - sharing capitals belonging to branches.

The consolidated balance sheet, obtained by means of global encompassing, offers the most complete economic and financial image of power exercised by the group on the branches. The exclusive control determines considering the consolidated company's patrimony as being part of an ensemble of commercial and industrial means under the rule of a unitary decision. Therefore the consolidated balance sheet allows for the appreciation of the real structure of actives, of their financing means - the degree of debt and own capitals, while knowing the share of the own capitals which belong to the shareholders or to the associates considered a "minority" but who, completely aware, contribute to the general financing of the group. This method corresponds directly and perfectly to the economic view on consolidation regarding the entity.

By applying the global encompassing method, the consolidated profit and loss account will also comprise the result corresponding to the minority interests, (interest which do not control it), which reflect the share of the results of branches which belongs by right to the minority interests.

If the control that the dominant company has over a company within the group is shared with a limited number of associates or shareholders, who cannot make decisions regarding the activity of the controlled company except on the basis of a unanimous agreement, then we are talking about a concomitant control.

4. Account consolidation by proportional encompassing

Proportional encompassing is a lesser form of global encompassing because, as the name suggests, the encompassing of individual accounts of the consolidated company is reduced to the interest percentage owned by the consolidating company. This vision favours owners, as it is limited to the economic representation of their fortunes.

Proportional encompassing, used for consolidating companies controlled by the group, consists of:

- encompassing into the accounts of the consolidating company of a share corresponding to its participation out of the value of the elements of the balance sheet and of the profit and loss account of the consolidated company. A fraction thereof, represented by the voting rights owned in the own capitals of the consolidated company, is aligned to the elements of the balance sheet and of the profit and loss account of the consolidating company.
- eliminating, in a proportionate manner, of the encompassed share, of mutual operations, of internal results and of titles owned by the consolidating company;
- emphasizing the rights of the group within the reserves and the results of the consolidated company.

As a result of the compensation of the equity shares owned by the consolidating company with the corresponding fraction thereof out of the own capitals of the consolidated company, we have consolidated reserves. The proportional encompassing of the balance sheets of companies of common interest refers to calculating each active and passive role of the consolidated company, according to the degree of participation, represented by the owned equity securities, taking into account the fact that the operations between the consolidated companies have been eliminated. As far as

the result accounts proportional encompassing is concerned, this applies to each expense and income item of the consolidated company, based on the fraction that corresponds to the interest percentage of the equity securities owner company. This is how the emphasising of a business figure realised by the mother-company with third parties is possible, whether it was realised directly or by means of a common interest company, naturally after the elimination of mutual buying-selling operations has taken place.

Proportional encompassing is not provided under the accounting legislation of all countries. For example, American accounting texts do not mention proportional encompassing, the shares in entities controlled in group, where no single participant has majority of voting rights, being accounted by means of the equity method.

The proportional encompassing mechanism requires:

- cumulating the balance sheet elements of a consolidating company with the share of the elements of the balance sheet of the consolidated company, according to the interest percentage belonging to the consolidating company;
- eliminating mutual accounts between the two companies;
- determining consolidated reserves and consolidated results;
- eliminating equity securities in the consolidated company, which are owned by the consolidating company, by reducing the own consolidated capitals by the same amount;
- establishing the consolidated balance sheet.

Proportional encompassing requires the same working stages as for the global encompassing consolidation. Similarly to the case of global encompassing, internal loss is eliminated only when they do not represent a definite value loss, but are due to using transfer prices which are significantly different from the market values. Regarding the elimination of the associate participation in the entity under conjunctive control, the operation is simpler than in the case of global encompassing, because cumulating elements in financial reports is limited to the share of the associate in the actives and debts of

participation association and must therefore no longer outline minor interests.

5. Consolidation of accounts by means of the equity method

If a company is under the marked influence of another company in the group, being a company associated to the group, the consolidation will take place by means of equity, a method which consists of substituting, at the accounting value, the equity securities owned by the dominating company, with the corresponding value from the net situation of the consolidated company.

The marked influence over the management and financial policy of a company is when a company disposes, directly or indirectly, of a fraction at least equal to 20% of the voting rights of that company. Owning 20% of the voting rights constitutes only the presumption of marked influence; in order for it to actually exist, power must be effectively manifested by making decisions.

The equity method may be also applied when the structure of the accounts of companies under exclusive or common control makes it impossible for the global or proportional encompassing methods to be applied. The equity method used to consolidate accounts of companies where the consolidating company has a significant influence or owns strategic investments lies in substituting the cost of acquisition of equity owned by the consolidating company with the share of the own capitals of the consolidated company and in outlining the ownership by the group of the reserves and results registered by the consolidated company.

In the speciality literature, the equity method makes the object of two definitions, involving two separate ways of registration:

- the substitution method, by which one can substitute the equity securities in the balance sheets of the dominant company, at the level of the acquisition cost, with the share of the own capitals (comprising the result as well) of the issuing company, which belong to the dominant company. The difference between the share of the own capitals and the acquisition cost for the

equity securities is reflected in the reserves and in the consolidated results.

- the equilibration method, which consists in cumulating, at the value of equity securities reflected in the balance sheet of the dominant company at the acquisition cost, of the eventual share of the undistributed profit belonging to the dominant company or the diminishing of the value of equity shares with the eventual share of the loss belonging to the dominant company, as well as diminishing it by the part of the result which was distributed to the dominant company.

For both methods, the share of the result of the company's activity that the equity method is used on is mentioned on a different line of the result account. No matter the method used, the result, the re-estimated value of the equity securities belonging to the consolidated company, is the same. Unlike the previous consolidation methods, this does not require a sum of the balance sheets and of the profit and loss accounts.

The equity method refers to undergoing a smaller number of stages than in the case of global and proportional encompassing, assuming that the initial level of the cost for which the participation has been accepted be adjusted at the end of each financial activity, depending on the modifications suffered by the own capitals after the acquisition of the company.

As far as the balance sheet is concerned, the equity method consists in directly substituting the accounting value of the equity securities owned with the sum of the part with which they are equivalent in the own capitals of the issuing company. The equity method therefore consists of correcting the value of the equity securities in the balance sheets of the owning company, correction which takes into account the share of the latter in the own capitals of the associated company, at the date of acquisition and in the ulterior results.

In the balance sheet consolidated based on the equity method, the equity securities owned by the mother-company are re-evaluated based on the values which appear in the balance sheet of the consolidated company, the benefits accumulated by the mother-company in the consolidated company being shown separately. The main stages which take place in order to apply the equity method on the balance sheet are:

a) replacing, in the actives of the consolidating company, of the accounting value of the equity securities owned in the consolidated company, with the part which belongs to the consolidating company from the own capitals of the consolidated company by means of the equity method.

b) on the other side, the difference between the due part of the capital and the reserves of the company that are being equalled, reported to the accounting value of the titles, is transferred on the consolidated reserves, and the part of the consolidating company from the result of the company being equalled is reflected by means of the consolidated result.

By using this method, at the level of the consolidated balance sheet we outline the following particular items: equity securities, acquisition differences, consolidated reserves, consolidated result.

6. Conclusions

Unlike the global and proportional encompassing methods, in the case of the equity method actives, debts or own capitals, incomes or expenses are not taken over, as the substitution is made directly at the level of own capitals and of results. We must also mention that including the results of associated enterprises in the results of the investing company may often prove difficult, due to the limitation or impossibility of obtaining the needed financial information. The investor, without being in control, but merely having a notable influence, may not have access to the accounting records or mandatory or interim financial situations at a given date. IAS 28 requests that when applying the equity method the most recent available financial situations of an associated company be used. In the situation where the most recent available financial situations of the associated company are drafted at a different date than the date of closure of the financial activity of the group, interim financial situations for that date must be made. In practice however this may be impossible to do, in which case one must use the most recent financial situations of the associated company, under the condition that the difference between the reporting dates be consistent from an accounting period to the other.

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Perimeter of Consolidation – Essential Element for Account Consolidation

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Abstract

The account consolidation starts with establishing the perimeter or consolidation, by means of which the group identifies and localizes itself in the national and/or international economic territory, which is established based on calculations on the control percentage of the mother-company on the entities which are to be consolidated. The processing of individual financial statements transmitted by the entities in the perimeter of consolidation is done in an organized manner, depending on the structure chosen by the group management, be it centralized or decentralized. Demarcating the accounting limits of a group or, in other words, determining the consolidating perimeter is the first step of the consolidation process. The consolidation perimeter encompasses all entities retained for drafting the consolidated financial statements.

Keywords: exclusive control, joint control, significant influence, interest percentage.

J.E.L Classification: G3; G32; G34

1.Introduction

Internationally there are many views regarding the consolidation perimeter, differentiated by the entities composing said perimeter.

Thus, in the USA the consolidation perimeter refers to the mother company and its subsidiaries. This restrictive vision regarding the contents of the consolidation perimeter is based on the principle according to which the consolidated financial statements need to only encompass the assets and liabilities controlled by the mother-company.

In the countries where proportional encompassing and the equity method are

used as consolidation means, the consolidation perimeter is composed of:

- the consolidating company which, in its turn, may be a mother company, an associate in an entity with joint control or an investor in an associated entity;
- the consolidated companies, that is the companies upon which the consolidating company exercises control, joint control or significant influence.

This more extended vision regarding the contents of the consolidation perimeter is to be found in the continental European countries.

2. Establishing the consolidating perimeter

The consolidating perimeter is formed by all the companies undergoing consolidation. The criteria which need to be taken into account when demarcating the consolidation perimeter are varied, but may fall under two notions:

- a restricted notion, according to which the consolidating perimeter shall only encompass those companies upon which the mother company exercises exclusive control. This notion is typical for the United States of America.
- a more extended notion which includes in the consolidation perimeter not only the exclusive control companies, but also those which undergo significant influence or joint control. This notion is typical for the European space.

International standards include in the consolidating perimeter both those entities with exclusive control, and those which undergo joint control by the mother-company together with other associates. The entities associated to the group are considered long-term investments, being recognized and evaluated as such within the consolidated financial statements.

The consolidation perimeter must not encompass those subsidiaries which were

bought exclusively for reselling within 12 months since their acquisition. This is the subsidiary non-consolidation exception currently stipulated under the revised version of IAS 27 "Consolidated and Separated Financial Statements".

The International Accounting Standards do not refer to insignificant elements, therefore taking into account the provisions of the General Framework regarding the drafting and presenting of financial statements and of the IAS 1 "Presentation of Financial Statements", the consolidation of subsidiaries should be done according to a significance threshold. Establishing this significance threshold may refer to criteria such as the turnover, the number of assets etc, and is a consequence of the optimization of the cost/benefits ratio as far as the financial-accounting information presented in the consolidated statements.

Applying the IAS 14, "Segment Reporting", makes it impossible to exclude a subsidiary from the consolidation perimeter just because its scope of activity is fundamentally different from that of the rest of the group. On the contrary, segment reporting of the financial statements can only result in better information of consumers.

Not including subsidiaries in the consolidation perimeter requires presenting some information within the explanatory notes attached to the consolidated accounts. This information refers to:

- the subsidiary which is not consolidated;
- synthetic financial data presented either individually or grouped for the non-consolidated subsidiaries, including the total value of the assets, liabilities, incomes and profits or losses.

The date of entry of an entity in the consolidation perimeter is the date upon which the investor buys the assets of said company, the date of taking over control or significant influence if the acquisition took place in several successive stages or the date stipulated under the takeover contract, if this is different from the date of assets transfer.

The date of exit of the consolidation perimeter is the date when the consolidating entity takes control or significant influence over the priory consolidated companies.

In the analysis of the consolidation perimeter we must take into account the following three dimensions:

- contents of the perimeter (legal and financial demarcation of the group);
- area of implication or influence of the group which is however excluded from the consolidation perimeter;
- the way in which the complex group thus constituted is ordered and organized.

The consolidation perimeter may suffer a series of internal modifications, respectively mergers of the consolidated entities or "subsidiarisation" of the activities. Acquisition or creation of new subsidiaries, cession and liquidation of the existing ones are the expression of the group strategy regarding the external growth, the extension of the geographic perimeter. They reflect the interest centres of the group or, on the contrary, the sectors they abandon or that they prefer to value at the right moment. The behaviour of the group is also reflected by the frequency and the importance of these operations, pursuing a series of factors such as localizing the movements in the centre or at the limits of the consolidation perimeter and influence analysis.

The variations of the consolidation perimeter reflect, on the other hand, the opportunism manifested by the group and its will to gain financial optimisation. Crossing some consolidation thresholds may have as effect:

- the onset of financial integration (where legislation allows it), with a possible effect tax reduction for the group (in the case where the group alleges losses of an entity);
- the inclusion in the consolidated accounts of a "bountiful" net treasury, or, rather, abandoning the consolidation plans for an entity with high external indebtedness.

The economic involvement perimeter includes all those entities in which the group has minority stakes, non-consolidation. By means of these participations, the group has proved its interest in it, amiably or with hostility. Frequently these minority participations represent the foundation of future agreements for developing joint subsidiaries, respectively for acquisitions which are to enlarge the group's perimeter.

The consistency of the consolidation perimeter is diversely structured, according

to the manner of organisation decided for the management of the group's internal diversity and wealth. The main options chosen by the groups of societies are prioritizing legal entities, making operational divisions and geographic divisions.

Operational divisions regroup subsidiaries which activate within the same sector. They may be grouped according to the market they act on, the clients they address and the technological flow. Organization of operational divisions is what therefore defines the specializations and main areas of activity of the group as well as the synergies that the group is pursuing in its different entities.

Choosing the internal organisation of the consolidation perimeter and prioritizing the functions within it reflects the strategic options of the group on the short run and on the long run. For establishing the consolidation perimeter we mainly refer to the control or influence exercised by the mother-company on its entities.

The control, as far as the International Accounting Standards are concerned, is the authority of managing the financial and operational policies of a company, in view of obtaining benefits from its activity.

3. Joint Control

Joint control represents the division of control, agreed upon by contract, over an economical activity, asset or entity, without one of the associates being able to make a decision when there is no mutual consent. The contract may stipulate that not every decision should be subject to mutual consent. For less important decisions, there is the possibility of a unilateral decision of the representative appointed by the investors to handle the partnership. Such a provision is meant to ensure the proper functioning of the joint venture.

IAS 31 "Interests in Joint Ventures" states that joint control exists only when:

- it is based on a contract;
- strategic financial and operating decisions relating to the activity require the unanimous consent of all the associates.

IAS 31 refers to three forms of joint venture:

- jointly controlled operations;

- jointly controlled assets;
- jointly controlled entities.

Because it involves setting up a new entity, the jointly controlled entity is the only one of the three types of joint ventures that falls within the scope of consolidation. Such an entity operates like any other company. Thus, the joint activity takes place within a legally independent entity, which controls its own assets, incurs expenses and secures income. Furthermore, it enters into contracts on its own behalf and provides the funding necessary to carry out its own work.

Several theories have been outlined regarding the holder of control within such an entity.

The first perspective is that of a "managerial company", according to which the main role in managing the entity belongs to the Board of Directors. As a result, those who have the right to elect the Board of Directors, to dismiss its members or to enforce decisions on it are those who have control over the entity. Exercising such control would require, theoretically, being the majority equity holder.

A second perspective is that of a "shareholding company", which prioritises existing investors and their role, based on the analysis of the results from a certain period, without the possibility for the shareholders to influence the decision making; this is achieved by appointing someone to work with the managers and continuously monitor them.

Managerial or share-holding based control must be judged in close relation with the Articles of Incorporation of the company, as well as the local laws, thus it is required to take into consideration the percentages of participation or the positions within the entity of each associate, the company management agreements, the cumulative voting system, the existence of shares with different characteristics, use of proxies, powers of attorney etc.

4. Exclusive Control

Exclusive control is divided into de jure exclusive control and de facto exclusive control. De jure exclusive control occurs when the mother company owns, directly or

indirectly, more than 50% of the voting rights of the subsidiary. De facto control is represented by situations in which, although the mother company owns half or less of the voting rights, in accordance with IAS 27 "Consolidated and Separate Financial Statements", it still has specific authority over the subsidiary.

These situations are:

- the mother company owns more than half of the voting rights based on agreements with other investors;
- a statute or contract provides the mother company power to govern financial and operating policies of the subsidiary;
- the mother company has the authority to appoint or replace a majority of the Board of Directors or of an equivalent body;
- the authority to gather the majority voting rights on the Board of Directors or another equivalent governing body.

5. Significant Influence

IAS 28 "Investments in Associates" defines the significant influence as the power to participate in decisions regarding the financial and operating policies of an entity which was subject to investing, but not to exercise control or joint control over those policies. This is manifested by the ability to:

- be present on the Board of Directors or another equivalent governing body;
- participate in the political decision-making process;
- make significant transactions with the entity in question;
- appoint the management personnel;
- provide essential technical information.

It is assumed that an investor has significant influence when he/she holds, directly or indirectly, at least 20% of the voting rights. This threshold is not indicative though, because the presence or absence of significant influence can be established independently of voting rights.

Establishing control and significant influence should not be limited to existing voting rights. IAS 27 "Consolidated and Separate Financial Statements" and IAS 28 "Investments in Associates" states that, in assessing control and significant influence,

we must take into account the potential voting rights that are currently exercisable or convertible. Potential voting rights, that are exercisable at a future date or whose exercise or conversion depends on a future event, should not be taken into account when assessing control.

Accounting regulations in our country do not specify an explicit definition of the scope of consolidation, but it relates to the mother company, the subsidiaries and the entities upon which the mother company and subsidiaries exercise joint control and significant influence.

Also, if an entity included in the consolidation manages another entity, together with one or more entities not included in the consolidation, the respective entity must be included in the annual consolidated financial statements, consolidation is therefore performed in proportion to its capital rights, held by the entity included in the consolidation.

In addition, if an entity included in the consolidation exercises significant influence over operating and financial policies of another entity, the participation interest thereof shall be present in the consolidated statements under "Equity Assets".

6. Conclusions

Accounting regulations in our country state that an entity may be excluded from consolidation when its inclusion does not add to the faithfulness of the view of the assets, liabilities, financial position and profit or losses of the entities included in these financial statements, considered as a whole. If two or more entities, considered as a whole, are significant in presenting an accurate view, they must, however, be included in the annual consolidated financial statements. The accounting regulations of our country, unlike international accounting standards, provide more opportunities for exclusion from the consolidation perimeter. In our opinion this situation gives mother companies more "grooming" opportunities for their consolidated financial statements, by excluding from the consolidation perimeter the entities that have losses under the pretence that they are insignificant, their

consolidation is expensive or their shares are held exclusively for sale.

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Evolutions of Romania's Foreign Debt and Its Consequences

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Abstract

Romania was confronted in recent years with an unprecedented increase of indebtedness, be it private or public ones, leading to historical highs. Unfortunately, excessive leverage in recent years has multiple effects, some are present already other latent, but many of these will have manifestations in the near future or distant one.

Keywords: debt, debt service, currency reserves.

J.E.L. Classification: G21.

1. Introduction

One of the consequences of the financial and economic crisis, present in Western economies since 2007 and in Romania in the last months of 2008 was unprecedented increase of indebtedness be it private or public ones. Romania does not deviate from this scenario, both components of debt in recent years experienced historical heights. Unfortunately, excessive indebtedness in recent years has multiple effects, some present already other latent, but many of these will have events in the near future or distant one. This Communication aims to present the current situation of Romania's foreign debt in recent years and some of its consequences.

2. Developments in external debt

The first decade after 2000 meant for Romania in terms of overall economic expansion, economic and political

normalization, the accession to the EU, easy access to foreign markets and increasing capital flows entering the country.

Table No. 1. External debt balance (billion euro)

Year	Mid-term and long-term external debt	Direct public debt	Loans from the IMF (MFP)	Publicly secured debt	Publicly unsecured debt	Mid-term and long-term nonresident deposits	Loans from the IMF (NBR)	Short-term external debt	Total external debt
2007	38,5	8,2	0,0	2,0	25,1	3,2	0,0	20,2	58,7
2008	50,7	9,2	0,0	1,7	34,2	5,6	0,0	20,6	73,1
2009	65,7	12,0	0,0	1,5	39,3	7,2	5,7	15,4	81,2
2010	72,9	16,2	0,0	1,7	37,7	8,2	9,1	19,5	92,5
2011	75,6	19,5	2,3	1,5	35,9	8,5	10,2	23,0	98,6
2012 aug.	77,2	20,9	2,4	1,4	37,5	7,7	9,8	20,8	98,0

Source: NBR - Press Releases "Balance of payments and external debt" www.bnro.ro and author's calculations

The last years of this decade 2001-2010 have increased external indebtedness of Romania, in the context of the global financial crisis, when our country was forced to turn (in 2009) to a triple financial shield from the IMF, IBRD, EU contractually of about 20 billion euros, but factually of about 17 billion euros [1].

Here are some of the features of

Romania's foreign debt, as currently presented (Table 1):

- foreign debt reached nearly 100 billion in the past five years, almost doubling its volume;
- term structure improved significantly, especially in recent years, which means lower short-term risks. Thus, if at the end of 2007, the short-term debt represented about 40% of the total, at present, it has a 20% share;
- external public debt and quasi-public debt (foreign debt guaranteed by the state) has a low share in total of about 35%, but growth is worrying, it rose from 10 billion euro in 2007 to about 35 billion euros in August 2012 (including amounts from the IMF) [2];
- the most voluminous component of foreign debt has been and continues to be the private type. Thus, mid-term and long-term external debt, non-guaranteed by the state and medium and long term deposits of nonresidents were 28 billion euros in 2007 and in August 2012 had reached 45 billion euros, the share of these components in total external debt is relatively stable, slightly oscillating around 45%. It should be noted that to these values are also added most of the short-term external debt, which also originated in the private economy;
- from 2009, one of the components of external debt was the debt to the IMF, due to financial shield mentioned above. Debt to the IMF is currently of 12.2 billion euros and is found in the records of the NBR (about 10 billion euros) and the Ministry of Public Finance, MPF (2.4 billion euros).

3. Effects of external indebtedness

By its economic essence indebtedness means repayment of it, sooner or later, any debt must be paid. Using borrowed amounts in activities creative of economic value leads to the debtor being left with a income surplus resulting from the settlement of payments made on account of debt, including afferent interest, and operating expenses. The problem occurs when loans are used for activities that do not create economic value (of consumption financing). In the latter case, financing consumption by means of debt means higher consumption today, financed by debts and a much lower consumption in the future when revenue should be reduced

by the amount of the debts paid (refunded) and the related interest.

Table No. 2. External debt service by components (billion euros)

Year	Mid-term and long-term external debt	Direct public debt	Loans from IMF (MFP)	Publicly secured debt	Publicly unsecured debt	Mid-term and long-term nonresident deposits	Loans from IMF (BNR)	Short-term external debt	Total external debt
2008	12,1	2,1	0,0	0,4	8,2	1,4	0,0	30,2	42,3
2009	11,4	1,4	0,0	0,3	7,4	2,2	0,1	32,7	44,1
2010	14,0	2,0	0,0	0,2	10,0	1,6	0,2	23,8	37,8
2011	14,6	2,3	0,0	0,3	10,1	1,7	0,3	25,0	39,5
2012 aug.	10,3	2,2	0,0	0,1	4,6	2,5	0,9	23,0	33,3

Source: NBR - Press Releases "Balance of payments and external debt" www.bnro.ro and author's calculations

Obviously, increased volumes of Romania's foreign debt entailed increases in debt service (Table no. 2). Maximum of debt service was reached in 2009, with a value of 44 billion euros, a third of our country's GDP. In recent years, external debt service fell slightly under 40 billion euros, as a result of external debt consolidation, in terms of increasing medium and long term component and the contraction of the short-term one. In fact, external debt service resources means eliminating ventilation, austerity, unemployment, wage and revenue cuts and thus a decrease in consumption. Effects that, in recent years, more and more are beginning to feel and that the oldest of Romanian recall of 1985-1990, when they manifested more acutely.

Let's further see (Table no. 2) that about 60-70% of the external debt is the result of short-term external debt (meaning that of private economy) and if we add the medium and long term components of it, a volume of 37 billion euros is reached, over 90% of total service. Public component of foreign debt service has been reduced by about 3 billion in recent years, but will grow in recent years,

due to the fact that many public loans contracted in recent years reach maturity. However, 3 billion euros, of barely 40 billion euros, as are all revenues, means a consistent public effort.

Table No. 3. Current account balance by components (billion euros)

Year	a) Trade balance (goods)	- exports (FOB)	- imports (FOB)	b) Services, net	c) Incomes, net	d) Current transfers, net	Current count balance (a+b+c+d)
2007	-17,7	29,4	47,1	0,2	-4,4	4,9	-17,0
2008	-19,1	33,7	52,8	0,7	-3,7	6,0	-16,2
2009	-6,8	29,1	35,9	-0,4	-2,1	4,1	-5,2
2010	-7,6	37,4	45,0	0,4	-1,9	3,6	-5,5
2011	-7,5	45,0	52,6	0,4	-2,4	3,5	-6,0
2012 aug.	-4,8	29,7	34,5	0,5	-1,2	2,5	-3,1

Source: NBR - Press Releases "Balance of payments and external debt" www.bnro.ro and author's calculations

Because most of the external debt service holds private sources, the country's trade balance and current balance has to be examined, meaning the contribution of the private economy and private agents in the creation of external financial resources (Table no. 3). Romania's trade balance for goods witnessed a considerable improvement in the sense of a decrease of more than 3 times of the deficit from 18 to more than 5 billion euros, and this in the conditions of the positive trend for both exports and imports. Specifically, dynamic exports grew much larger than that of imports, meaning that Romanian products exported were becoming more competitive (aided also by the leu, increasingly weaker), but through imports the supply of Romanian economy continued with major products and with modern equipment for businesses. But the effect remains, negative balance (deficit) of the trade must be covered.

The services balance was in surplus (Table no. 3), reducing the deficit in the balance of goods, but the effect was minor (less than half a billion euros). Foreign

income balance has had and continues to have a negative impact, the deficit of foreign income paid and received by Romania (Table no. 3) was of about 4.5 billion euros in 2007, then decreased and stabilized in recent years at around 2 billion euros, but it is important that it be paid. Current transfers were permanent surplus component of the current account, and were used to pay (cover) other deficits, but, unfortunately, since 2008 and by 2012, they almost halved, decreasing from 6 billion euros to just over 3 billion euros. In fact, we know that many domestic workers abroad, due to growing unemployment and recession in the countries where they work, deliver less and less money home.

Finally, accumulating balances above, results the current account balance, which although much smaller, still remains poor, meaning still to be covered. Current account balance deficit, therefore of the financial effort of covering it being from 17 billion euros in 2007 to 5-6 billion euros in recent years (Table 3).

Cover of the current account deficit was made in recent years by foreign capital inflows: foreign investment and foreign debt component increases. In recent years, however, foreign investments in Romania decreased from about 10 billion euros in 2008 to about 1.5, at most 2 billion euros in recent years [3]. If foreign investments remain at this level, further increases in external debt will result, of about 3-4 billion euros per year, plus interest. Another possibility for payment of the balance of current account deficit, would be paying with the country's international reserves (if we can not attract new foreign investments and financing conditions in external markets will be more difficult and therefore contracting new debt would be very expensive).

In this context, the country's foreign reserves must be examined. From table no. 4 it is observed that in August 2012 international reserves stood at about 40 billion euros (plus a stock of currency of approximately 3-6 billion euros in MPF, but about which there is no official information, existing some managers' statements in this regard and an obligation imposed by the IMF, regarding the existence of a buffer of about 5 billion euros from MPF to pay external debt maturing from 2012).

Nearly 3 billion euros are in commercial

banks, so less than 10% and anyway this amount is not part of official foreign exchange reserves (but may be used for external payments). At NBR, (Table no. 4) Romania's reserve manager, are found about 37 billion euros, of which slightly more than 4 billion euros in gold, increasing (by more than double), due to its growing quotations on profile markets. It is unlikely for Romania to sell gold to pay foreign obligations (especially that such action would be suicidal in the context of a fairly strong conservatism of the Romanians). Anyway, the size of this component is price given and in the future, it may fall.

Table no. 4. Reserve assets (foreign reserves and gold reserves (billion euros))

Year	NBR – Monetary gold	NBR – Foreign reserves	NBR total	Commercial banks	General total
2007	1,9	25,3	27,2	2,5	29,7
2008	2,0	26,2	28,3	2,5	30,7
2009	2,6	28,3	30,9	3,6	34,5
2010	3,5	32,4	36,0	3,5	39,4
2011	4,1	33,2	37,3	3,3	40,6
2012 aug.	4,2	33,0	37,1	3,3	40,4

Source: NBR - Press Releases "International Reserves", www.bnro.ro and author's calculations

About 33 billion euros remain the currency reserve of Romania. We notice that (Table no. 4) since 2010 it has never changed, and since 2009 the IMF amounts joined it (more than 10 billion euros) and should be of 38 billion euros. Therefore Romania's foreign exchange reserves fell by almost 5 billion euros in recent years. In fact, the phenomenon of foreign exchange reserves' decrease is visible in recent years also statistically, when there are practically no sources for growth. To be noted that a decreasing currency reserve means less potential to generate solvency and ability to pay.

4. Developments in external payments

A prediction of the evolution of Romania's payment obligations is quite risky. If trends of the past years will remain (although there are more pessimistic prediction) it is sure that:

- current account balance will remain negative;

- foreign investments levels will be modest, at least in the last two years;
- entries from European grant funds, which do not generate debt [4], but technically, may serve to settle prior maturities will remain modest despite the huge potential [3].

The only certainty for the next period is that of the maturity of payment obligations of the Ministry of Finance and central bank, resulting in financial protection package from the IMF, IBRD, EU, granted in 2009-2011, but also from other funding the state received (Table no. 5).

Table no. 5. The payment obligations of the Ministry of Public Finance and National Bank during 2012-2016 (billion euros)

Year	Ministry of public finance – IMF loan	Ministry of public finance - Eurobonds	Ministry of public finance – Bonds in euro in Romania	Total Ministry of public finance	NBR – MFI loan	General total
2012	0,1	0,7	0,8	1,6	1,5	3,1
2013	1,0	0,0	1,8	2,8	3,9	6,7
2014	1,0	0,0	0,9	1,9	3,7	5,6
2015	0,2	1,0	0,5	1,7	1,3	3,0
2016	0,0	1,5	0,0	1,5	0,1	1,6
Total	2,3	3,2	4,0	9,5	10,5	20,0

Source: Ionut Dumitru, Reassessment growth model in Romania - lessons and consequences of the crisis, the NBR conference "Financing the national economy", Bucharest, October 29, 2012, www.bnro.ro

Specifically, during 2012-2016, maturing loans, totaling 20 billion euros, spread relatively evenly between NBR and MPF (Table no. 5). Peaks are 2013 and 2014, the annual payment amounts are around 6 billion euros. Source of payment of which is:

- either stocks or currency reserves existing at the central bank or MPF, which means lower external debt, but decrease of financial resources in the economy;
- or refinance them by contracting new debts, which means maintaining external debt, perhaps increasing it with new interest, but maintaining funding resources in the country's economy.

5. Conclusions

As I previously said predictions are difficult to make because of numerous internal and external uncertainties.

However, we will try to estimate the effects of debt payments on Romania's international reserves that we previously talked about.

*Table no. 6. Effect of payment of the liabilities of the Ministry of Finance and the central bank on foreign reserves *) (billion euros)*

Year	NBR currency reserve at the beginning of the respective year	NBR currency reserve + gold at the beginning of the respective year	Repayments of loans - total	NBR currency reserve after repayment of loans	NBR currency reserve + gold after repayment of loans
2012	33,2	37,3	3,1	30,1	34,2
2013	30,1	34,2	6,7	23,4	27,5
2014	23,4	27,5	5,6	17,8	21,9
2015	17,8	21,9	3	14,8	18,9
2016	14,8	18,9	1,6	13,2	17,3

*) While there will be no entries in the foreign reserves from other sources.

Source: BNR data and author's calculations

In the first scenario, call it optimistic, we watched the effect of the payment of the obligations of the Ministry of Finance and the central bank on the foreign exchange reserves given that no entries will be made in the foreign reserves from other sources (on the premise that they will not be refinanced by new external debt). The consequence would be a decrease in foreign exchange reserves from 33 billion euros at present times to 13 billion euros after paying the obligations, meaning that we will retain only 40% of the current reserves (Table no. 6);

In the second scenario, call it pessimistic, we followed the cumulative effect of payment of the obligations of the Ministry of Finance and central bank and cover the current account balance in conditions where there will be no entries in the currency reserves from other sources, the current account balance will maintain at the value of

2012 and is not covered from other sources (on the premise that they will not be refinanced by new foreign debt). The consequence would be a decrease in foreign exchange reserves from 33 billion euros at present times to 7 billion euros after paying them, that means we will retain only 20% of the current reserves (Table no. 7);

*Table no. 7. Cumulative effect payment of the liabilities of the Ministry of Finance and central bank and current account balance coverage of foreign reserves *) (billion euros)*

Year	NBR currency reserve at the beginning of the respective year	NBR currency reserve + gold at the beginning of the respective year	Repayments of loans - total	Current account balance (estimation)	Total to cover	NBR currency reserve after repayment of loans	NBR currency reserve + gold after repayment of loans
2012	33,2	37,3	3,1	6,2	9,3	23,9	28
2013	23,9	28	6,7	6,2	12,9	17,2	21,3
2014	17,2	21,3	5,6	6,2	11,8	11,6	15,7
2015	11,6	15,7	3	6,2	9,2	8,6	12,7
2016	8,6	12,7	1,6	6,2	7,8	7	11,1

*) While there will be no entries in the foreign reserves from other sources, current account balance will remain at the 2012 value and is not covered from other sources.

Source: BNR data and author's calculations

Foreign exchange reserves decrease with volumes listed in the two scenarios is also a depreciation of the national currency, a lower capacity of access to foreign markets and, not least, a lower capacity to finance imports, restrictions of activity in enterprises, bankruptcies, unemployment etc.

From table no. 8 there is a pronounced sensitivity of the leu to movements in foreign exchange reserves. In fact, we find that the greatest depreciations occurred when foreign reserves showed the lowest relative growth. It is clear that under decrease of reserve depreciation will be more accentuated. For example, in the first months of 2012, in the conditions of reducing reserves by only 0.2 billion euros, the quotation lost 5% comparative to the previous year.

Table no. 8. Correlations between foreign reserves and currency depreciation between 2005 and 2011

Year	NBR Currency reserve (billion euros)	EUR - medium	EUR – end of period	Appreciation / Depreciation of medium quotation (%)	Appreciation / Depreciation of quotation at the end of the period (%)	Currency reserve modification (%)
2005	16,8	3,62	3,68	-	-	-
2006	21,3	3,52	3,38	2,7	8,0	26,9
2007	25,3	3,34	3,61	5,3	-6,8	18,8
2008	26,2	3,68	3,99	-10,3	-10,4	3,6
2009	28,3	4,24	4,23	-15,1	-6,1	7,9
2010	32,4	4,21	4,28	0,6	-1,3	14,6
2011	33,2	4,24	4,32	-0,7	-0,8	2,3
2012 Aug.	33,0	-	4,53	-	-4,9	0,2

Source: NBR data and author's calculations

Also, there are a number of social effects associated with the decline in living standards imposed by the leu depreciation and are not excluded social and political movements.

Another solution is to fully refinance foreign debt on the international financial markets, which means an increase in external public debt by 20 billion euros. Thus, it would be reached the external public debt of 55 billion euros, which means an increase of the external public debt to 30% from GDP to 46% and strongly approaching the EU convergence barrier of 60% [5].

Perhaps the solution reached will be an intermediate one, between the two extremes considered, which is partial use of foreign reserves to pay a portion of foreign obligations due in the coming years, but also partial refinancing of these components of matured external debt. It remains to see the proportions of the two measures that authorities will opt for.

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The Responsibility for Producing and Validating Financial-Accounting Information

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Abstract

The process of decision-making and carrying out of economic transactions is not possible in the lack of accounting information. In order to be useful, it has to be drafted according to the requirements of legal and ethical provisions. In this context, the role of accounting professionals is brought into play as far as the drafting, publication and validation of financial-accounting information are concerned.

This approach aims at a thorough study of the problematic of accounting truth and the true and fair view, following the approach of aspects related to the responsibility of accounting professionals with respect to the assurance of information quality.

We will have in view the production and communication of information, as well as its validation by means of auditing.

The results of research highlight the fact that the responsibility for producing faithful (real) financial-accounting information which is useful to the decision-making process pertains to the taking on of professional responsibility, the observance of legal framework and professional deontology norms, not to mention the disinterested application of professional experience and refinement.

Key words: accounting truth, true and fair view, audit, professional responsibility.

J.E.L. Classification: M41, M42.

1. Introduction

Accounting grasps and reflects economic phenomena, facts and activities, establishing a relation of reciprocal influence with the environment. It records events involving economic agents and provides images of their

economic situation. The information made available to the public has consequences on the actors of economic and social environment. Hence the *social function of accounting* which meets the need of informing users.

The behaviour of the accountant, accounting expert and auditor has to be a responsible and ethical one. The carrying out of tasks need not be influenced by interests and pressure exerted by customers. Moreover, accounting professionals have to be socially responsible as their work is important for society and may influence its well being.

Accounting economists are required to keep the history of an entity's economic activities in their records. The accuracy of their endeavour depends on their professional training, experience and moral values.

Auditors are the ones that come and check accounting truth, thus diminishing or even eliminating the degree of distrust and the risks undergone by the reality of financial-accounting information. Audit is the activity of examining accounting products for financial auditors to express a professional opinion on financial statements according to audit standards harmonized with international audit standards adopted by the Chamber of Financial Auditors of Romania.

Both the activity of auditors, experts and financial consultants and accountants needs to be carried out to a maximum extent of professional and social responsibility. In this sense, professional bodies responsible for the regulation and good conduct of accounting activities set and promoted strict technical, ethical and moral rules.

Taking on professional responsibility, both civil and legal and act on behalf of public interest is a distinct feature of the accounting profession [1]. Therefore, each auditor, accounting expert, financial

consultant, certified accountant and accountant in general is bound to respect *The National Ethical Code* of the profession. The totality of norms and ethical usages applicable to the exertion of a profession bears the name of *professional deontology*. In the case of the accounting profession, it mentions the optimal level of the professional's conduct that is responsible for producing and validating financial-accounting information.

Accounting information is, after all, the compromise between the users' expectancies and the possibilities of the accounting professional to reflect the economic activities of an entity. He has to analyze any threat for ethical values, foresee circumstances and relations that might endanger his principles and, when required, strongly refuse the violation of the profession's fundamentals. These are the *premises that contribute to the assurance of credible information*.

The purpose of this study is to research the way in which accounting information may be as close to economic reality and as relevant as possible for users. In this sense, we consider that the take on and respect of professional and moral responsibility by those entrusted with the task of producing and checking information is extremely significant. By means of qualitative analysis, we will approach a part of the factors that might contribute to the elimination of disloyal information risk.

Along with integrity, objectivity, professional competence and goodwill, confidentiality, professional behaviour, respect for technical and professional norms, independence is the fundamental with the highest importance in recording and reflecting economic truth in the financial statements of an organization.

2. Responsibility of producing financial-accounting information

Accounting records, classifies and regroups information on value movement based on the company's activities [2]. It follows economic aspects and records them in its own language. It issues economic information, influencing future economic events and transactions. In essence, it is an active participant, having an important role and a considerable influence on the social-

economic environment.

The task of organizing modern entities in documents pertains to the accountant. He is responsible for the faithful transposition of economic transactions in book records, using accounts as instruments. He is entrusted for guiding and harmonizing the numbers on the movement of means and resources in an enterprise. Ordered according to certain criteria and following a particular scheme, these figures show the situation of a company at a moment in time, irrespective of its complexity.

The reality of this representation may be sometimes influenced by the managers' personal interests, requirements which may need observing by accounting professionals, as well as legal omissions which allow the manifestation of "creative accounting". However, quality, responsibility and ethical criteria do not have to be abandoned at all during accounting activities. They are mentioned in a clear manner and comprised in norms to guide and honour this profession with respect.

The accountant does not act in a world of his own, isolated by any possible influences. Clearly, the economic, political, legal and social aspects interfere with the accounting ones. Therefore, the professional has to take on responsibility, show professional deontology and render or aim at rendering a true and fair view without voluntarily omitting certain aspects and being influenced by various interests.

When the information produced proves to be inaccurate with the economic events that generated them, the result of decisions is far from the expected level. Solving this problem is one of the main concerns of the accounting profession nowadays.

The environment in which the accountant acts is susceptible to pressure which would influence evaluations, appreciations and, in the end, the image given. The one that needs to prevent the professional from giving information which favours or misleads some categories of users is *ethics*.

Irrespective of the situation, many people are tempted to avoid what is right by seeking immediate profits obtained with a minimum effort. Both accountants, people responsible for information production and entrepreneurs/managers that impose demands and make pressure on accountants to create

the image which ensures them the obtaining of competitive advantages, have to take into consideration the economic and social costs of the actions made, more than personal benefits.

A rigorous accounting is essential for the efficient drawing of capital and, implicitly, for the credibility that should be the basis of any business [3].

The accounting profession did not always live up to present standards. Unfortunately, some practitioners did not always prove integrity and responsibility towards the other actors of the economic environment.

For those that question, in this context, the role of accounting in economic life, let us try to picture a single day in which accounting was totally abandoned in the field of economy. Order would vanish and chaos, decline and bankruptcy were sanctions that natural laws of economy would apply. A single uninspired decision can take the company out from the profitable area into that of losses or even bankruptcy.

In spite of being an imperfect field, accounting lies at the basis of the decision-making process, by producing and disseminating information of economic use which may diminish or even anticipate risk.

3. Responsibility of validating financial-accounting information through audit

Even the less competent may notice that accounting information is nowadays present in almost all fields of activity, being a mandatory element in business, the decision-making process and progress.

Therefore, it is absolutely necessary for economic information to develop as area, content, efficiency, and, most important, credibility. This is in order to:

- faithfully reflect the patrimonial situation of the enterprise and the recorded results;
- provide the necessary elements to take correct decisions based on real facts and with considerable chances of success.

Information is an abstraction, a product of intelligent knowledge which depends on the level of knowledge and professional training of the one preparing it, as well as his honesty and morality. In order to check the qualitative features and test the goodwill of the one producing financial-accounting information, the *auditor* is brought into play.

After producing and communicating financial-accounting information on a market of information as response to the previously made demand, auditors are requested to certify its quality. They significantly contribute to the creation of a climate of trust between the various actors of the business world and give assurances meant to increase the credibility of information provided by accounting.

The various interests to obtain "the faithful representation of the enterprise" highlighted *the relativity of the true and fair view* and even discussed the usefulness of this concept. *True and fair view and accounting truth are relative as long as accounting norms are incomplete or can be manipulated.* They are incomplete when they do not give solutions for accounting treatment whose operations are not stipulated by accounting practices and policies, in which case the accountant has to use his imagination to face legal, economic or financial innovations for which not enough time is given so as to provide normalized or regulated accounting solutions. Another case is the one presenting insufficient information in norms.

Accounting truth is incomplete because accounting and financial information is generally expressed only numerically, and the appendixes to financial statements are treated superficially and contain too little descriptive information or even lack it.

The instances of "creative accounting" and fraud which may arise also suggest that accounting information is an instrument that can be manipulated by managers due to the alternatives in choosing certain accounting policies.

Most of the cases of this type were discovered as a result of external checks carried out by auditors. Thus, *in identifying accounting inadvertencies, the role of auditors needs to increase so that they are spotted in their initial stage before erroneous information is used.* The syntagm "it is easier to prevent than to cure" also operates in the plan of validating accounting information.

Identification, evaluation and prevention of the major risk in the life of enterprise by means of audit may avoid its bankruptcy and implicitly, the breach of the continuity principle [4]. Hence the responsibility of the auditor who is not only in charge with the

certification of accounting documents, but also with the contribution to assuring the continuation of activity.

More than the issuer of financial information, the auditor needs to make proof of *social responsibility* as he is the one that checks and testifies quality, and users request his services and rely on him.

Social responsibility ought to be regarded as a fundamental ethical principle which is in charge of expressing for “whom” and “what” an action, an expertise/ auditing report are responsible from the perspective of the ethical principle accepted and promoted at the level of society [5].

In matters of accounting profession, the proof of social responsibility lies in quality accounting information in accordance with ethical principles and norms.

4. Premises ensuring proofs of professional responsibility

The neglect of professional and social responsibility seriously damaged the economic environment. We have in view the great scandals that led to real calamities in the business world. *They triggered chain reactions, litigations and social convulsions, failed investment, including thousands of unemployed [6].* As a result of their analysis, we consider that the main factor which lies at the basis of these events was the lack of professional responsibility of those that performed accounting and auditing missions. If they had carried out their activity in a responsible manner, they would have applied ethical and moral principles imposed by the standards in use and these disequilibria would not have been reached. Their non-application generated economic and financial problems worldwide.

In order to avoid the occurrence of similar events, it is very important to observe ethical principles and norms, as well as the take on of professional responsibility.

To ensure the necessary premises to professional responsibility and test its take on, the following aspects are required:

- Accounting professionals need to observe professional and technical norms issued by regulatory and control bodies in the field. They have the duty to respect the customer's instructions with care and to the extent to which they are compatible

with the demands of integrity, objectivity and independence. Moreover, they have to show competence, impartiality, ethics and honesty in meeting professional obligations [7].

- In order to ensure high quality professional services for the public interest, expert accountants need to observe the provisions of *The National Programme of Continuing Professional Development* drafted by The Body of Expert and Licensed Accountants of Romania (CECAR) in accordance with *The Professional Standard no. 38 [8]* established on the basis of *The International Standard of Education IES 7* issued by the International Federation of Accountants (IFAC).
- Besides seeing to the observance of ethical and professional norms, professional bodies need to improve the procedures of *quality control* applied to the activity of accounting practitioners and carry out actions of awareness to determine the take on of responsibility towards this profession and the field of work.
- Both accountants and auditors dispose of standards, accounting norms and procedures established by regulatory bodies guiding their activities. At the same time, legislation gives a particular role to professional reasoning. Despite its importance in the field of production and dissemination of information, it is essential in the carrying out of audit activities. *The way of use and principles that guide it are certainly a proof of professional responsibility shown by the accounting professional.*
- The provision of correct information is the result of a competent professional service.
- Social responsibility is a goal and an important premise of modern business. For the accounting profession, this is not only the fulfilment of obligations towards the demander of this service, *but also for all the actors involved in economic life.*

If professional responsibility first relates to competence and the respect of professional norms, professional deontology is centred on ethics which abides us by the observance of that norm's spirit.

Conclusions

The ones entrusted with the production of financial-accounting information, as well as auditors responsible for the assurance of its quality and fidelity are in charge of contributing to the creation of a climate of trust between the various protagonists of the business world and to give assurances meant to increase trust in financial information.

Although they are active actors on a market – the information market, the purpose of accounting professionals is not to sell their product (namely financial-accounting information). Their aim is to make all the necessary efforts to grasp as faithful as possible and in an intelligible manner with the observance of the regulatory norms, the substance of economic transactions in a company. Only in this way users may be convinced that they dispose of all the right data when taking an economic decision. At the same time, it is also the way that ensures the greatest chances of success, a necessary premise in boosting business and economic development.

Regulatory bodies of the profession provide the legal framework necessary to ensure the true and fair view of the company's economic events. Where there are no such provisions, ethics and morality have to guide and ensure the correct and disinterested application of professional reasoning. For this purpose, we believe that the continuing training of professionals is necessary, as well as the supervision of their activities by especially appointed professional bodies.

We believe that “to be responsible for one's actions” is something learned and assumed through education. Although present in human beings, social responsibility comes into force when they see the implications of an action.

If we consider the social function exerted by the accounting profession, the accountants' responsibility for the way in which they carry out their activity and the consequences of their work on the other actors of the social and economic environment, has to be one of maximum commitment.

Both professional and ethical responsibility towards society forces business people and professionals in all fields,

respectively, to do what is right, correct and equitable, irrespective of the existence of a legal framework for the regulation of these actions.

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The Financial-Accounting Communication and Affiliated Informational Risk

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Abstract

The requirements of the modern society called forth the material assets in favor of immaterial ones. We are especially making mention of information. These represent the basement of any decision, and consequently its success or its failing rests on the quality of the creation and communication process, as well as on the associated inevitable risks.

The horizon of the implications and of the profitableness that the financial-accounting information can draw in is vast. The elaboration process of the financial statements, bearing beneficial data, is not always a degage and an ethic one.

Although users are in need of and ask permanently for financial-accounting information, the confidence in the truthful reflection of the economical reality is quite diminished.

In this context, the present study sets itself to tackle the informational risk, an extremely important factor that has to be taken into consideration by the economic deciders.

Keywords: financial-accounting information, financial communication, true and fair view, informational risk, audit.

J.E.L. Classification: M41, M42.

1. Introduction

Expertise literature brings up the „social game” status of the accountancy. B. Collase calls accountancy „a social game, with actors and directors, with arbitrators represented by the resorts of normalization and settlement” [1]. In the opinion of Pesqueux [2], this brings new approaches related to equity on the market of information, as well as political, sociological and even philosophical suggestions.

The two quoted opinions hint to the usability of the accounting „products”, meaning of the financial-accounting information, for the users. By quality and fidelity, the information determines the success of a decision and consequently, the level of prosperity of the economical and social environment.

Along with its development, through usability, accountancy has become a social property, a critical instrument for being acquainted with the economic universe of the company, of its assets and of its modifications. At the same time, *it represents an intensifier habit of mind for the progress and the social well being* [3].

The facets of accountancy are more than obvious, being treated in the expertise literature. We shall also bear in mind an opinion that points out that *there is a necessity of accountability to redound to the social welfare and make of this world a better place* [4]. Therefore, the necessity for the generation and accounting communication is required, respecting the legal settlements, as well as the ethic and moral directions characteristic to the field. This represents, in our opinion, the first and the most important step of reducing the informational risks whereat users can be exposed.

We are signaling the fact that the status of „game/social property” of accountancy can also have negative connotations. We allude to the possibility of the managers to make use of accounting implements and legislative insufficiencies to manipulate the information and the economic reality according to their own aims. A simple example is the balance sheet, an instrument whereby the accounting truth can be shaped according to the interests of the customers. Hence, managers are able to apply for the elaboration of a balance for

the fiscal institutions, more pessimistic, one for the banks, more optimistic and one for the internal necessities, being also the closest to the economic reality.

If we regard those above mentioned and the fact that the true and fair view presented by the accountancy actually stands for „*a true and fair view of more possible*” [5], we will not be in the wrong if, when we speak about financial-accounting communication, we will also speak about the existence of an associated informational risk. In order to diminish and even eliminate it, we can appeal to auditing of the financial situations that certify the truth delivered through the synthesis documents and accounting reporting. When expressing its opinion, the auditor has to be convinced that the audit financial statements will not delude a cautious user, who is also interested in investing.

Thus, the user is assured that the accounting documents are drawn up respecting the regulatory framework and the professional praxis. This establishes a guarantee that the risks for the report to be inaccurate are minimal.

Research Methodology

The present study aims to be a qualitative one, offering the possibility to formulate some relevant conclusions for the accounting field. To that, we bear in mind the analytical and critical approach on the opinions already stated in the expertise literature and the issuing of some inherent opinions related to the talked about subject.

To carry through our aim that of studying the problematic of the financial-accounting communication and of the informational risk related to it, we are going to try on the assumption that *the current global crisis is not only a consequence of the economic crisis, but also one of a trust crisis*. Like we have shown in another study [6], discredit manifests as a phenomenon and affects the entire society and economy.

Although it is displayed in several forms and for all the human categories, for the present study we are going to have in consideration the discredit of holders in the accounting truth presented by the documents of accounting.

The approach of the stated problematic is going to be done by keeping on the following research directions:

- the informational risk in the generation process of financial-accounting information;
- the validation of information and the possibility of appearance of some inherent risks;
- the informational risk associated to the accounting communication;
- the risks associated to the phase of perception/comprehension of the information by the users.

2. The process of financial-accounting communication

Before going to the heart of the proposed matter, we consider necessary specifying some elements regarding the financial-accounting process of communication, in order to establish the importance of some significant aspects and emphasize them.

In the modern society, information has become inclusive. Progress and the development of science and technology have generated a huge amount of information.

Economic activity cannot be conceived without accounting information. *The existence, the dynamism and the mutation of the economic goods grew into information as a result of the data processing by the accountancy. Without their communication to the interested persons, this mutation process would not make sense. And without a correct informing, the success of a decision cannot be assured.* Therefore, it is preferred the absence of an incorrect information, than the holding and the foundation of a decision on its assumption.

In order to be reliable, the information needs to represent with precision the transactions and other events that this has proposed to represent, either it is expected in a reasonable way to represent.

As long as the users apply for independent assurances regarding the financial-accounting information and others indicators of the performances of a company, it means that they are aware of the risks of an inadequate informing. As a control solution, the financial audit represents an assurance service, in the sense that notifies and by this, protects the stockholding, the members of an association, the creditors, the managers and the employees, the authorities and the public.

3. The financial-accounting information and the informational risk

To take correct decisions, with a high probability of success, users need *real and useful* financial-accounting information. This task is for the professionals who produce, communicate and validate the accounting information, but also for the persons responsible with administration of a company.

Although all the regulatory bodies of the accounting field aim to issue norms, regulations and procedures able to fulfill the principle of *faithful representation of reality*, imperative for a correct report, its associated risks can not be entirely removed. It rather remains a goal of the profession. It is important for an interested user to have a good grasp of the risks that can arise from the moment of generation to that of communication and understanding of the information in order to take decisions and assume some risks learnedly.

3.1. The process of producing information

The information market represents the economic space where companies draw up and publish financial-accounting information to respond to the user's requests and needs.

Although regulations in the field provide a conceptual and operational support, *the factual content and the way of expressing the economic reality and the information are set a task before the economical entity and the accounting expert*. On that score, plus the legislative ambiguities, the alternate accounting treatments and the freedom granted to the professional judgment, we realize the large area of manifestation of the subjectivity factor in the process of generating information. *Subjectivity is associated, inferentially, to the rising of the risks of disloyal report.*

Financial reports represent „management's public declarations” [7] whereby the company communicates from a financial point of view with its environment, respectively with the information users. Are included here the present and potential investors, the hired employees, the creditors, the producers and others creditors, the clients and others debtors, the government and its institutions, as well as all the interested

public.

Elaborating financial statements involve from the management the definiteness of the principles and the use of the appropriate accounting methods, as well as the achievement of assessment and of correct reasoning in preparing the documents offered for publication. The managers of the company are let to choose between the obligation of presenting the results of the entity at their real scale (respecting the principle of the true and fair view) and the temptation to optimize them, so that they seem attractive for the investors. Mostly, the interests of the entity are most important and not those of the users.

A significant element in the phase of producing the accounting information is the estimation of *the materiality*. This is actually approached as a constraint (restriction) of recognition and an analysis of the elements presented by the documents of accounting report. In the eyes of the conceptual frame IASB, IAS 1 „*Presentation of Financial Statements*”, „*the information is significant if the omission or its mistaken description can influence the economic decisions of the users who underlie their decisional process on the strength of the financial statements*” [8].

We mention that the significance step acts for a limit of the information to be useful and relevant, limit that has to be established within the professional judgment.

The IASB frame asserts that it cannot determine the quantitative steps of the materiality and it cannot specify what could be significant in a certain situation, reason wherefore it solicits the professional reasoning.

We believe that the main risks that may appear in the generating process of the financial-accounting information are related to:

- the interests in administrating an entity, which can influence the mode of elaboration and presentation of financial situations;
- professional qualification and experts' ethics in charged with accounting the economic transactions;
- professional judgment that interferes when picking the account treatment and interpreting the law in force;
- the assessment manner of the significance of the elements that are going to be

included in the financial reports.

3.2. Validation of information

The knowledge process of the phenomena that points the whole activity of a company is carried out through theoretical and practical vehicles, appropriate for every activity department. They are based on *the comparison between effective reality and the norms, the programs and the decisions in terms*.

At the organization level, data are adapted by accountants, converted in information, and the information are validated by the audit and then communicated to the users.

In order to have the certainty of a faithful representation it is required that results of the accountancy to be validated by an expert who can give a *reasonable assurance* on compliance. Hereby, came into existence the practice and the theory of the audit.

The auditor is the one who, on the strength of *the findings and of the professional reasoning*, expresses his opinion on the quality of the company's activity, on the manner of which the funds are spent, on the development and exploitation of the cash flow and implicitly on the respect towards the business partners and the external environment, reflected by the quality of the transmitted information.

The audit report sustains the moral probity of the decision organs of the company while fulfilling their attributions and legal responsibilities and adopted acts, including those of informing and adequate communication. The auditor must examine the mains transactions, the accounting documents and those of economic inventory, as well as the structure and the performance of system of internal auditing. Bears in mind verifying the honesty and the equity of the accounting intercession reflected by the closing documents of the exercise, concluding on the content of the financial reports.

Through the audit report, this expresses its *responsible opinion* regarding the transparency and the reflection of the legal frame, offering in this way a reasonable assurance to the users of financial information.

Although a great range of the risks associated to the generation process of

information has been removed, there is a batch of factors which cannot be eliminated through the financial audit. These take the shape of some objective risks that can affect the quality of the report:

- the complexity of the economic transactions and the impossibility of an exhaustive checking;
- the restriction of expanding the audit's works, when the audit does not have the possibility to use the most adequate methods to obtain the probative elements;
- the supremacy of the professional judgment of the auditory while developing the audit, as well as the limits determined by the its implication, more or less objective;
- the inherent constraints of audit intercession.

The International Standards of Audit acknowledge and mention the existence of some audit risks - *the inherent risk, the control risk and the risk of being undetected* [9]. Thanks to them, the financial audit provides a *high assurance, but not categorical, that the information which is under examination is real, integrated and characterized by accuracy*.

The audit, means in the principal a value judgment, performed by a specialist, on the validity and implicitly, on the truth expressed by the company. At the same time, it integrates *the most useful and practical solution to reduce the informational risk and certify the accounting truth*.

The fact that the level of certification of the accounting truth/true and fair view is not absolute, is not necessarily the consequence of the profession's constraints, but more likely of some specific objective parameters, previously specified.

3.3. Communication of information

The aim of the periodic reports is to respond to the demands of the users, namely to provide information regarding the situation and the financial performance, the cash flows of the company and any other useful information for a wide class of users who aspire to adopt performing economical decisions.

The utility of the informational content of the annual financial statements for the decisive process results from the gratification

of two quality criteria: *relevance and credibility*.

Relevance alludes to the fact that information has the ability to generate a difference in the taken decisions by the decision factor [10].

Credibility represents the capacity of the information to express with extreme strictness the fundamental characteristics and the conditions of the facts on view [11].

Apart from these two characteristics, we indicate that the financial statements have to *comprise enough information* to make possible the foundation of a correct decision, with real chances of success. An important role in this sense falls on the notes that have to contain that additional information which can influence the decisional process.

Hence, the risks that related to the communication of the financial-accounting information apply, in the main, to:

- the delivery of some incomplete and insufficient information;
- the mistaken assessment of the materiality, so that to affect the relevance criterion;
- the communication of some embellished information, which changes the truthful characteristic.

Assuring some good relations, and implicitly, a good communication between the mains players of the market information, respectively the producer and the user of the financial information, can be realized through the intervention of the accounting profession and of the national and international regulatory body of accounting. They monitor, settle, control, ameliorate and guarantee the quality of the communicated information [12].

3.4. Understanding the information by users

The informational risk is not related only to the generation, communication and validation of the financial-accounting information, but also to the users' capacity of perception.

In order to cut out the risks of misunderstanding or the wrong perception of the information, minimum specialized skills are required. When these do not exist, the easiest solution is to call for consultancy accounting services. In this manner, the agent of decision can make sure on the correct

understanding of the informational content of the accounting documents.

Conclusions

Financial-accounting communication is not by far riskless. The decisional agent has to take into consideration and analyze these potential dangers in the decisional process.

Regarding the informational risk, we have to bear in mind, first of all, that *the company is not only the subject of the report but also the emitter of the information*.

For this reason, the rational and dexterous user has taking into account for the subjectivity factor that can influence the way of producing the financial-accounting information. This aspect means, at bottom, an important source of risks of a disloyal communication.

Secondly, by financial reports, the companies' management sends forward information with priority to the company's owners. Therefore financial statements can be seen as a mirror of their performances and responsibilities. They represent the reasoning of the aspects related to the administration and management of the assigned resources, and also of the obtained results.

As the society becomes more complex, the agents of decision face a growing probability to receive inaccurate information. In the main, this fact is owned:

- to the bulk of data and to the complexity of the commercial transactions;
- to the personal interests that prevails to those of the users;
- the growing distance between information and users;
- to the development of „creative accounting” practices, in default of some definite legislative rules and to the manifestation of the professional judgment;
- to the decadence of the society from a moral and ethic point of view.

In order to regain this faith, we consider that the amendment of the financial-accounting communication, the identification of the affiliated risks and the relocation of certain solutions to limit/eliminate them are necessary.

We may also notice that, thanks the external users' need to trust financial situations, between the generators and the

users of the financial-accounting information, it is necessary the interference of the auditor, as pleader of accuracy and thoroughness of informing and communicating. Its role is that to blot out the doubt and the risk that the accounting reports to be framed with the non-observance of the settlements and the ethic principles.

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Synthetic Analysis of the Indicators that Measure the Economic and Financial Results of the Company

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Abstract

The analysis of the indicators that measure the economic and financial results is a very complex issue involving a number of theoretical and methodological aspects arising from the financial and economic activity of a company. The analysis of the indicator's system specific to the business performance analysis is aimed at measuring the outcomes on different levels of results.

The purpose of this paper is to present a summary of the indicators used in the analysis and measurement of the economic and financial results of a company. Their analysis should be guided depending on the results category we refer to, so that this construction to have concrete measures to raise the level of the results expressing the company's performance.

The article reflects a synthetic presentation of the indicators used to measure business performance, creating an overview of the outcome indicators: the workload, the profitability and the potential funding.

Key-words: performance, outcome indicators, workload, profitability, potential funding.

J.E.L. Classification: L2 Firm Objectives, Organization and Behavior

1. Introduction

The business performance is what contributes to improving the cost – value duo and not only what contributes to reduce costs or increase value. A company can create two types of values: an internal value and an external value: [4]

1. the external value assumes that the company has higher market value than the carrying amount of assets they hold. The difference between the market value of an asset and its carrying amount is given by the asset price increase on the market, growth that can not be influenced by internal decisions of the company, but by the specific conditions of the market.

2. the internal value assumes that the company creates economic value added, so a positive net value after the remuneration of all factors of production, including the cost of equity.

When we speak about the results of companies we have to consider three broad categories of indicators: indicators expressing the volume of activity, indicators expressing the company's profitability and indicators expressing the funding potential. On a comprehensive approach, each of these categories of indicators requires a thorough analysis which highlights issues like:

- the production and trading capacity analysis of a company by analyzing the indicators: production of goods manufactured, sold production, year production, turnover, value added;
- the analysis of the efficiency of the business activity by analyzing the indicators: the gross result of exploitation, the operational result, the current result, the extraordinary result, the net result;
- the highlight of the company's results on monetary plan using the following indicators: the ability to self-financing, self-financing and cash flow.

The comprehensive analysis of all indicators listed above highlights only the positive or negative results recorded by company. Positive results reflect the

performance of a company's activities, while the negative results reflect the mismanagement of the company's resources.

The performance concept is associated with three notions: **economy** (purchase resources at the lowest cost), **efficiency** (to maximize the results obtained from a given amount of resources, or to minimize the amount of resources for a predetermined outcome) and **efficacy** (results achieved are the expected results). [9]

$$\text{Performance} = \text{economy} + \text{efficiency} + \text{efficacy}$$

2. The overall assessment of the company's results on economic and financial indicators

The economic and financial indicators are an expression of the finality of the activities undertaken by a company. Economic and financial indicators are diverse and can be classified according to several criteria: [10]

- a) by their nature:
 - quantitative indicators (profitability, efficiency, labor productivity);
 - qualitative indicators (the extent to which customers are satisfied by the products, customer complaints and so on).
- b) by content: outcome indicators, indicators of efficiency, efficacy indicators.
- c) by frequency of use:
 - traditional indicators (turnover, gross operating surplus, profit, productivity, trading margin, rates of return and so on)
 - modern indicators, based on value creation (economic value added, value added in the form of cash flow etc.) and indicators of sustainable development.
- d) by their mode of expression, the traditional indicators are divided into: indicators in absolute and relative size.

Due to the complexity of the business undertaken by the enterprise and to the various informational values that the economic and financial indicators have, one can not use a composite indicator of overall assessment of the performance. In practice, several indicators can be used, depending on stakeholder interests and when the performance analysis of the companies is done.

A grouping of performance indicators can thus be performed depending on the financing

needs of the company and its growth rate, pursuing the four categories of indicators: [6]

FINANCING NEED	HIGH	D EBE ETE ETG CAF VAE	B EBE ETE ETG (CFD) CAF VACF
	LOW	A RE RI RF VAE VAP	C RE RF ETG VAE VAP
		GROWTH RATE	
		LOW	HIGH

Figure no. 1

The matrix of using performance indicators based on the growth rate and the need to finance company

Source: Niculescu Maria, *Diagnostic financiar*, Ed. Economică, București, 2003, pag.63

The companies from the four square is the following: [10]

➤ **Companies from A area** are companies that have reached maturity, with a low growth rate and low financing needs. The financial resources released by the current activity are sufficient to fund the activity and in order to measure the performance we have to use income based indicators (the economic rate of return (RE), the return on investment (ROI), the financial rate of return (RF)). For shareholders, it is also important the value surplus created by these companies, which is measured by the economic value added (VAE) and the market value added (VAP).

➤ **Companies of B type** have a high rate of growth of their activity and higher funding needs, which can not be achieved only through work. These businesses are booming and need external funding to finance their development. They should pay more attention to cash flow management in order to have the resources for the payment of due date obligations. The main risk of these enterprises is suffocation as a result of sudden growth, the growth exceeds the capacity of attracting financial resources and therefore the liquidity ratio decreases to a critical level.

For these companies, the most important indicators for performance measurement are those based on: the operating cash surplus (ETE), the overall cash surplus (ETG) or the available cash-flow (CFD), but also the gross

operating result (EBE), the capacity of self-financing (CAF) and the value added in the form of cash-flow of investments (VACF).

➤ **Companies from C area** present a high rate of growth, but they have sufficient resources for financing the activity, which places them in a privileged area. To assess performance we use indicators based on income (to quantify the effectiveness of own and borrowed funds) and on creating value, to point out earnings to shareholders.

➤ **Companies from D area** operate in a mature market with low growth rates, but they fail to provide full funding sources from their own work. The performance indicators used are those in B area (based on cash flows, showing the ability to pay installments due from banks), plus VAE.

The economic indicators for assessing performance are designed to support the decision making process within a company. But, as an indicator to be used in the decision-making process, it must be known its informational limits. Thus, an indicator measures one aspect of an economic activity, failing to capture its completeness and complexity, the conduct of the business, its influencing factors, the correlations with other aspects of the company. The more the analyst knows the informational limits of an indicator, the more it is able to eliminate some of them by making corrections or by using complementary indicators, which improves the process of adopting decisions.[10]

The formation of results is a highly complex process resulting from the company's lucrative activity, and the analysis and computation of outcome indicators is an operation following the process of forming the results.

Calculation of the outcome indicators is a technical operation, which is based on data provided by the accounting of the company and other additional information available to the analyst. The quality of the indicators calculation operation is determined for the accurate reflection of the results obtained objectively, as a result of carrying out the production process.

The computation of the outcome indicators has to be done according to the following principles: [11]

- to start from the objective mode of forming the results;

- the level of a result has to include only items of the same kind and which are evaluated on the same criteria.

The results expressing the workload can be structured in results expressing the production volume of the activity, results that express the volume of the trading activity and results which express the overall level of activity. Both results are formed simultaneously with the production and marketing process and can not take negative values, but can have up to a value of zero.

The results of the production activity are reflected in goods, works and services and are expressed in value by the cost of production, the price of registration, etc. The results of the production activity can be characterized by the following indicators:

- the physical production value - expresses in value the overall result of the productive activity irrespective of the destination of production achieved and its level of market capitalization;
- the production of manufactured goods - refers strictly to products for sale on the market;
- the production of assets is a non-profit economic result, aimed at meeting the internal needs of the company.

The trading activity is an activity which reflects the results of production. The main objective in the trading activity is the sale of products produced at a price higher than the cost of production.

The trading activity results form while achieving the market products, works or services offered for sale by a business, the value of these results depending both on the utility value of the goods and on the current market demand. Unlike the results of production, which are expressed mainly in physical form, those of the trading activity have from the start a value expression because they can be identified in the profit and loss account as revenues.[11]

The indicators that characterize the trading activity results are:

- revenues from goods sold - measure all revenues from wholesale or retail of their goods or those purchased from third parties;
- revenues from production sold - include revenues from sale of products, provision of services and execution of work, and

through this indicator it is confirmed the utility of goods sold and therefore of the productive activity of the enterprise;

- turnover - the most comprehensive indicator which measures the trading activity of a company; it is the sum of revenues from sale of goods, delivery of goods, execution of works and provision of services plus other operating revenues less rebates, discounts and other discounts to customers.

The overall result of the company is the result of combining the features of the other two business activities, namely the production and the trading one; it also combines the performance of production work with the performance of the trading activity.

The indicators characterizing this category of results:

- revenues from stored production - is an indicator that can have a dual effect on the overall result: an increase in the overall result when there is a storage situation, meaning when the production is greater than the products sold and a decrease in the overall result when there is a situation opposite to the storage one respectively when, in the analyzed period, production is lower than the goods trade.
- production of the year - the absolute level of the indicator includes the sales from the analyzed period, regardless of when the goods sold were produced, the production obtained but not marketed (in stock) and the production for domestic consumption;
- value added is the intermediate balance management expressing a value creation or an increase of value that the company brings to goods and services from third parties and allows the measurement of the economic strength of the company.

The structure of the results that express the activity volume is presented in the following figure:

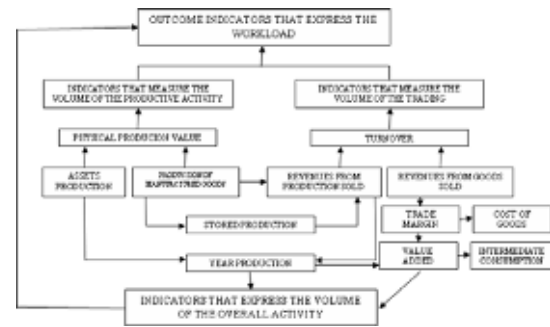


Figure nr. 2

The structure of the outcome results that express the activity's volume

Source: Ștefă Petru, *Analiza rezultatelor întreprinderii*, Ed. Mirton, Timișoara, 2002, pag.40

The economic results that have relevance in terms of profitability are formed from a comparison of the global economic effects generated by an economic activity and the economic effort presumed by its development. This comparison may result in positive or negative values, depending on whether the business succeeds or fails to generate a higher volume of effects than the effort involved. The production activity generates effects in physical form (pieces, tons, kg, etc.) that are taken by the trading activity which makes them subject of the market trade. If after market trading we achieve a higher price per product than its cost of production, then that activity makes profit and we can say that it is effective activity, otherwise there is a loss and the continuation of the activity is not justified in terms of economic efficiency.

The main indicators characterizing the results expressing the profitability are:

- the operating gross result – reflects the ability of the activity to generate profit and can be found in two aspects, namely the gross operating surplus when it records a positive value and the gross operating deficit when it has a negative value;
- the operating result - as an intermediate management balance represents the result obtained from the operating, normal and current activity of the company. It is the first element that measures the economic rate of return, independent of the company's financial policy and the scope of the extraordinary items;
- the financial result – is formed as the difference between financial revenues

and financial expenses and its formation depends on two issues: the funding policy of the company and the financial investment activity;

- the current result consists of the operating result and the financial result and it represents the result of all current operations, allowing the assessment of the financial policy impact of the company on profitability
- the gross result is determined by summing the results for the three core business activities: operating, financial and extraordinary. This result allows comparing the performance of companies in the same industry.
- the net result is the most synthetic result with which to appreciate the overall profitability of a company. The net income approach can be made in three ways, as follows:[11]

a) from patrimonial point of view, the net result shows an increase in net assets as a result of running a profitable operation during the year;

b) from economic point of view, the net result is a „surplus” formed after covering all the company's expenses from its total revenues;

c) from financial point of view, the net result represents the main self-financing source of the company.

The existence and carriage of cash flows of a company leads to results which express the potential financing of the company. The main indicators used in the characterization of potential funding are the self-financing capacity, the self-financing and the cash - flow.

These indicators highlight three key areas: the capacity growth of the company, the potential volume of owned financial resources which remains effective in the entity, as well as the determination at a time of the formation method of liquidity.

Briefly, the three indicators are:

- the self-financing capacity reflects the financial potential of economic growth of the company, respectively the financial source generated by the industrial and trading activity of the company after deducting all expenses paid at a particular time. The self-financing capacity (CAF) is revealed by the difference between the monetary income (receivable) and the

monetary expenses

- the self-financing has a synthetic character and expresses only the hypothetical amount of owned financial resources that remain effectively in the entity after the remuneration of all categories of participants in the activity. The self-financing or the net self-financing capacity is measured starting from the self-financing capacity and deducting the dividends paid during the year.
- the cash flow - this is of three types: operating, operational and total, the operating one reveals the cash flows arising from operating activities, the operational cash flow is characterized by cash flows generated from all activities of the company during a financial year and the total cash flow reflects all cash flows released at the enterprise level in a certain period of time.

3. Conclusions

The analysis of results is one of the main components of the economic and financial analysis, their analysis and evaluation settling the performance of a company. It can be seen from two points of view:

a) in terms of economic growth which analyzes the company's capacity to increase the volume of activity which is reflected by the results that express the workload; here we consider indicators such as: the physical production value, the value added, the turnover;

b) in terms of the profitability activity which examines the company's ability to effectively carry out economic activities.

In assessing and analyzing the results of a company the information provided by financial statements are required in order to issue a number of relevant considerations in determining the company's level of performance.

In analyzing the results of a company we use a set of financial indicators aimed at providing information which reflects various aspects and conditions of the economic and financial activity, based on them the stakeholders can make beneficial decisions to improve the economic and financial performance of the company.

Showing the results achieved by the

company during the economic and financial activity lead to the characterization of the internal condition of the company. Thus, in determining their evolution are taken into consideration a number of issues such as: the assessment of the financial potential of the company, the changes in workload, the economic resources assessment, the analysis and quantification of indicators expressing the workload, its performance and potential funding etc.

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Considerations regarding the Settlement of Inventory Differences

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Abstract

The determination of results of stock-taking is accomplished by comparing the quantities and values written in the stock-sheets with the quantities and values recorded in accounting. In fact, the differences acknowledged on the occasion of general inventory of patrimony are settled by the following approaches: direct recording of inventory pluses and minuses; the compensation of pluses with minuses of inventory; combined awarding of compensations and perishabilities; awarding perishabilities or acceptable drafts

Key words: inventory report, procedures of settlement of inventory differences, direct recording of inventory differences, compensation of inventory differences, awarding perishabilities.

JEL: M40, M41

1.Introduction

The determination of the stock-taking results is done directly in stock-sheets. These results are determined by the comparison of dimensions directly acknowledged by inventory with those recorded in accounting. If the quantities and values acknowledged in reality at a certain patrimonial element are higher than those from accounting, it results a plus of inventory, and in the reversed case, it results a minus of inventory.

The differences acknowledged on the occasion of the general inventory of patrimony are settled by the following approaches: direct recording of pluses and minuses of inventory; compensation of pluses with minuses of inventory; combined awarding of compensations and perishabilities; awarding perishabilities or acceptable drafts.

2.Determination of inventory differences

The determination of the results of inventory is done by the comparison of quantities and values written in the stock-sheets with the quantities and values recorded in accounting. The determination of factual stocks is done by counting, weighing, measuring or cubing, as applicable. The written balances are certified by the person who keeps the analytical records of the respective inventory and by the head of the financial accounting department.

From the abovementioned comparison, it can result pluses or minuses of inventory for which the inventory commission will ask for written explanations from the warehouse manager.

The results of inventory must be recorded both in the operational records and in accounting within maximum seven days from the date of approval of the inventory report by the administrators.

The determination of the results of inventory is done directly in the stock-sheets.

The results of stock-taking are written in an inventory report.

The proposals made in the report of the inventory commission are presented within seven days from the date of conclusion of stock-taking operations, to the administrator of the patrimonial unit.

The administrator of the patrimonial unit decides on the approach of resolution of the proposals made, with the observance of the legal provisions in force, with the approval of the financial accounting department and of the legal department.

Every year, the results of the general stock-taking of the patrimony are centralized in the inventory ledger, after the reflection in accounting and in the trial balance.

3. Methods of settlement of inventory differences

After the determination of pluses and minuses of inventory, we proceed to the settlement of differences. As a rule, the pluses are recorded as entries in the patrimony of the units, and the minuses are recorded on expenses or are deducted from the revenues relating to the variation of stocks, as applicable.

The determination of amounts imputable to the guilty persons is done at replacement value which represents the procurement cost of goods at the date of acknowledgment of the damage.

According to the legislation in force, the warehouse managers are fully liable to the economic agents for the damages (lacks in inventories) they caused in the inventory. When the warehouse manager has caused a damage in inventory at the workplace and this damage is not fully covered within a month, the economic agent will indemnify itself from the warranty in cash created.

For the purpose of correct resolution of lacks in inventory, the inventory commissions will take complete explanatory notes from the warehouse managers, from which should result the character of lacks, losses, depreciations acknowledged and the circumstances of their occurrence.

On the basis of the explanations received and of other documents and facts investigated, the inventory commissions formulate conclusions and propose concrete measures to the attention of management, which are to be adopted (compensations, perishabilities, imputations, deductions from inventory).

In reality, the differences acknowledged on the occasion of the general inventory of the patrimony are settled by the following approaches: direct recording of pluses and minuses of inventory; compensation of pluses with minuses of inventory; the combined awarding of compensations and perishabilities; the awarding of perishabilities or acceptable drafts.

These settlements influence the relationships between the management of the patrimonial unit and the subordinated staff (warehouse managers, cashiers, etc.).

a. Direct recording of inventory pluses and minuses

As a rule, for the stockable elements the pluses are recorded as entries in the patrimony of the units (class 3= class 6), and the minuses are recorded as expenses (class 6 = class 3), as applicable, minuses which are to be imputed, if need be $(4282(461) = \%$ (7588,4427).

b. Compensation of pluses with minuses acknowledged at stock-taking

At the determination of the value of the debit, in cases when the lacks in inventory are not considered infringements of the law, we take into consideration the possibility of compensation of lacks with pluses acknowledged.

The compensation of lacks with the pluses acknowledged at stock-taking allows the correction of errors of handling goods because of confusions between assortments.

The danger of confusions is determined by the resemblance between products, danger which appears following careless handling, when the labels from packaging disappear, as well as because of the carelessness of warehouse managers.

The competence of approval of compensations reverts in all the cases to the managers of patrimonial entities.

According to the norms regarding the organization and the stock-taking of the patrimony, the compensation of pluses with minuses of inventory operates only if the following **conditions** are fulfilled:

- the existence of the risk of confusion between the assortments of the same group of material goods because of their resemblance regarding the external appearance: colour, model, sizes, packaging and other elements;
- the pluses and minuses must refer to the same inventory period and the same inventories.

The lists with assortments of products, merchandises, packaging and other material values which meet the conditions of compensation are established every year by the administrators of economic units or budget managers.

We must also consider the following **rules** regarding compensation[1]:

- a) the quantitative equality between pluses and minuses is obtained by the elimination from calculation of quantities which exceed this equality (pluses or minuses, as applicable), starting with assortments, which have the lowest unit price, in the ascending

order of prices (warehouse managers are responsible for the smallest damage);

b) the differences of values, at equal quantities of pluses and minuses are determined between the total value of assortments acknowledged in addition and the total value of assortments acknowledged in minus, from the same group of material values;

c) following compensation, unfavourable differences cannot result for the company, and if they still exist, they are recovered from the guilty parties (following compensation, the patrimony of the entity cannot diminish).

c. Combined awarding of compensations and perishabilities

For the goods where drafts are accepted, in case of compensation of lacks with the pluses established at stock-taking, the drafts are calculated only in the situation when the missing quantities are larger than the quantities acknowledged in addition.

In case of material goods mistakable among one another, the quantitative perishabilities are given only if the sum of quantities acknowledged as missing is higher than the sum of quantities acknowledged in addition and only in the limit of these differences.

The drafts are given first of all for the assortments in which the lack was acknowledged, and if there are quantitative differences in minus, they can be given also for the other assortments in which pluses were recorded or there are no differences.

In each category, the order of giving perishabilities is the order used in the composition of goods in compensation (starting with the assortment which has the highest unit price).

The lacks of values, which can be covered as perishabilities are made of the value of missing quantities, which exceed the quantities acknowledged in addition, to which are added the negative differences of values resulted from the compensations of equal quantities.

d. Giving perishabilities or acceptable drafts

By perishabilities we understand the drafts that occur during transport, handling, storage and sale of merchandises, determined by natural processes such as: drying, evaporation, volatilization, pulverization, hydrolysis, cooling, freezing, melting,

oxydation, adherence to the walls of wagons or of vessels in which they are transported, decomposition, drainage, soaking, thickening, scattering, crumbling, breaking, including fermentation processes or other biophysical processes, in the process of sale in distribution network (wholesale warehouses, retail commercial units and public nutrition units in normal limits (legally approved) [3].

Because such phenomena cannot be avoided, it is natural that the objective losses suffered are acceptable within certain limits, without being attributed to carelessness or poor administration.

These normal quantitative losses are not the fault of the warehouse manager or of other persons, and as a consequence, they must be deducted from inventories as unimputable losses.

The competence of approval of quotas of drafts reverts in all the cases to the management of the company.

Therefore, the management will have to appreciate from one case to another, depending on concrete conditions, how much of the established quota is approved to each inventory.

The perishabilities can be given only after a factual check of the quantities of products that exist in inventory, established after weighing, counting, measuring and by other such procedures and after making compensations according to the legal provisions in force.

The maximum perishability limits allowed at storage and sale are established at the level of the whole activity of the legal person that pays profit tax, by the application of the coefficient established for the group of merchandises at the price of registration of incoming merchandises or at the delivery price for the merchandises sold during the period between two inventories. The same maximum perishability limits are also given for the merchandises from stock.

The perishability coefficients are established by the management of each entity, depending on the actual losses from the previous period and the new conditions created in the activity of transport, handling, storage or silage of the respective goods.

The losses or quantitative decreases which exceed the perishability norms established

are not deductible from the fiscal point of view.

From the fiscal point of view, the losses acknowledged at merchandises are deductible expenses in the calculation of profit tax within the limit of perishability quotas approved by government decisions.

The management of the companies can approve perishability quotas above the limits approved by the government or at other assortments of merchandises. These perishabilities reduce the patrimonial liability of warehouse managers. The perishabilities, whether they are established by the government or by the management of the company, cannot be given in anticipation, but only after the acknowledgement of a real lack by stock-taking or by the reception of procured goods.

4. Case studies regarding the settlement of inventory differences

a) the procedure of direct recording of inventory differences

The lacks in inventory must be recorded, knowing that after the stock-taking of a raw materials warehouse the following were acknowledged:

Table no.1 Settlement of inventory differences

No.	Causes of lacks	Lacks of values	Recording of differences
1	Carelessness in inventory	2.000	601 = 301 2.000 4282 = % 2.480 7588 2.000 4427 480
2	Theft, third parties	2.000	601 = 301 2.000 461 = % 2.480 7588 2.000 4427 480
3	Perishabilities	2.000	601 = 301 2.000
4	Natural disasters	2.000	671 = 301 2.000

Source: personal projection

b) the procedure of compensation of lacks and pluses of inventory

Following the stock-taking of a wholesale warehouse of wooden profiles inventory differences were acknowledged according to the table below. Make the compensation of inventory differences.

Table no.2 Situation at inventory

Assortment	Factual stock ~ m ² ~	Written stock ~ m ² ~	Procurement cost ~ lei ~
PM 1	600	300	10
PM 2	300	600	15
PM 3	500	200	20
PM 4	200	500	25

Source: personal projection

Solution: The compensation is made according to the table below:

Table no.3 Real compensation

Assortment	Procurement cost	Quantitative differences		Differences of values	
		+	-	+	-
PM 1	10	300		3.000	
PM 2	15		300		4.500
PM 3	20	300		6.000	
PM 4	25		300		7.500
Total inventory		600	600	9.000	12.000
Eliminated from compensation		-	-	-	-
Compensation		600	600	9.000	12.000
Result of compensation (9.000-12.000)		-	-	-	3.000

Source: personal projection

The main accounting entries following compensation are:

1. entrance of the lack of amount of 3.000 lei, resulted from the compensation of the four assortments of melamine fibreboard from the warehouse of wooden profiles:

$$607 = 371 \quad 3.000$$

2. imputation to warehouse manager:

$$4282 = \% \quad 3.720$$

$$7588 \quad 3.000$$

$$4427 \quad 720$$

3. retaining this prejudice from the warranty submitted initially by the warehouse manager:

$$4281 = 4282 \quad 3.720$$

c. the procedure of combined awarding of compensations and perishabilities

Following the stock-taking of a warehouse of salami and sausages, the following were acknowledged:

Table no.4 Situation at inventory

Assortment	Procurement cost	Quantitative differences (Kg)		Turnovers of entries (Kg)
		+	-	
S 1	1		10	1.000
S 2	2	10		2.000
S 3	3		10	3.000
S 4	4	10		4.000
S 5	5		5	5.000

Source: personal projection

Establish the situation at inventory, knowing that the perishabilities allowed during storage represent 0,05% of turnover, and S represents different assortments of salami.

Solution:

Compensation and awarding of perishabilities are made according to the table below:

Table no.5 Compensation and awarding of perishabilities

Assortment	Procurement cost	Quantitative differences		Differences of values	
		+	-	+	-
S 1	1		10		10
S 2	2	10		20	
S 3	3		10		30
S 4	4	10		40	
S 5	5		5		25
Total		20	25	60	65
Eliminations from compensation -S1			5		5
Compensation		20	20	60	60
Result of compensation		-	-	-	-
Perishabilities					
Calculated	Awarded	Value			
0,5	0,5	0,5			
1	-	-			
1,5	1,5	4,5			
2	0,5	2			
2,5	2,5	12,5			
7,5	5	19,5			

Source: personal projection

Because there is a minus of 5kg eliminated from compensation, we will award perishabilities starting with assortments with minus, which have the highest prices.

Calculation of perishabilities during storage:

$$PdS1 = 1.000 \times 0,05\% = 0,5 \text{ kg}$$

$$PdS2 = 2.000 \times 0,05\% = 1 \text{ kg}$$

$$PdS3 = 3.000 \times 0,05\% = 1,5 \text{ kg}$$

$$PdS4 = 4.000 \times 0,05\% = 2 \text{ kg}$$

$$PdS5 = 5.000 \times 0,05\% = 2,5 \text{ kg}$$

Even if from the calculation the losses allowed are higher than the real lacks (7,5 > 5), only perishabilities of 5 kg will be awarded.

The analysis of the procedure of compensation and awarding of perishabilities is:

1. uncompensated lack: 5 lei;
2. lack following compensation : 0 lei;
3. total lack: 5 lei;
4. perishabilities awarded during storage: 19,5 lei;
5. imputable lack: 0 lei.
6. accounting recording of total lack of 5 lei, which is fully covered by perishabilities:

$$607 = 307 \quad 5$$

d.the procedure of awarding perishabilities or legal drafts

Following the stock-taking we acknowledged the following:

- at assortment X, a minus of 5 kg flour with 6 lei/kg.
- the perishabilities allowed during storage were 2 kg.

Establish the situation at inventory.

1. recording of lack in amount of 30 lei:

$$607 = 371 \quad 30$$

2. imputation to warehouse manager 30kg:

$$4282 = \frac{\%}{7588} \quad \frac{22,3}{18}$$

$$4427 \quad 4,3$$

3. retaining this prejudice from the warranty initially submitted by the warehouse manager:

$$4281 = 4282 \quad 22,3$$

5.Conclusions regarding the settlement of inventory differences

With regard to the settlement of inventory differences, the following conclusions can be drawn:

- The determination of the results of stock-taking is accomplished by the comparison of quantities and values written in the stock-sheets with the quantities and values recorded in accounting. The written balances are certified by the person who keeps the analytical records of the respective inventory and by the head of the financial accounting department. For all the pluses, lacks and depreciations acknowledged at goods, the

inventory commission requests written explanations from the persons who have the responsibility of management of goods. On the basis of the explanations received and the documents analyzed, the inventory commission establishes the nature of lacks, losses, damages and depreciations acknowledged as well as the nature of pluses, by proposing, according to the legal provisions in force, the method of settlement of differences between the accounting data and the factual data resulted after the inventory.

- In case of acknowledgment of imputable lacks in inventory, the administrators must impute to the guilty persons the missing goods at their replacement value.

- In case there are no presumptions of confusions between assortments and there are no drafts to give, the inventory commission will propose direct recording of pluses and minuses of inventory;

- In case there are presumptions of confusions, the inventory commission will propose the compensation of pluses and minuses of inventory;

- In case there are presumptions of confusions between assortments and there are drafts to give, the inventory commission will propose the compensation of pluses and minuses of inventory and the awarding of perishabilities;

- In case there are drafts to give, the inventory commission will propose the awarding of legal drafts;

- The proposals included in the report of the inventory commission are presented within seven days from the date of conclusion of stock-taking operations to the administrator of the patrimonial unit. The administrator of the patrimonial unit, with the approval of the head of the financial accounting department and the head of the legal department, decides on the approach of resolution of the proposals made (direct recording of inventory differences, compensation of inventory differences, awarding of compensations and perishabilities, awarding of perishabilities), with the observance of the legal provisions in force.

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Particularities of Cost Calculation in Services

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Abstract

Management accounting in services is organized by the administrator of the legal person either by using specific accounts or by the development of accounts from financial accounting, or with the aid of his own technical operational records. The list of management accounts is adjusted depending on the purposes aimed at, which are: the highlighting of the cost flow, the determination of costs relating to services, the determination of revenues and of results depending on the activity which generates them, the performance of forecasts, etc.

Key words: cost calculation, actual cost of services, the management accounts system in services, on-balance sheet approach, off-balance sheet approach

JEL: M40, M41

1. Introduction

The use of balance accounts and their symbolization is performed so that the system of storage and access of information obtained should be flexible and allow a wide range of options. The list of management accounts is adjusted according to the purposes aimed at as follow: highlighting the cost flow, determination of costs relating to services, determination of revenues and results depending on the activity they generate, making forecasts, etc.

The inventory cost of a service provider comprises manual labour and other expenses with the staff directly engaged in the provision of services, including the staff in charge with supervision as well as the appropriate overheads[3].

2. Organization of cost calculation in services

The reason for the application of management accounting in the services sector consists in the need for determination of the price of fees for the services provided. The manager has to know both the value of gross margin relating to the service provided and the value level of expenses that have to be covered by gross margin, with a view to determining the profit of the company.

As for the approaches of organization of services management accounting, only the Minister of Public Finance Order no. 1826/2003 makes statements, among which we recall: management accounting is organized by the administrator of the legal person, either by using specific accounts or by the development of accounts from financial accounting or with the aid of its own technical and operational (off-balance sheet) records [3].

The use of accounts from the new class is not compulsory, as the calculation of costs can be performed off-balance sheet, with the aid of tables in Excel.

In Minister of Public Finance Order no. 3055/2009, only the management accounts from the new class are presented, and not the approach of operation of accounts.

We shall approach hereinafter only the accounting approach by adjusting the accounts from the new class to the particularity of services.

3. Case study regarding the calculation of costs in services through the accounting approach

We shall present hereinafter a hypothetical case regarding the approach of development of management accounting at SC Student SA. SC Student SA, which has as object of activity the provision of car training services, carries out the following activities:

car training – analytical account 01; road legislation – analytical account 02; psychological examination – analytical account 03; transport of persons – analytical account 04; rents and other revenues – analytical account 05. During a period of management the company makes the following operations:

Table no.1.Situation of revenues and expenses -lei -

1. Revenues from car training	91.895
2. Revenues from road legislation	7.535
3. Revenues from psychological examination	4.501
4. Revenues from transport of persons	20.071
5. Revenues from rents and such other revenues	18.126
6. Expenses with fuel relating to car training activity	13.273
7. Expenses with fuel relating to the activity of transport of persons	4.500
8. Expenses with fuel relating to administration	3.000
9. Consumption of energy and water relating to the activity of rental	1.264
10. Consumption of energy and water – administrative building	5.613
11. Expenses with other services regarding the training activity	46.147
12. Expenses with other services regarding the activity of transport of persons	975
13. Expenses with other services regarding administration	511
14. Expenses with local taxes and duties	410
15. Expenses with insurance premiums for car training activity	1.186
16. Protocol expenses	172
17. Expenses regarding other consumables relating to road legislation	458
18. Expenses regarding other consumables relating to the transport of persons	62
19. Expenses regarding other consumables relating to the training activity	1.340
20. Expenses regarding other consumables relating to administrative costs	1.710
21. Expenses regarding unstored materials	13
22. Expenses with communication	734
23. Expenses with banking commissions	427
24. Wages for car training activity	10.593

25. Contribution of the unit to social insurances – car training	2.103
26. Contribution of the unit to the unemployment fund – car training	50
27. Contribution of employer to healthcare – car training	551
28. Contribution of employer for health care benefits – car training, 0,85%	90
29. Other social duties – car training	103
30. Special funds, payments guarantee fund – car training	26
31. Wages relating to road legislation activity	1.340
32. Contribution of the unit to social insurances – road legislation	270
33. Contribution of the unit to the unemployment fund – road legislation	7
34. Contribution of employer to healthcare – road legislation	69
35. Contribution of employer to health benefits, road legislation - 0,85%	10
36. Other social duties – road legislation	12
37. Special funds – payment guarantee fund – road legislation	3
38. Wages relating to the activity of psychological examination	1.340
39. Contribution of the unit to social insurances – psychological examination	270
40. Contribution of the unit to unemployment fund – psychological examination	7
41. Contribution of employer to health care insurance – psychological examination	69
42. Contribution of employer to health benefits – psychological examination - 0,85%	11
43. Other social duties – psychological examination	12
44. Special funds, payments' guarantee fund – psychological examination	3
45. Wages relating to the activity of transport of persons	2.015
46. Contribution of the unit to social insurances – activity of transport of persons	407
47. Contribution of the unit to unemployment fund – activity of transport of persons	10
48. Contribution of employer to healthcare – activity of transport of persons	102
49. Contribution of employer to health benefits – activity of transport of persons, 0,85%	16
50. Other social duties – activity of	19

transport of persons	
51. Special funds – payments guarantee fund – activity of transport of persons	4
52. Indirect wages relating to the five activities	2.077
53. Contribution of the unit to social insurances, indirect wages	420
54. Contribution of the unit to unemployment fund, indirect wages	10
55. Contribution of employer to health, indirect wages	105
56. Contribution of employer to health benefits, indirect wages	16
57. Other social duties, indirect wages	20
58. Special funds –guarantee fund of payments for indirect wages	5
59. Administration wages	9.360
60. Contribution of the unit to social insurances - administration wages	1.870
61. Contribution of the unit to unemployment fund – administration wages	46
62. Contribution of employer to health insurance – administration wages	486
63. Contribution of employer to health benefits – administration wages	79
64. Other social duties – administration wages	91
65. Special funds, guarantee fund of payments – administration wages	23
66. Depreciation of vehicles relating to car training activity	4.426
67. Depreciation of overhead projector relating to road legislation activity	81
68. Depreciation of vehicles relating to the activity of transport of persons	3.017
69. Depreciation of car washing machine, car training and transport of persons	26
70. Depreciation of computers, printers, administration building	2.897
71. Penalties of invoice paid later	20
72. Expenses with profit tax	2.730

Source: personal projection

We shall determine the actual cost by activities and the result by the five activities.

a) The recording of operations in management accounting will be carried out according to the table below:

Table no.2 Ledger

ENTRANCE OF REVENUES	MANAGEMENT ACCOUNTING
1. revenues – car training	931.01 = 902.01 91.895
2. revenues – road legislation	931.02 = 902.02 7.535

3.revenues psychological examination	–	931.03	=	902.03	4.501
4. obtaining revenues –transport of persons		931.04	=	902.04	20.071
5. obtaining revenues – rents, other		931.05	=	902.05	18.126
DIRECT EXPENSES					
1. fuel, car training		921.01	=	901	13.273
2. other consumables – car training		921.01	=	901	1.340
3.insurance premiums		921.01	=	901	1.186
4. wages – car training		921.01	=	901	10.593
5. health insurance 20,8%		921.01	=	901	2.103
6. unemployment 0,5%		921.01	=	901	50
7. social insurance 5,2%		921.01	=	901	551
8. health benefit fund 0,85%		921.01	=	901	90
9. risk fund		921.01	=	901	103
10.payments guarantee fund 0,25%		921.01	=	901	26
11. expenses with other services		921.01	=	901	46.147
12. depreciation of vehicles		921.01	=	901	4.426
13.other consumables		921.02	=	901	458
14. wages – road legislation		921.02	=	901	1.340
15. health insurance 20,8%		921.02	=	901	270
16. unemployment 0,5%		921.02	=	901	7
17. social insurance 5,2%		921.02	=	901	69
18. health benefit fund 0,85%		921.02	=	901	10
19. risk fund		921.02	=	901	12
20.payments guarantee fund 0,25%		921.02	=	901	3
21. depreciation of overhead projector		921.02	=	901	81
22. wages – psychological examination		921.03	=	901	1.340
23. health insurance 20,8%		921.03	=	901	270
24. unemployment 0,5%		921.03	=	901	7
25. social insurance 5,2%		921.03	=	901	69
26. health benefit fund 0,85%		921.03	=	901	11
27. risk fund		921.03	=	901	12

28.payments guarantee fund 0,25%	921.03	=	901	3
29. fuel for transport of persons	921.04	=	901	4.500
30.other consumables	921.04	=	901	62
31. expenses with other services	921.04	=	901	975
32. wages – transport of persons	921.04	=	901	2.015
33. health insurance 20,8%	921.04	=	901	407
34. unemployment 0,5%	921.04	=	901	10
35. social insurance 5,2%	921.04	=	901	102
36. health benefit fund 0,85%	921.04	=	901	16
37. risk fund	921.04	=	901	19
38.payments guarantee fund 0,25%	921.04	=	901	4
39. depreciation of vehicles	921.04	=	901	3.017
40. consumption of energy, rents	921.05	=	901	1.264
INDIRECT EXPENSES				
1.expenses with unstored materials	923	=	901	13
2.indirect wages relating to 5 activities	923	=	901	2.077
3.health insurance 20,8%	923	=	901	420
4.unemployment 0,5%	923	=	901	10
5.social insurance 5,2%	923	=	901	105
6. health benefit fund 0,85%	923	=	901	16
7. risk fund	923	=	901	20
8.payments guarantee fund 0,25%	923	=	901	5
9. depreciation of car washing machine	923	=	901	26
ADMINISTRATION EXPENSES				
1.fuel manager	924	=	901	3.000
2.other consumables	924	=	901	1.710
3.expenses with energy and water	924	=	901	5.613
4. protocol expenses	924	=	901	172
5.communication expenses	924	=	901	734
6.banking commissions	924	=	901	427
7.expenses with other services	924	=	901	511

8.manager wages and accounting	924	=	901	9.360
9.health insurance 20,8%	924	=	901	1.870
10.unemployment 0,5%	924	=	901	46
11.social insurance 5,2%	924	=	901	486
12.health benefits fund 0,85%	924	=	901	79
13. risk fund	924	=	901	91
14.payments guarantee fund 0,25%	924	=	901	23
15.penalties of invoices	924	=	901	20
16.depreciation of computers, building	924	=	901	2.897
17. profit tax	924	=	901	2.730
18.expenses with local taxes	924	=	901	410

Source: personal projection

b) In view of establishing the actual cost by activities, you will go through the following stages:

b.1. distribution of indirect expenses by each activity at the end of the month, depending on the revenues of the five activities:

$$KCI = \frac{CI}{V01 + V02 + V03 + V04 + V05}$$

$$KCI = \frac{2692}{91.895+7.535+4.501+20.071+18.126} =$$

$$91.895+7.535+4.501+20.071+18.126$$

$$\frac{2.692}{14.2128} = 0,0189$$

RD 923:2.692 lei

b.2. Actual distribution of indirect expenses by activities:

$$CIR01 = KCI \times V01 = 0,0189 \times 91.895 = 1.739$$

$$CIR02 = KCI \times V02 = 0,0189 \times 7.535 = 143$$

$$CIR03 = KCI \times V03 = 0,0189 \times 4.501 = 86$$

$$CIR04 = KCI \times V04 = 0,0189 \times 20.071 = 381$$

$$CIR05 = KCI \times V05 = 0,0189 \times 18.126 = 343$$

$$\% = 923 \frac{2.692}{14.2128}$$

$$921.01 \quad 1.739$$

$$921.02 \quad 143$$

$$921.03 \quad 86$$

$$921.04 \quad 381$$

$$921.05 \quad 343$$

b.3. The actual cost by each activity will be obtained from the records of the account 921: SFD 921.01:81.627; SFD 921.02: 2.393;

SFD 921.03: 1.798; SFD 921.04: 11.508;
SFD 921.05: 1.607.

c) In view of establishing the full cost, you will go through the following stages:

c.1. distribution of administration expenses by activities, depending on the revenues of the five activities:

$$KADM = \frac{CADM}{V01 + V02 + V03 + V04 + V05}$$

$$KADM = \frac{30179}{142.128}$$

$$\frac{91.895+7.535+4.501+20.071+18.126}{142.128} = 0,2123$$

RD 924:30.179 lei

c.2. The accounting formula of actual distribution of administration expenses is:

$$CADM01=KADM01 \times V01=0,2123 \times 91.895=19.511$$

$$CADM02=KADM02 \times V02=0,2123 \times 7.535=1.600$$

$$CADM03=KADM03 \times V03=0,2123 \times 4.501=957$$

$$CADM04=KADM04 \times V04=0,2123 \times 20.071=4.262$$

$$CADM05=KADM05 \times V05=0,2123 \times 18.126=3.849$$

%	=	924	<u>30.179</u>
921.01			19.511
921.02			1.600
921.03			957
921.04			4.262
921.05			3.849

c.3. The accounting formula of registration of full cost by activities is:

$$\begin{array}{rcl} 902.01 & = & \% \quad \underline{101.138} \\ & & 921.01 \quad 81.627 \\ & & 924 \quad 19.511 \end{array}$$

$$\begin{array}{rcl} 902.02 & = & \% \quad \underline{3.993} \\ & & 921.02 \quad 2.393 \\ & & 924 \quad 1.600 \end{array}$$

$$\begin{array}{rcl} 902.03 & = & \% \quad \underline{2.755} \\ & & 921.03 \quad 1.798 \\ & & 924 \quad 957 \end{array}$$

$$\begin{array}{rcl} 902.04 & = & \% \quad \underline{15.770} \\ & & 921.04 \quad 11.508 \\ & & 924 \quad 4.262 \end{array}$$

$$\begin{array}{rcl} 902.05 & = & \% \quad \underline{5.456} \\ & & 921.05 \quad 1.607 \\ & & 924 \quad 3.849 \end{array}$$

d) In view of establishing the profit or loss by activities, the profit and loss accounts will be opened:

D	902.01	C	D	902.02	C
101.138		91.895	3.993		7.535
9.243					3.542
SFD:					SFC:
loss					profit
	D	902.03	C		
	2.755		4.501		
			1.746		
			SFC: profit		
D	902.04	C	D	902.05	C
15.770		20.071	5.456		18.126
		4.301			12.670
		SFC:			SFC:
		profit			profit

4. Conclusions

As for the organization of calculation of costs in services, the following conclusions can be drawn:

– As for the methods of organization of management accounting in services, only the Order of the Minister for Public Finances no. 1826/2003 makes clear statements, among which we recall: management accounting is organized by the administrator of the legal person, either by using specific accounts or by the development of accounts from financial accounting or with the aid of its own technical and operational (off-balance sheet) records.

– However the medium and small service providers can easily use the off-balance sheet approach, which is based on a table in which are found the components of the actual cost and of the result.

– But for the large service providers at which direct and indirect costs are localized at the level of several activities of service provision, it is imposed the rational use of accounts from the new class, with the aid of softwares, in view of facilitating the work.

– In all accounting regulations, the calculation methods are not detailed, they are only enumerated (standard cost approach, order approach, stage approach, global approach, direct costing approach or other approaches adopted by the legal person, depending on the method of organization of the activities of service provision, the particularity of the activity, the particularities of the activities and one's own needs).

– The use of accounts from the new class is not compulsory, the calculation of costs for the companies which have few activities of service provision can be performed off balance sheet with the aid of tables (centralizing lists of expenses and revenues).
–As for the case study, from the analysis of records of accounts 921, we acknowledge that the car training activity is in loss with the amount of 9,243 lei, and all in all we acknowledge a profit of 13,016 lei (the other activities are profitable), from which it results the need for a better sizing of expenses for the car training activity;
–Regardless of the method of organization of management accounting in services, the on-balance sheet approach or off-balance sheet approach, the manager has to select the most appropriate approach of calculation and system of organization, depending on: the type of activities, the purpose followed by management, the seasonality of activity, the object of activity, etc.

–The lack of a rigorous system of calculation of the cost of services, regardless of the method of organization of this system, leads to the wrong fixing of prices of fees for services, with a direct influence on the return on the activities of service provision.

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Controversies and Perspectives on Public Sector Performance Measurements

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Abstract

To establish the public sector performance requires a difficult undertaking, related to the definition of performance, practical way to obtain performance and finding the most appropriate indicators true which performance is quantified.

Starting from the idea that, in most cases, the production of performance of goods and services is at odds with strict regulations and bureaucratic procedures in this field, managers seeing these barriers to high performance, so, identifying economic size to quantify performance seems impossible.

The set of indicators used in this paper consists of descriptive variables of effectiveness/quality of governance, as operational variable that refers to the empirically measurable characteristics of public institutions or programs developed by them.

Keywords: public management, governance, performance measurement indicators

J.E.L. Classification: C82, E02, H11

1. Introduction

In order to perform an analysis of performance indicators in the public domain, first we must perform a content analysis on public management and public administration. It is necessary and appropriate, for beginning, explaining the basic concepts as they are presented in specialized dictionaries because, although linguistically between management and administration words there is a semantic association, the two concepts are very different in content.

The importance of addressing public

organizations from the managerial perspective has increased greatly under the impact of the success achieved by private companies, developing, in recent years, a public management model found in the literature as new public management, managerialism, market-oriented public administration paradigm post-bureaucratic, entrepreneurial government or governance.

2. Theoretical background

Management characteristics of the public organization are related to the level and nature of the restrictions imposed on its operation, especially since public organization should harmonize different interests and more complex needs of a large number of people. Therefore the distinction between administrative and managerial approach of public sector comes to mark the transition from "welfare state" to "entrepreneurial governance model."

The first significant content difference between the two concepts comes from Latin where the notion of government comes from "minor" and "ministrare", meaning to serve, to govern, while management comes from "manus" meaning to lead and control directly.

In modern Romanian language dictionary [1] administration is explained as "all administrative bodies of a State" and management is "the art of business to lead and organize".

A managerial approach lies in its center and the market competition, representing a radical version of public institutions and governments, where public servants in leadership positions are viewed and addressed as active agents of development policy of public organizations, not only as persons appointed by the State to carry out

predetermined objectives.

Therefore, in this paper we intend to identify and analyze possible indicators to measure public sector performance, based on the implementation of the performance measurement indicators from the private sector.

Sizing the state of knowledge in governance efficiency approach involves a diverse literature, showing less consistent results due to the heterogeneity of public sector. We are aware that a proper analysis would involve providing critical analysis of the concept of governance by making terminological boundaries between the notions: government, governance, administration, bureaucracy, public leadership and public management or to make a comparative analysis enter the corporate governance and institutional governance or identifying legislative factors, economic and social factors which influence governance structures, but the purpose of this paper is simply to understand the controversy generated by the difficulty of measuring institutional performance.

According to Department of Economic and Social Affairs (2007:2-3) [2], there is three main types of governance, *political or public governance*, whose authority is the State, government or public sector and guarantees the order and the cohesion of a society, *economic governance*, whose authority is the private sector and provides a material foundation and third, *social governance*, whose authority is the civil society, including citizens and non-for-profit organizations and provides a moral foundation.

It is impossible to summarize the most recent related literature, for the major empirical studies in the field of measuring good governance, because, considering the main levels drawn from these studies stands approaches from the perspective of Efficiency, Transparency and Participation as Good Governance.

But underlying all these different interpretations, there are definitions of government efficiency, achieved by *United Nations Development Programme (UNDP)*, where governance is defined as the exercise of economic, political and administrative authority to manage a country's affairs at all levels, *World Bank*, where governance is viewed as the manner in which power is

exercised in the management of a country's economic and social resources, *Organisation for Economic Co-operation and Development (OECD)* where governance designates the use of political authority and exercise of control in a society in relation to the management of its resources for social and economic development or *The Department for International Development (DFID)* who links good governance to particular policy outputs (provision of basic services) policy outcomes (macroeconomic stability), institutional processes (opportunities for people to influence policy) and institutional outputs (personal security).

The general consensus on measuring the effectiveness of public ruling, found in all these studies highlight the characteristics of the data set used in the sense of integrating all significant attributes of quality, but these attributes are passing the notion of quality and are committed to notions such as appropriateness, relevance, credibility, consistency and accessibility [3].

3. Methodology, data and results

Measuring the quality/effectiveness of governance is important from several perspectives, or when it must assess the impact of policies in order to determine future development projects, or to estimate the investment climate.

In this regard, a number of international organizations seeking to build and adapt a series of *indicators* to measure public sector performance, understood in every sense that is given. However, it is important to understand in the indicators approach, the clear distinction between them from the *standard* notion because this is the acceptable performance level in terms of a specific numerical criteria. In addition, there are several types of indicators: *economy indicators*, *efficiency indicators* and *effectiveness indicators*.

Also, the literature distinguishes between *context indicators* related to the specific environment in which it operates some public institution, *input indicators* related to logistical resources, human and financial resources of a public institution, *process indicators* which refers to how resources are used in a public institution, the management inputs, the functioning of the organization,

output indicators referring to achievements or products of public institution, *outcome indicators*, which refers to the impact and incidence.

This study attempts to address the issue of ways to build a set of indicators to assess overall performance. The construction of these indicators can be considered either a *single input or outcome indicator*, usually use for comparisons between inflows and outflows of public resources, or various possibilities of *combination and aggregation of these indicators*. [4]

Thus, it can provide *robust data sets*, leading to quality analysis, in this respect the integrity and independence of international organizations playing a crucial role in ensuring objectivity in data collection from standards, codes, treaties, and various administrative documents (UNDP, Eurostat) [5]. But equally, it can be use data based on *subjective perceptions* of individuals, collected through a complex processes, such as surveys, interviews, discussion groups, surveys conducted by national or international experts. [6]

Moreover, international organizations such as World Bank, United Nations Development Programme, The Department for International Development and The International Monetary Fund [7], plays a sensitive role in translating academic research into practice, often ambiguous in terms of government effectiveness, particularly in relation to economic development, with all the problems and ambiguities level measurement or causal relationships.

Of individual indicators to measure the effectiveness of governance we consider indicators accounts by World Bank, namely The Index Investment Climate Survey (ICS) and the World Business Environment Survey (WBES), which were concentrated on cross-section data and oriented towards investment climate issues such as physical infrastructure, the structure of factor and product markets, interactions within different businesses, industrial regulation, law and order, or tax and customs administration.

However, it is generally recommended to use aggregate indicator that offers a number of advantages among which the construction of a set of data for a large number of countries, providing more accurate measures

or testing cross-country differences [8], [9].

Various studies published in the literature considers government effectiveness from multiple perspectives, in this respect are built metrics by different organizations such as *private entities* such is the Economist Intelligence Unit, Euromoney and PricewaterhouseCoopers, considering different investment climate aspects, or on *sectors* like IHS Energy for country rankings of petroleum exploration attractiveness.

In an attempt to identify which aim to analyze, we need to scale characteristics and dimensions of governance in terms of:

- *competitiveness*, in this respect being able to use World Economic Forum's Global Competitiveness Report, International Institute for Management Development's World Competitiveness Yearbook, and International Finance Corporation's Business Competitiveness - Ease of Doing Business Report [10];
- *governance*, with instruments such as The World Bank's Governance Indicators [11], Country Policy and Institutional Assessment, Database of Political Institutions, Ibrahim Index of African Governance, Afrobarometer, Latinobarometro [12];
- *legal and economic issues* - the European Bank for Reconstruction and Development's Legal Indicator Survey, Public Expenditure and Fiscal Accountability, Open Budget Index, Polity IV, Political Risk Services;
- *development*, using Human Development Index;
- *environment*, holding data with the reach of the World Economic Forum's Environmental Sustainability Index;
- *transparency*, based on information provided by Transparency International Index, Reporters Without Borders, Global Integrity Index [13].

Or, we can consider the possibility of measuring performance at different levels of manifestation, in this regard, building the tool to assist cities in improving local governance using The Urban Governance Index, developed by The United Nations Human Settlements Programme, UN-HABITAT.

A balanced approach involves two major types of performance indicators "*objective indicators*", which refers to aspects of

performance, which should always be concerned about and the "*warning indicators*" that tell us whether or not we not we should be mulling over some certain aspects.

Although it is considered that a panacea of "good governance" does not exist, that does not mean that real situations are not perfect, so, on this optimistic idea is basing this paper, with the hope that we can highlight the quality/effectiveness of governance by monitoring the quality of all elements because identification of defining institutional architecture is essential.

4. Conclusions

After a careful comparison, both conceptually and empirically, we find that the World Bank defines the right indicators to measure the quality/effectiveness of governance true The World Governance Indicators providing the best tools for making meaningful comparisons in the EU area or at national level. [14]

Therefore, in this context, the success of public institutions depends of how governments will find motivation and appropriate control mechanisms in the production of goods and services without rigid procedures implemented at the level of each public entity.

It is necessary to outline a new dimension of performance or even improving performance in the public sector, from many valences that were given in the literature to performance concept, placed in the current economic environment, in order to better reflect the results consistent with stakeholder requirements.

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Some Ways of Thinking Romanian Political System and Their Relevance for Development

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Abstract

The approach proposed in this paper takes the conceptual foundation of neo institutional theory, which seeks to understand the relationship between institutions, behavior and results, proposing at the same time, to highlight the customizations needed in case of emerging economies, in terms of government effectiveness, explained by clear and predictable distribution of powers between the fundamental institutions of the state, through the involvement of citizens in the political system, by equity and fairness in the legal system construction and implementation of public policies and not least, the responsibility, prudence and transparency in public decisions.

The core dataset used in this paper is composed of variables related to the political system and electoral rules, choosing to highlight for Romania only descriptive variables of the composition of the Government, changes in government and governance type (minority/majority coalition/single party) ie, elections period and population turnout.

Keywords: political system, elections, political context, Romania.

J.E.L. Classification: E61, H11

1. Introduction

The theoretical assumption from which this paper pictures itself is that, the public decisional mechanism, in the institutional context, cannot work but in accordance to the continuous, opened and transparent performance of the institution and always "in the letter of the law", in order to consolidate, reinforce the democratic image of a political

power with implicit consequences.

The factors and the institutional practice represent reflections, answers to rules and conventions which have their convergent point in the concern for economic, social and political stability, with a series of factual determinations. The institutional context, the legal system, the electoral system explain, from different perspectives and depending on the paradigmatic within they are studied (the classical economy institutionalism or the neo-institutionalism), the differences between states, in regard to the level of development.

Conceptual foundation of the proposed approach assumes the neo-institutional theory, which pursuits to understand the connection between institutions, behavior and results, aiming in the same time, to emphasize the necessary features in the case of an emergent economy, as to what concerns the efficiency of governance, explained through the clear and predictable allocation of power among the fundamental institutions of the state, through the degree of involvement of the citizens in the political system, through equity and correctness in the construction of the legal system and in implementing the public policies and not lastly, through decisional responsibility, caution and transparency.

2. Theoretical background

The political phenomenon, far from being an utopia in a democratic society presents a series of dependencies and connections with other sciences, including the science of public administration, explanatory for the importance of bureaucracy in governance [1] or for the recognition and legitimating of electoral processes [2], the economic sciences explanatory for the substantiation of reforms in the public sector, of public decisions and of economic policies [3], or

sociology which, through the organisational theory, explains the interference between the institutional system and society [4].

As a subsystem of the global social system, the political system includes political relations, political institutions and political concepts and the understanding, balancing, clarifying and exploring of these components cannot be achieved but in the context of interdisciplinarity. Such approaches facilitate the exploration of the political system and, the theoretical available tools emphasize a research from the political, sociological, administrative, systemic and even philosophical perspectives.

Leicht and Jenkins (2010) [5] propose a systematisation of the field of political science according to its matter of study: *institutional theory, theories of the state, theories of democracy, the study of political elites, theories of conflict, class analysis*, etc. Another similar, conventional and widespread fragmentation is that of Goodin and Klingemann (2005) [6], which identifies the main elements thus: political institutions, political behaviour, comparative politics, political theory, international relations, public policies and political economy and political methodology.

Analyzing the role of institutions in society, North (1991:3-4) [7] believed that the institutional factors represent "the rules of the game in the context of a society or, more formally, the human constraints which shape/mould the interactions between individuals", also pointing out the fact that "institutions are meant to reduce uncertainty through creating an appropriate structure for day to day life".

Therefore, from the political perspective, institutions define and limit the set of opportunities and constraints, that are formal (constitutional, property rights) and informal (norms), and which organise the political area, and by matter of consequence the community, to which the political decisional factors must relate and towards which they must become more responsible in manifestation.

According to Diermeier and Krehbiel (2001: 7) [8], the institutional theory "states and sustains fixed behavioural postulates for the political actors, in the collective choice framework" and, also according to the aforementioned authors it is more appropriate

to speak of neo-institutionalism as a method because "there is no such thing as a neo-institutional theory of rational choice"

Therefore, a rich potential development of this conceptual framework can be open, joined with the approaches of neo-institutional provenance, the social systems in transition theory, the limited rationality theory, and also with elements of political science, sociology and decision theory, improving the simplifying approaches based on the rational agent model, the median voter model or on the search of an optimality understood in a restricted Paretian acceptance. (Keating and Dela Porta, 2010) [9].

3. Methodology, data and results

The analysis of the political system, in an integrative manner, as a system located at the interaction of the social system and the judicial, economic, cultural and other systems that are present in the social life, situate in the center of its preoccupation, the study of its effects. The starting point in the approach we are taking represents the way in which the elements of the political system are interconnected, as it represents an especially important issue in analyzing and predicting its behavior, the identification of relationships between elements, between these and their assembly, as well as between these and the environment, being an especially difficult operation most of the times. But the verity of the relationships depends on the instruments and the techniques used, on the temporary horizon of the observation, on the spirit and ability of observation, analysis and synthesis, as explaining that, sometimes, the identified causal relations have some degree of subjectivity, especially in the social systems, as the political system is, and in the use of these relations rests a greater or lesser degree of uncertainty.

For the same reasons mentioned above, in the analysis of the political system, we can even discuss of a *multiple perception*, which implies both the formulation of the various demands, converting these requirements through legislation, decision making, execution by administrative means, as well as the support elements and the means of support recovery, permanently determining

status changes, characteristics and traits changes, emphasizing its dynamic character.

Although the political system is an institutional system, the determining function which distinguishes the political system from other similar systems is *to assign values through public authorities, in a society, through the decisions adopted and public policies implemented*. Therefore, addressing the political system in its size, ca not disregard its construction as a set of political communities, institutions and organizations (political parties, political formations, alliances and interest groups), the relationships they develop, the institutional arrangements on which they function (the electoral law, the Constitution, the political attitude and behavior), as well as their members (politicians, unions, lobby groups) and the values to which they relate.

The Romanian democratic system succeeds in functioning through a modern democratic political system, based on multi-party system and free elections. Table no. 1 highlights the Romanian electorate voting preferences, which seem to change over time, in the condition of concerning vote turnout. The legislative power had mandates of four years, except for the first legislative power, which lasted only two years, being invested for both Houses of Parliament, directly through similar electoral mechanisms. The ideological and political preferences of the parties, formed by the Romanian governments, in a cohesion of a set of ideas, values which to substantiate government programs, have been of center-left in 1990-1992, 1992 - 1996 and 2000-2004, when the opposition was represented by center-right parties (except for the period 1994-1996, when the nationalist parties supported the government) and of center-right in 1996-2000 and 2004-2008, when the opposition was formed from center-left and nationalist parties (2000: PSD ran as PDSR as Social Democratic Pole Alliance with PSDR; 2001: PDSR merged with PSDR into PSD; 1992: PD-L ran as PD-FSN; 1996: PD-L ran as part of Social Democratic Union (USD); 2000: PD-L ran as PD, 2004: PD-L as part of Justice and Truth Alliance (DA (PNL-PD)); 2000: PUNR ran as part of National Alliance Party (PAR (PUNR-PNR)); 2004: PNGCD ran as PNG, 1996: PNL ran as part of Democratic Convention of Romania (CDR); 2004: PNL ran as part of Justice and Truth Alliance (DA (PNL-PD)).

Table no. 1 Parliamentary Election in Romania over the period 1992-2008 (%)

Party	PSD/PC	PDL	UDMR	PRM	PNL	Vote turnout
Year						
1992	0.00	10.19	7.46	3.90	2.63	76.3
1996	21.52	12.93	6.64	4.46	0.00	76.0
2000	36.61	7.03	6.80	19.48	6.89	65.3
2004	36.61	31.33	6.17	12.92	0.00	0.00
2008	33.10	32.36	6.17	3.16	18.57	18.57

Data source: European Election database for parliamentary elections and from the International Macro Data Resource - Comparative Political Data Set III 1990-2009 compiled by researchers at the University of Berne (Armingeon et al. 2011) for voter turnout

The Romanian political context fits within the lines pictured in the table below (Table no. 2), where the utopia left-right political collaboration is a constant for Romania, confirming a process of refusal of participatory democracy, in society, and of ideological and behavioral homogenization of politicians. The core of the data set consists of variables related to the political system and electoral rules, choosing to highlight for Romania only the descriptive variables of the composition of the Government, changes in government and governance type (minority/majority, coalition/single party), and the dates when elections are organized and turnout population, with a series of methodological notes (*Methodological Note (1) - right and center hegemony is represented by the value 1; right and center domination, value 2; balance of power between left and center / right, value 3; dominance of social democracy and other left parties, value 4; and the social democratic parties and other left parties hegemony, value 5; Methodological Note (2) - 1) a single party government majority; 2) minimal winning coalition; 3) the excess of coalition; 4) minority one-party rule; 5) minority, more parties in government; 6) interim government or technocratic; 7) others; Methodological Note (3) - Number of changes in government per year, due to 1) election 2) resignation of the prime minister, 3) divisions of the government, 4) lack of parliamentary support, or 5) the head of state intervention; Methodological Note (4) - as a percentage of parliamentary seats, weighted by the number of days of government in function, in a given year*)

Table no. 2. Overview of Romanian political context

Period of analysis	Cabinet composition (1)	Type of Government (2)	Number of changes in government (3)	Cabinet composition: Right-parties (4)	Cabinet composition: Center parties (4)	Cabinet composition: Left parties (4)
1990	-	-	-	-	-	-
1991	4	1	1	1.94	0.00	98.04
1992	4	3	1	8.00	0.00	91.97
1993	4	4	0	0.00	0.00	100.00
1994	4	5	1	16.79	0.00	83.19
1995	4	5	0	20.36	0.00	79.62
1996	4	5	2	17.02	0.68	82.29
1997	2	3	0	60.95	12.50	26.54
1998	2	5	2	81.56	16.71	1.96
1999	2	5	2	82.37	16.88	0.72
2000	2	3	1	60.29	12.36	27.34
2001	5	4	0	0.00	0.00	100.00
2002	5	4	0	0.00	0.00	100.00
2003	5	4	0	0.00	0.00	100.00
2004	4	4	2	0.61	0.22	99.18
2005	2	5	0	41.74	26.74	31.52
2006	2	5	0	41.74	26.74	31.52
2007	2	5	1	64.14	27.74	8.12
2008	2	5	1	71.35	27.32	1.34
2009	3	2	2	63.04	0.40	36.56

Data source: The MacroDataGuide, Comparative Political Data Set III, 1990-2009 [10], [11].

Thus, the quality of political representation, caught in a binary political cleavage, depends on a number of technical issues such as the electoral system, the party system and government formation, in order to ensure durability for the democratic construction. In this context, the functioning of a democratic regime depends, not only on the institutions through which the division of responsibilities between the executive and the legislature is carried out, but also on a number of formal and informal procedures through which political actors influence the system operating life.

Therefore, only a stable institutional structure, favorable for the demonstration of freedom and rights, in all their forms of manifestation, is able to provide the fundamental premises of durable development, especially in the reality of the new interconditionality, within the economical-social-environmental triad, which raises new concerns for grounding this

type of development.

4. Conclusions

Keeping in mind the controversies in the field, with the openings and their limits, in theory, the political system must be considered in all the senses that are given to it, including both the political consciousness, in its psychological and ideological components, as well as the political relations, action relations powered by alliance relations between groups, the categories, social classes or intermediate relations between these and the political institutions and organizations that have the mediating role of transposing the political ideology of social communities in practical political actions for conquest, consolidation, control, maintenance and defense of their political power.

5. Acknowledgement

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Recognition of Revenues. IAS 18 "Revenue" versus OMFP 3055/2009 Regarding the Approval of Accounting Regulations in Compliance with European Directives

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Abstract

Enterprise financial performance is measured by the difference between revenues and the expenses incurred to achieve the revenues. Revenue recognition and evaluation take place according to applicable accounting regulations.

The present paper envisages the way to recognize revenues in compliance with IAS 18 "Revenue" and OMFP 3055/2009 regarding the approval of accounting regulations compliant with European Directives.

Key words: revenues, recognition, IFRS, accounting policies

J.E.L classification.: G21

1. Introduction

In the current international context, the transparency of company-related information is needed more than ever before. The main users of accounting information, namely investors, need clear, credible, financial and non-financial information, comparable at international level according to which they must substantiate their decision making. In order that accounting information users should be certain about such information, it should be the outcome of accountancy performing in accordance with various accounting norms and rules.

2. Content

In the present international context, company information's transparency is increasingly required. The main users of

accounting information, namely investors, need financial and non-financial information which must be clear, reliable and comparable at international level according to which they can make their decisions. In order for accounting information users to have the certainty of receiving such information, it should be the outcome of accountancy following certain accounting norms and rules.

Internationally, the accounting convergence/harmonisation effort involves the development of accounting principles and standards applicable, entirely or partially, to a set of countries, entities or by a group of experts in the accounting profession[1].

The term "convergence" is a generally accepted desideratum at world level as the goal is to reach the same point or the same result in the field of accounting norms. Convergence equally concerns professional bodies, normalizers and users of accounting financial information.

The application scope of financial accountancy is represented by business entities (enterprises) whose goal is to make profit.

Enterprise financial performance is measured by the difference between revenues and the expenses incurred for the revenues. The main goal of an enterprise is to maximize profits and minimize costs. In this respect, enterprises lay down accounting policies taking account of the particular nature of their activities.

"Accounting policies are detailed methods for evaluation, measurement and recognition an enterprise has chosen from among those accepted by the law, from among accounting standards or accounting practices [2].

manufacturing, invoicing or credit sales; money collection; incorporation;

- manufacturing is the stage of generating a product as the outcome of resource consuming activities (for example, manufacturing process and end products);

- invoicing or credit sales mean the transfer of ownership from seller to buyer;

- money collection is the stage when the outcome sale generates money;

- incorporation is the strict accounting stage when incomes are included into outcomes in order to absorb associated costs.

Revenue entries at the time of their occurrence is the result of commitment accountancy which forbids revenue recognition while collecting money.

According to international regulations by the IAS 18 referring to "Revenues", the criteria for revenue recognition are usually applied for each separate transaction, event or circumstance, thus being able to reflect economic reality. The transactions and events approached by IAS 18 "Revenue" are sales of goods; service rendering; use of enterprise assets by third parties. IAS 18 provides additional specific recognition criteria in compliance with the revenue category.

Sales of goods: they refer to the products manufactured by an enterprise in order to be sold, goods purchased for resale, goods purchased in retail trade, lands and real estate for sale.

The criteria for the recognition of goods sale revenues are shown in the table below:

Table 1 Revenue recognition criteria

IAS 18	OMFP 3055/2009
- the entity has transferred to the buyer the significant risks and rewards of ownership of the goods;	- the entity has transferred to the buyer the significant risks and benefits associated with ownership of the goods;
- the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;	- the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;	- the amount of revenue can be measured reliably;
- it is probable that the economic benefits	- the entity is likely to get future economic

associated with the transaction will flow to the entity;	benefits associated with the sale of goods;
- the costs incurred or to be incurred in respect of the transaction can be measured reliably;	- the costs incurred in respect of the transaction can be measured reliably.

The table above shows full compliance between the provisions of IAS 18 and those in OMFP 3055/2009.

However, if one considers the order stipulation, namely "Revenues arising from sales of goods are bookkept at the time of goods' being handed over to the buyer, at the time of goods delivery against invoice or in other conditions stipulated in the contract which authorise the transfer of goods ownership to the buyer" and the control-based recognition principles, there might be troubles while recognizing and measuring revenues.

Example[5]: An entity invoices goods for a buyer on a certain date and the delivery is to take place on a subsequent date. At the time of invoicing, the entity does not hold the respective goods.

A question arises about the "ownership" criterion: Is the revenue recognized? In the invoicing context, the buyer is the owner of goods and here comes the "control" criterion: How probable are the delivery and the actual control transfer if the seller does not hold the goods yet?

If an entity retains the significant risks and benefits associated with goods ownership, the transaction is not a sale, so no revenue is recognized.

Here are some examples of situations in this respect[5]:

- when the goods are shipped subject to installation and the installation is a significant part of the contract which has not yet been completed by the entity;

- when the buyer has the right to rescind the purchase for a reason specified in the sales contract and the entity is uncertain about the probability of return;

- when the entity retains an obligation for unsatisfactory performance not covered by normal warranty provisions;

- when the receipt of the revenue from a particular sale is contingent on the

derivation of revenue by the buyer from its sale of the goods.

IAS 18 states that when an entity is uncertain about collecting receivables recorded previously, the estimated part to be received is recognized as an expense. When the uncertainty is removed, the amount is received, and the entity shall recognize it as a revenue.

According to OMFP 3055/2009, in the event of uncertain receivables, there are impairment adjustments for the expenses that can be cancelled on behalf of revenues.

Still according to IAS 18, revenues include only the economic benefits received or receivable by the entity on its own behalf. The amounts collected on behalf of third parties (VAT, sale fees, excises) must be excluded from the revenue category as they are not benefits the entity is likely to receive on its own behalf.

In the practices of some entities in our country (especially those who are not obliged to undertake financial statement audits), there are true hardships that make the accounting information producers infringe the criteria for revenue recognition from sale of goods. This is mainly due to fiscal incidences, especially to value-added tax and tax control procedures which have not adjusted to the evolution of accounting regulations. A transaction should not normally be subject to taxes until the criteria for revenue recognition from goods sale have been met.

Rendering of services refers to constructions, installations, repairing, technical assistance and service, brokerage etc.

In compliance with IAS 18, revenue recognition associated with the rendering of services depends on the reliable estimation of the transaction outcome. An entity recognizes revenue from the rendering of services by reference to the stage of completion of the transaction when at the end of the reporting period, it can reliably estimate outcomes. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the stage of completion of the transaction at the end of the reporting period can be measured reliably;
- the amount of revenue can be measured reliably;

- it is probable that the economic benefits associated with the transaction will flow to the entity; and

- the costs incurred for the rendering of services and the costs to complete the services can be measured reliably.

The advance payments received by an entity must not be used to find out the stage of completion because they do not reflect the services performed.

As far as the rendering of services is concerned, OMFP 3055/2009 states that recognition of revenues from rendering of services occurs according to the percentage of completion. Rendering of services also includes works executions and any other transactions that cannot be referred to as goods deliveries;

- the stage of work completion is determined by work statements accompanying invoices, acceptance certificates, or other documents testifying the accomplishment and acceptance of services rendered;

- as to construction works, the revenue recognition arises from the acceptance protocol signed by the beneficiary.

IAS 18 related to “Revenue” refers to the revenues ensuing from service rendering whose approach is similar to the approach of construction contracts compliant with IAS 11 “Construction contracts”. OMFP 3055/2009 does not make clear the differences between a services contract and a construction contract. In order to understand the differences, the provisions laid down in IAS 11 “Construction contracts”, IAS 18 “Revenue” and IFRIC 15 “Agreements for the construction of real estate” can be useful.

Revenue arising from the use by others of entity assets refers to the revenues arising from interest, royalties and dividends. They are recognized when it is probable that the economic benefits associated with the transaction will flow to the entity and the amount of the revenue can be measured reliably.

IAS 18 “Revenue” states that revenue shall be recognized on the following bases:

- interest shall be recognized using the effective interest method as set out in IAS 39 “Financial instruments: recognition and evaluation” which sets the depreciated cost of a financial asset or of a financial liability, and

allocates interest- or expense-related profits during the corresponding period;

- dividends shall be recognized when the shareholder's right to receive payment is established;

- royalties shall be recognized on an accrual basis in accordance with the substance of the relevant agreement.

3. Conclusion: It can be ascertained that from the perspective of IAS 18 "Revenue", the recognition criteria are general and also customized depending on the transactions and events falling under IAS 18.

Still according to IAS 18, revenues include only the economic benefits received or receivable by the entity on its own behalf. The amounts collected on behalf of third parties (VAT, sale fees, excises) must be excluded from the revenue category as they are not benefits the entity is likely to receive on its own behalf.

In the practices of some entities in our country (especially those who are not obliged to undertake financial statement audits), there are true hardships that make the accounting information producers infringe the criteria for revenue recognition from sale of goods. This is mainly due to fiscal incidences, especially to value-added tax and tax control procedures which have not adjusted to the evolution of accounting regulations. A transaction should not normally be subject to taxes until the criteria for revenue recognition from goods sale have been met.

OMFP 3055/2009 neither provides nor forbids a breakdown, clustering or grouping of transactions in order to recognize revenues.

Decisions shall be made in the context of applying the principle of business prevalence over laws.

IAS 18 states that when an entity is uncertain about collecting receivables recorded previously, the estimated part to be received is recognized as an expense. When the uncertainty is removed, the amount is received, and the entity shall recognize it as a revenue.

According to OMFP 3055/2009, in the event of uncertain receivables, there are impairment adjustments for the expenses that can be cancelled on behalf of revenues.

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Strategic Investments and Partnerships during the Turbulences Age The Public-Private Partnership

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Abstract

In order to take a decision on investments, and entire process of identification, evaluation and selection of projects is assumed, so as to bring major benefits to an organization. The decision on strategic investments demands a series of challenges and involves the most experienced managers of the company within the field of investments; this happens since, on one hand, a wrong decision might be taken, and on the other hand, the company might lose an opportunity that cannot be capitalized anymore in the future. Like this, a company might lose extremely precious resources, as regards its future development or growth. Such a decision, taken in the view of carrying out a strategic investment, emphasizes all the elements of a classical cost – benefit analysis.

Keywords: traditional investments, green investments, strategic investments, Public-Private Partnership.

J.E.L. Classification: Q01, E22, O52, P28, R42.

1. Introduction

The strategic [13] investment has been represented by an investment carried out by a corporation or affiliated company to a young company, which brings it an added value or a profit. The aim consists in earning access to particular products or to the technology that the beginner company wishes to develop, but does not benefit of funds. Such investors have started to be different as comparing to the traditional investors or those financial, which mainly aim on achieving profits on very short term.

A strategic investment is represented by a transaction tightly connected to mixed companies. As concerns the strategic investments, a company can carry out an investment towards another company. Such agreements are conceived in order to serve to the common business aims. The strategic investments have involved a great variety of transactions. The planners of such transactions have taken decisions as regards the strategic investments when they believe that the investment is not only directed towards the financial objectives, but towards larger business or strategic objectives, also. The effective details of business agreements have varied from business to business. A strategic investment has been differentiated from an investment of "capitalist venture" type, whose aim consists in generating a huge profit in a very short time. The strategic investments have started with the identification and evaluation of various projects, as well as making a selection able to stimulate the competitive advantage of a company. Within a strategic investment, the investor will generally achieve common or preferential actions within the targeted company. More than that, the two companies will be able to conclude contracts of supply and provision, agreements of sharing technology or of research and development.

1.1 Advantages and disadvantages of the strategic investment and partnerships

The benefits of the strategic investments are connected to the access to company's resources, where investments are done at a relatively low price. The risks related to the strategic investment are in connection with the identification and evaluation process of various strategic options of investments,

which might be quite complex, time consumers and expensive.

Notwithstanding, the sense of a strategic investment might prove certain valences. The first way refers to the moment when an individual or a company will invest, in the view of generating secure and steady efficiencies, and usually in accordance to a consultancy company advices, able to keep up to the market tendencies; these might address to the customer's needs. In the second stage, one might talk about the investments to another company, a lower one, usually in the moment of its start, with a longer term strategy, and also by achieving a profit on long term. The strategic investment might also determine the feature of a public environment, as an investment into national objectives, of significance related to the common objectives of a society, of the transport infrastructure and of producing energy; in generally, it is about those fields that are related to the state's security. The reasons for which such investments take place are various, but among the most important, one might mention the following:

- the investment is carried out because a smaller unit accomplishes similar products;
- a small company can become in time a client of the investor company;
- The "adopted" company becomes a source of technologies and innovating ideas.

The experts have argued that such investments have been really benefic, since they allowed companies to maintain themselves autonomous, thus encouraging new investors to involve. The strategic investment has been also generated from the social responsibility of the high companies that can encourage them and are able to make dynamic the business environment, by means of "the adoption" of small companies, on their first stages; this is obviously done in order to achieve some benefits. In this way, a micro-environment has been created, more active or more dynamic and efficient for a company.

The strategic investments have started by the identification and evaluation of various projects, as well as by making a selection able to stimulate the competitive advantage of the company. As regards a strategic investment, the investor is in generally

achieving common or preferential actions within the targeted company. More than that, the two companies might adopt contracts of supplying and provisioning, on sharing technology or research and development agreements. A strategic investment is usually influencing what the company is carrying out (this refers to products or services that are offered, as well as to processes and practices applied). As result, a series of advantages and disadvantages can be emphasized [14].

Some of the benefits of the strategic investments are represented by the following:

- The strategic investments offer access to the investments companies' resources, to a relatively low price. On one hand, the investor company might have as goal the access to technology, and on the other hand, the other company has access to the financial resources. In this way, the costs related to research for the investor company will be reduced.
- As regards the investor company, a strategic investment is carried out for a part of the control over the company, which beneficiates of investment. Such thing will allow to the company to protect the investment, as well as on modeling the business direction of the lower company, and also the products and services lines.

Among the disadvantages, one might mention:

- The process of identification and evaluation of various strategic options of investments, which might be significantly complex, time consumers and expensive;
- The higher company can express the willing of taking over the smaller company, to a certain moment in the future, once the smaller company has proven to be viable and productive.
- In the situation when a smaller company is not able to accomplish the agreement, for any reasons, there will be always the risk on taking it out of the market, from the investments process.

1.2 The comparative analysis of the traditional and strategic investments

Professor Shark J. brought in foreground a series of stages necessary to accomplish strategic investments [8]. Firstly, it is about

identifying the expenditures proposals, the quantitative analysis of the cash flows, the evaluation of qualitative order issues, as well as performing the best decisions, by taking into account the points already mentioned above. Professor Shark J. mentioned that many times a logical and under argumentation construction will bring towards a really strategic investment. In the same time, one might admit that the specialty literature will emphasize only some of these stages, ignoring the others. This point is added to the other reasons, for which the managers are frequently accused on bad decision taking on investments, and which do not have a strategic succession. Hayes and Abernathy [3] and Hayes and Garvin [4] mentioned long time ago the company's mistake and especially the mistakes of people taking decisions, on focusing on only quantitative matters and cash flows type issues, since such decisions will unavoidably take towards negative strategic involvements. Within a strategic analysis, there are points significant to be taken into account, and which we find in the larger sense on classifications carried out by professor Shark.

If we refer to the traditional approaches on making investments that include the recovering, the efficiency of investments, the accountancy profitability, the residual income, as well as the cash flow updated, they have been criticized on a series of principles, basing upon various reasons. Among the main critics, one might mention "the short vision" and the exclusion of the non-financial type working, achieving benefits on short term, wrong assumptions over the status-quo, the inconsequent handling of the inflation, as well as promoting a non-valuable behavior on practices within the investments field.

The investments proposals are in generally taken exclusively by the investment department. A strategic investment takes into account all the benefits that might have over the company, of all its compartments, of the employees, of the partners and over the state. As result, the effects are capitalized outside the investments department, as well. The approach of a strategic investment introduces the computer assisted designing, as well as using objective systems and algorithms on input and output.

The second issue related to the traditional investments and their evaluation consists in their inability on taking into account the non-financial benefits, idea that is mentioned within the evaluation of the strategic investments. Such non-financial order type issues refer to the manufacturing flexibility, to the information flows, on designing the evaluation system, on developing the databases or the already used software.

The third issue refers to time. A traditional investment follows a short focalization time on achieving the profit. The strategic investments are carried out on a longer term, and the profit is achieved on long term, thus quantifying economic, social and technological type factors.

The fourth issues is dedicated to the status-quo of an enterprise, which by its angle of traditional investments, it is not reached in case of failure; the competitive position of the company remains unchanged. Such proposal is not true. Professor Parks [7] carried out an analysis in this way, proving that elements related to cost, quality and solid partnership will remain unchanged, and the company's image towards repeated investments failures will be affected not only inside, but especially within the current or potential partners group. The same opinion was underlined by Drucker, which added that "the accountancy cost will give information about what a person is doing for a company, but not related to what a person is not doing for a company".

The fifth issue regarding the traditional investments, comparing to those strategic, has as first point of attraction the value. Many times, the managers that present the investments proposals have carried out imaginative calculations. Being aware of the very high standards, which the senior managers own, the authors of the investments projects have aimed on taking the issues to extreme, to pass beyond the rational limit, or even more far away, by issuing unreal hypothesis and results.

There are also a series of viciousness of the traditional investment, but if we look more pronounced, the issue signifies more and more an improvement of the method, and less and less a conceptual mutation. One might call them "seeming viciousness", but it greatly depends upon the angle where the analysis is performed. In this way, in order to

evaluate the strategic investments, two types of means [1] can be applied. The first approach involves a change within the analysis frame of the traditional investments, aspects that take into account the flexibility, the quality, information and the actuality. The second approach assumes to have recourse to a series of analytical frames, which are based on significant misalignments from the traditional approach, as concerns the costs management, the multi-attributions decision taking, the value analysis, the hierarchical analytical method, the research and development methods, as well as the uncertainty method.

2. The Public - Private Partnership, a strategic partnership

The public – private partnership (abbreviated by PPP) signifies a governmental or private service, a business, which is financed and exploited by means of a partnership between the Government and one or more companies from the private sector. Such systems are denoted sometimes as PPP or P3. PPP involves a contract between an authority of the public sector and a private company, where the private part provides a part or an entire public service, and assumes its substantial financial, technical and operational risk within the project. For some types of PPP, the cost of using the service is supported exclusively by the services users, and not by the contributors. There is no unique definition of the Public-Private Partnership. PPP refers in generally to time, long time partnerships, concluded between the public and private sectors agencies, especially aimed towards financing, designing, implementation and operation, as well as facilities of services infrastructure; these have been traditionally provided by the public sector. Within a PPP, each partner, by a compulsory contract or other type of mechanism, is usually agreeing to share the responsibilities related to submit and apply a project. Such type of collaboration or partnership is built on the experience of each partner that fulfils an adequate allocation of the resources, as well as a management of risks and responsibilities. The Public-Private Partnership also assumes a project based on concession, between the Government or an

legal entity on one hand, and a company of the private sector, on the other hand, in order to deliver an infrastructure service, and then imposing some taxes on using [15].

In other situations, the capital investments have been done towards the private sector, where the costs on services providing were supported totally or partially by the government. In the situation of projects that aim on creating public goods or of infrastructure for a certain sector, the government might offer a subvention of capital, so that it will be able to increase the attractiveness for the private investors. In other cases, the government can support the project by offering subventions or exemptions from taxes. Normally, the governments have looked to encourage the private environment in order to accomplish investments into the infrastructure, and especially in the fields not endowed with a material or logistical basis, in order to carry out actions. As regards the 21st century, the public-private type partnerships have offered an unique perspective over the aspects of cooperation in the network of public management. They are a consequence of the New Public Management of the 20th century, and occurred under the pressures of the globalization.

As regards the theoretical or ideological basis, the PPP is carried out on both the principles of the capitalist market economies, but also on the social principles, on corporatist type. The supporters of the liberalism have taken into consideration the part of the state as minimal management, especially with part on orientation and regulation. In this way, the main part of the state consists in defining the general frame, on supporting it favorable, in accordance to the economy's functioning on a capitalist market. From this point of view and assuming ideologically, the state should not intervene not even within the infrastructure achievement, or of other public interest fields. Nevertheless, taking into account the world reality, where the state manages certain sectors, the cooperation with the state, as regards the capitals, is welcomed. Those that prefer a social, corporatist economy assume the idea of certain centralization on some fields, in the power of the state. The people should be helped on developing his or her business; the people cannot help by

themselves. It will remain in analysis if the centralization of funds and their directing by the state represent a form of help, or the distribution of the financial flows towards the private sector where part of people are working within signifies a form of help.

One might mention the idea of Paul Ligniere as regards the Public Private Partnership, since it has a dual vision over it, thus offering a larger image and more complete over the concept and its practice [6]. Largely, the author mentions that PPP refers to all the collaboration forms between the public authorities and the private companies. The state supports and encourages the enterprises, by various forms of support, as well as initiatives, without intervening in their activity. In a restricted way, the author also mentions that PPP refers to the collaboration on certain projects, among the same parts, by acting depending upon the contractual type. The author agrees that the PPP should offer benefits for both partners – even if the objectives are different, they might be reached by the same activity. Complementary, the two parts involved will promote the economic development.

3. Conclusions - Solutions [16]

The public-private partnerships can contribute on the economic recovery, as well on a long lasting development of the European Union. Regarded as a combination between the public ability and that private, this has become essential in the context of the economic crisis. Nevertheless, the European Committee has been faced with obstacles in the way of financing the PPP, as well as of the means on encouraging them. Regarded from the European Union point of view, the public-private partnership types represent innovating solutions on financing, promoted by the European Union, and which are able to contribute towards [12]:

- Projects on public interest facilitations, especially on the infrastructures and of public cross-border services;
- Sharing the financial risks and reducing the infrastructure costs, where these are normally financed integrally by the public sector;
- Supporting a long lasting development, the innovation, research and development, by a strong competition

and commitments of the private enterprises.

Financing the European Union can be used for the co-financing of the Public-Private Partnerships. In this way, the interested national, public and private parts might benefit of:

- The structural funds, associated to the PPP, as well as the JASPERS, JESSICA and JEREMIE funds;
- The funds of the European Bank on Investments and of the European Investments Fund;
- The financial instruments of the trans-European transport network (abbreviated as RTE-T), which encourages the private financing contribution, the risk capital and offering of bank credits;
- The Frame Program 7 on research and development, as well as technological common initiatives.

The European Union also recommends the use of instruments on innovation, meaning:

- The facility on financing, with sharing of risks (abbreviated under FFIR), established by the European Committee and BEI, in the view of facilitating the access to credits;
- The competitiveness and innovation frame instruments (abbreviated as CIP), which might support the PPP in the fields of research, technological development and innovation.

A series of obstacles have occurred in the same time, in the way of creating the PPP. The economic crisis has determined the growth of credit cost, a reduction in the banking dates of payment in order to reduce the credit duration, and a lack of financing for the process on public acquisitions. This is the reason, for which the European Committee presented a temporary community's frame for the state assistance, on supporting the access to financing during the periods on economic crisis, being aware of the fact that creating the PPP will many times involve significant financial resources, an expertise and specific preparation in the public sector, complex financial agreements, as well as long term commitments from the authorities. The European Committee will also encourage the PPP in the field of

technological innovation, by many programs that are essential on the European Union competitiveness. One should understand the idea according to which the risks and responsibilities are shared between the public and private under interest. In such conditions, the Committee will ensure the access to financing by means of the subventions, public acquisitions or investments.

The economic crisis had a negative impact over the public finances, as well as over the projects that need long term investments. In this way, in 2012, as part of the economic recovery plan, the Commission initiated a series of specific action on promoting the PPP creation, meaning [16]:

- Creating a group of dialogue and exchange between the parts under interest and involved within a PPP;
- Growth of the financial available resources, by means of the European instruments, already existing, and by developing specific instruments;
- Ensuring that the public and private bodies of management should be treated equally as regards the European funds;
- Proposal to a new judicial instrument, as regards the concessions on public services attributed to the private sector;
- Extension of the field on applying the European financial instruments;
- Finalization of the impact evaluation, as regards the initiative related to assigning contracts on services concession;
- Improving the accountancy practices;
- Dissemination of the specialty knowledge and of the know-how;
- Promoting the information, communication and innovation technologies.

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The Recovery Term's Contribution to the Identification of Value Losses from the Use of Fixed Assets. Opportunities and Limitations in the Implementation of the Mathematical Model within the European Area, A Parallel with the Reality Encountered within the Romanian Area.

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Abstract

This paper sets out to further pursue a previous research which focused on testing the mathematical model regarding the recovery term's contribution to the identification of the value losses from using the fixed assets in the Romanian accounting area. We will treat here the realities encountered in the implementation of the mathematical model recovery term of the economic asset within the European area. There have also been covered the existent differences between the techniques and tools employed in the two areas, the Romanian and the European one, with regard to the testing of the suggested mathematical model.

Key words: updated estimated recovery term, economic asset, estimated cash-flow, discount rate.

J.E.L. classification: M41.

1. Introduction

Currently, within the European accounting practice, creativity holds a very important role, outrunning the traditional things in accounting [1]. In our attempt to identify models and working tools available for the Romanian professional accountants for implementing the International Financial Reporting Standards and European Directives, we initiated a mathematical model in a previous paper that tests the recoverability of an entity's economic asset. For the model's validation we considered it necessary its testing within the practice of the groups in the European and the Romanian area. In a previous paper we presented the specific traits encountered in the Romanian area regarding the limitations in the

application to the mathematical model proposed. Likewise, we proceeded to carry out a comparison between the two realities – the European one and the Romanian one, concerning the set of annual financial situations and the availability of the information provided to the users, necessary for the testing of the suggested mathematical model.

2. Specialized literature

Our action was initiated starting from the updated estimated recovery term of recovering the investment from finances; according to the specialized literature, the recovery term [2] of the sum allotted for investment expresses the number of recovery years through the updated annual medium cash flows ($CF_{act/an}$) of the invested capital (I_0) and it is determined according to the following relation:

$$T_r = \frac{I_0}{CF_{act/an}}$$

This indicator ensures a choice of the investment variants according to the speed of recovering the invested capital. Therefore, those investments that recover the invested capital in a larger period of time will be penalized because the risk of not recovering it grows proportionally with this period of time. This was the starting point of our research and subsequently the recovery term indicator for the investment underwent modeling and restatements.

3. Methodology

3.1. The method

In a previous study we proposed to realize a mathematical model – recovery term through which we could identify a sub-assessment index for the entity's assets, through the formula [3]:

$$T_r = A_e / CF, \text{ where}$$

T_r = recovery tem;

A_e = medium economic asset;

CF = updated expected medium cash flows.

The recovery term obtained expresses in "cash flow" years the period of time the entity needs to recover the capitals invested in the economic asset. Validating the mathematical model imposes its testing in practice and for this it was selected a representative sample of groups of societies within the Romanian and the European area where the proposed mathematical model's development will be observed.

In our action to establish, through calculating the recovery term, a depreciation indicator for an entity's economic asset, we resorted to an artifice, by changing the terms of the updated estimated recovery term, as it follows [4]:

✓ the initial investment was reconsidered and substituted by the economic asset seen from the point of view of the invested capital, in a net sum –absolved of amortizations and value adjustments– both for the one itself and the attracted one;

✓ regarding the sum of the updated medium cash flows, we resorted to replacing them with updated expected cash flows for an interval of maximum 5 year. Projections for the cash flow have been carried out, according to the DCF method, subsequently updated to an appropriate rate identified on the market.

In the action we initiated to test the recovery capacity of the economic asset of a society through the updated annual medium cash flows, after going through the theoretical steps [5], we proceeded to selecting the groups of societies within the European and Romanian area where the testing of the suggested mathematical model was utterly necessary. Within the European area the selection of the groups of societies did not raise any problems, since the information provided by the set of annual financial situations was sufficient and pertinent for the initiated problem. On the other hand, within the Romanian area, the

testing of the mathematical model encountered difficulties regarding the dimensioning of the representative sample.

In the following chart we will present the list of the groups of societies selected from the Romanian space, as well as the analysis of the three representativeness criteria previously identified and each society's reaction:

Chart no.1: "The analysis of the representativeness criteria within the societies chosen from the Romanian area"

Specification	(1)	(2)	(3)
Allegro Maxi Taxi	79,03%	DM	-
Atlas S.A. Galați	70,6%	IM	ME
Auto Center S.A.	80,17%	IM	-
Auto Ilioara S.A.	69,11%	IM	-
Automobil Service	64,39%	IM	-
Bat Mediaș S.A.	28,95%	IM	ME
Bel S.A. Agigea	37,07%	IM	ACC
Bârzava S.A.	95,99%	IM	ACC
Comautotransport	89,43%	IM	ME
Comet S.A.	97,87%	IM	ME
Comtrans S.A. Ct.	60,75%	IM	-
Comtrans Vl.	11,85%	IM	ACC
Dacia Mioveni S.A.	77,87%	IM	ME
Electroputere S.A.	84,27%	IM	ME
Expres S.A. Buc.	77,45%	IM	-
Expres Transport	68,12%	IM	-
General Transport	68,19%	IM	ME
InternTransport S.A.	87,51%	IM	-
Saturn S.A. Buc.	85,30%	IM	-
Simec S.A. Sibiu	59,94%	IM	-
Transport Auto S.A.	68,10%	IM	ACC
Tara S.A. Pitești	66,03%	IM	-
Taxi Service S.A.	98,0%	IM	-
Trameco S.A.	71,71%	IM	ACC
Trans Sălaj S.A.	61,25%	IM	ACC
Transbar S.A.	95,76%	IM	-
Transcom S.A. Buc	98,85%	IM	-
Transcom S.A. Sibiu	62,33%	IM	ME
Transil S.A. Slobozia	93,86%	IM	-
Transmixt S.A.	98%	DM	-
Transoltenia S.A.	65,01%	DM	-
Transport Auto S.A.	61,81%	DM	ACC
Transp Făgeteana	88,55%	DM	ACC
Transp Fizicienilor	11,64%	DM	-
Transport Mixt S.A.	61,76%	DM	ACC
Transtec S.A. Tecuci	37,78%	DM	-
Ubemar S.A. Iași	12,15%	DM	ME
Valea Prahovei S.A.	76,48%	DM	ACC
Constr. Timișoara	68,6%	DM	ME
Constr Craiova S.A.	72,92%	DM	ME
Constr Galați S.A.	59,87%	DM	ACC
Constr S.A. Moldova	63,27%	DM	ACC
Reva S.A.	87,63%	IM	ME
Roman S.A. Brașov	98%	IM	ME

Rompetrol S.A.	71,83%	IM	-
S.M.R. S.A. Balș	66,05%	IM	ME
Aerostar S.A. Bacău	41,67%	IM	ME
Aviația Utilitară S.A.	18,73%	IM	-
Avioane S.A.	57,50%	IM	ME
Romatsa S.A.	56,46%	IM	ME
Constr Aeronautice	80,16%	IM	ME
IAR Brașov	42,78%	DM	ME
CNFR Navrom S.A.	79,19%	DM	ME
Coremar S.A.	64,55%	DM	ME
Expl.Portuară S.A.	84,24%	DM	ACC
Giurgiu Nav S.A.	98%	DM	ME
Giurgiu Port S.A.	94,65%	DM	ACC
Hercules S.A. Brăila	72,30%	DM	ME
Navexim S.A. Galați	92,07%	DM	ACC
Romportmet S.A.	11,10%	IM	ME
Șant Naval Mangalia	63,75%	IM	ME
Șant Naval Orșova	51,59%	IM	ME
Severnav S.A.	60,10%	IM	ME
Atlas Reparații S.A.	72,47%	IM	-
Auto Center S.A.	80,07%	IM	ACC
Automobile Service	63,59%	IM	-
Autonova S.A.	77,23%	DM	ME
Transport S.A. Arad	88,33%	IM	ME
Reparații Luduș	40,88%	DM	ME
CIT S.A. Craiova	62,15%	DM	ME
Compon. Auto S.A.	86,43%	IM	ME
Farex S.A. Brăila	58,09%	DM	ME
Hidrojet S.A. Breaza	60,02%	IM	ME
Mecanica 94 S.A.	26,46%	IM	ACC
Rapid Trans S.A.	96,49%	IM	ACC
Remar S.A.	78,54%	IM	ME
Rofep S.A.	80,90%	IM	ACC
Roman S.A. Brașov	98%	IM	ME
Romvag S.A.	29,26%	IM	ACC
Spid Bucovina S.A.	78,06%	IM	ACC
TCM S.A. Cluj	88,48%	IM	ME

[6], (Manea M., ICBE 2012)

- (1) Percentage of fixed assets within the economic asset;
 - (2) Drawing the "Cash flow situation" according to the direct/ indirect method;
 - (3) The discount rate – market identification, average capital cost;
- DM – the direct method;
IM – the indirect method;
ACC – average capital cost;
ME – modeled by the evaluators.

3.2. The sample

In a previous paper we presented the specific traits encountered in the Romanian area regarding the limitations particular to an economy that is in transition, where the market information is insufficient, not all the instruments are known and the working

procedures formalized for reflecting the respective information in the set of annual financial situations, the Romanian accounting system, respectively the professional within the domain have at their disposal a reduced capacity for implementing the creative accounting. Under these circumstances, in order to implement the suggested mathematical model, for modeling the representative sample of societies, there has initially been chosen a number of 81 groups of societies. After applying the three representativeness criteria, out of the 81 societies, as a consequence of the limitations encountered in the Romanian accounting practice, only 37 societies were left. Subsequent to the sample's modeling, there have been outlined directions of action applicable to the entities within the Romanian area, such as:

- ✓ the necessity to formalize the working techniques and tools used to render the information regarding the fixed assets within the set of annual financial situations published by the societies;
- ✓ a better selection of information concerning the fixed assets provided by the market, respectively a special attention for the markets, even insufficiently developed within the Romanian space;
- ✓ an increased availability coming from the professional accountants concerning the understanding of the practices and techniques specific to the creative accounting, respectively their implementation within the Romanian area;
- ✓ the continuous improvement of the Romanian professional accountants in the initiative of the regulatory autochthonous bodies to closely examine and implement within the accounting practice the techniques and instruments of the creative accounting.

If in the Romanian space there were identified a series of difficulties and limitations in the modeling of the selected and analyzed society sample, clearly caused by the specific conditions of the autochthonous economy, in the European area the issue was much more clear, since the financial situations loyally expressed the reality from the accounts as well as the one of the estimations specific to the creative accounting. Therefore, starting from the same three representativeness criteria employed in the Romanian area, after leaving aside those

societies that did not simultaneously fulfill the proposed criteria, in the group's structure we find 54 societies, as it follows:

Chart no.2: "The analysis of the representativeness criteria within the societies chosen from the European area"

Specification	(1)	(2)	(3)
Latecoere Groupe	37,24%	IM	8,0%
Air France	50,82%	IM	7,0%
EADS Groupe	23,38%	IM	11,0%
Dassault Aviation Gr	42,8%	IM	8,8%
Safran Groupe	19,98%	IM	8,8%
Thales Groupe	19,57%	IM	8,0%
STX Europe Groupe	17,46%	IM	8,7%
Groupe Crit	23,75%	IM	9,7%
STEF-TFE Groupe	64,20%	IM	7,5%
Rodriguez Groupe	23,75%	IM	10,5%
Eiffage Groupe	54,89%	IM	7,5%
Bourbon Groupe	86,83%	IM	8,0%
Alstom Groupe	20,37%	IM	9,0%
SNCF France Gr	51,14%	IM	8,3%
ASF Groupe	25,87%	IM	8,0%
RTE Groupe	93,17%	IM	8,0%
Colase Groupe	42,00%	IM	6,14%
Groupe Samse	37,44%	IM	8,5%
AST Groupe	22,30%	IM	12,6%
SNPE Groupe	28,24%	IM	8,0%
SAAB Groupe	24,17%	IM	8,0%
Groupe SEB	27,04%	IM	9,0%
Aurea Groupe	33,26%	IM	8,7%
EDF Groupe	47,06%	IM	7,5%
Veolia Groupe	25,71%	IM	7,0%
Legrand Groupe	20,88%	IM	10,0%
Belgacom Groupe	32,57%	IM	9,0%
Scandlines Groupe	31,66%	IM	7,0%
Finnlines Group	91,27%	IM	6,33%
Ceva Logistics Gr	22,34%	IM	11,5%
Moller-Maersk Gr	71,45%	IM	10,0%
DB Schenker Log	79,37%	IM	9,0%
Duisport Group	25,74%	IM	8,0%
VTG Group	74,24%	IM	7,5%
Class Group	15,39%	IM	10,0%
Continental Group	29,20%	IM	11,0%
Green Cargo Group	-	IM	7,0%
Halfords Group	20,52%	IM	14,0%
TNT Group	16,25%	IM	10,0%
Axis Group	84,46%	IM	9,0%
Cargotec Group	22,86%	IM	10,0%
Interroll Group	-	IM	9,7%
Transics Logistics Gr	24,52%	IM	8,0%
Kewill Logistics Gr	24,45%	IM	9,0%
LKAB Logistics Gr	51,12%	IM	8,0%
Keolis Group	20,67%	IM	6,8%
Wincanton Group	59,17%	IM	11,7%
Logwin Logistics Gr	21,24%	IM	7,6%
Fraport Logistics Gr	55,02%	IM	8,0%
HHLA Logistics Gr	59,73%	IM	9,0%

Kuehne + Nagel Gr	22,84%	IM	11,0%
Dublin Port Group	90,71%	IM	9,0%
Group Valtech	25,98%	IM	10,0%
Port of Rotterdam	87,68%	IM	8,0%

[7] (Manea M., ICESAL 2012)

4. Results interpretation

The differences registered at the level of the three representativeness criteria within the European area, compared to the Romanian one, previously presented, are significant and visible at the simplest analysis. The following can be concluded:

✓ the percentage of the fixed assets in total economic asset did not register values as big as in the case of the Romanian societies – 27 out of the analyzed societies have fixed assets in percentages of up to 30%. Other 8 groups of societies have a share of fixed assets in total economic asset between 30%-50%, the rest of 19 societies have a share of over 50%. The lower share, as it is the case for 50% of the analyzed societies, can be explained through the capacity of the foreign societies to implement the principle of the prevalence of the economic over the juridical, which presupposes that a society does not necessarily have fixed assets in patrimony, but it can earn them in leasing. Therefore, the first representativeness criterion in selecting the sample of societies within the European space can be considered fulfilled;

✓ concerning the method of compiling "The cash flows' situation", it has been noticed from the study of the set of annual financial situations of the 54 societies the use of the indirect method, useful for our initiative, which renders the second representativeness criterion fulfilled; without drawing a conclusion, we see as necessary the extension of the practice of the groups of European societies regarding the use of the indirect method in compiling the cash flows' situation within the Romanian area;

✓ likewise, the discount rate used in measuring the updated estimated cash flows was identified through the composition of the set of annual financial situations published by the groups of societies; this varied between 6% and 14%, all the 54 groups of societies treated this variable with real interest within the set of financial situations regarding the annual reporting, which denotes an important

preoccupation of the professional practitioners and of the managers as well for reflecting the exactness and reality of the accounts;

✓ from the analysis of the set of annual financial situations of the groups of societies within the European area, there can be observed the seriousness of the action of compiling annual financial reporting, the high degree of formality of the accounting information, respectively the managers' and professional accountant's availability to convey the accounting information – both sufficient and pertinent.

5. Comparisons with the reality from the Romanian space

By going through the parallel between the Romanian reality and the European one, having as an objective the modeling of the society sample where the mathematical model can be tested regarding the contribution of the recovery term to the identification of the value losses from the use of fixed assets, there were delineated on one hand the seriousness and the good practices used in the European space within the annual financial reporting carried out, and on the other hand the lack of interest and vision of the Romanian practitioners that do not handle the specific available instruments and techniques. We note the following identified elements – conclusions:

✓ within the European area the final sample is formed of 54 groups of societies where the suggested mathematical model will be tested. From the set of annual financial situation published by the entities, the external analyst gradually went through and identified those representativeness criteria such as the share of the fixed assets in economic total asset, the way of compiling “The cash flows’ situation”, respectively the measurement of the discount rate used in modeling the updated estimated cash flows. There must be noted the observation according to which, within the set of published annual financial situations, the external analyst effortlessly detected the necessary information, without resorting to estimations and modeling or to the professional assessors' help in modeling some of the variables. This is why we consider that the further study of the European practices of compiling the annual

financial situations and the formalization at the Romanian entities' level of the working procedures used at an European level are utterly necessary.

✓ within the Romanian area, the external analyst encountered a series of difficulties in modeling the representative sample of societies. Therefore, although there was initially identified a number of 81 societies from the domain of transportation, logistics and transportation assistance, as a consequence of the lack of necessary information from the set of annual financial situations, the number was cut back to only 37 societies. Following the method of presenting the information from the annual financial situations published by the Romanian societies, we consider that a widening of the information spectrum covered here is necessary. If we only cover the fixed assets, in Note 1 – Fixed assets, the Romanian societies present insufficient information concerning their assets, such as: a) gross values of the fixed assets (information about the existent balance at the beginning of the financial year, elements regarding increases, concessions, transfers and other reductions such as the balance at the end of the financial year), b) value adjustment elements under the form of amortization respectively adjustment for depreciation, without presenting detailed information concerning the estimations for implementing the creative accounting, like the future cash flows from the use of fixed assets, the discount rate, etc.

6. Conclusions

Implementing the suggested mathematical model in the European area and subsequently in the Romanian area, has pursued its validation regarding its implementation as an indicator for the possible future value losses attached to the fixed assets. Through its calculus, the management and the professional accountants within the entities have at their disposal a working tool that is easy enough to model, based upon the already available information as well as using restatements and estimations specific to the creative accounting. First and foremost, we are talking about the measuring and evaluation of the updated medium annual cash flows for an interval of 5 years which

necessitate forecast and update knowledge. Furthermore, the identification of the discount rate specific to the modeled cash flows can raise difficulties for the professional accountants, but resorting to the information on the market, respectively the one owned by the specialist assessors, this structure can be outlined without any special hindrances. By analyzing the way of measuring the discount rate of the future cash flows from the use of fixed assets at the level of the two areas, the following conclusions can be drawn: a) within the European space each society is concerned with the adequate measurement of the discount rate in a specific element of reporting, more precisely we are talking about a special annex within the set of the published annual financial situations, therefore the external analyst is capable to easily identify values between 6.14% and 14% - note in the current study the last column in Chart nr.2 “The analysis of the representativeness criteria in the societies selected from the European area”; b) within the practice of the Romanian societies, the external analyst found himself unable to identify within the set of annual financial situations the variable of discount rate of the cash flows from the use of fixed assets, resorting, therefore, to the help of assessors practitioners who fixed a discount rate for the societies that belong to the same working field. This fact constitutes in a limitation of the Romanian accounting system which failed to formalize all the techniques, instruments and working procedures necessary for transposing in the annual financial situations published by the societies the data necessary for the information users. Under these limitative circumstances the external analyst is coaxed to resort to the professional assessors for modeling the discount rate necessary for updating the estimated cash flows.

Therefore, we consider it necessary that the Romanian accounting practice adopts a set of practices and instruments for widening the spectrum of information included in the set of annexes to the annual financial situations published by the societies, as a necessity for the future reporting of the Romanian entities.

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Health Insurance and Implementation of Private System

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Abstract

This paper shows that social security, as the main health care system, is based on principles aimed at the compulsory coverage of all citizens, who are allowed accessibility to a certain package of services. The financial balance between the amount of contributions received and expenditures must be respected in order to perform the medical services. The independence of health insurance organisms in administration of funds, which are collected and used in the alternative, is ensured. The importance of private health insurance is emphasized, as well as the option for the private health care system that allows access to a wide variety of services within primary and secondary treatment, and makes many social groups to prefer private health care sector and to join complementary, additional or substitute private health insurance.

Keywords: insured persons, public and private health system, social health insurance, principles of insurance, bill.

J.E.L. Classification: I 13, I 15.

Introduction:

Failing to adopt rules to permit the functioning of the legislation, private health insurance know an upgrade as a result of the opportunities offered to those customers in comparison with that of the state system, namely: the coupler system introduced in the different offices and hospitals in a differentiated manner and family vouchers for low income people.

Insurers can also propose various other services. Traditional health insurance clearly involve measuring a person's risk of disease,

depending on age, sex, area of work or medical history, the access to medical services and treatment being guaranteed by the health insurance contract.

On the other hand, there are abroad travel medical insurance either for tourism, work, study, covering illnesses and accidents happening outside Romania [1].

Health insurances

Being a complex social and biological phenomenon, the health of population has always been in the attention of governments, and many physicians [2] such as: Constantin Caracaș, Ștefan Stâncă, Victor Babeș, Ioan Cantacuzino, concerned with achieving healthcare reforms, have contributed over time to the scientific organization of Romanian medical system, proposed health regulations or founded hospitals.

In retrospect, the regulation of healthcare organization, from a legal perspective, is reflected since 1874 when the first Health Law is enacted, followed by the 1910 Health Law, the Health and Social Care Law in 1930, and the contributory health care system, type Bismarck, governed by the Code of Social Security and Social Insurance Law issued in 1938.

Between years 1948-1990, the organization of health care in Romania was centralized and planned, being governed by the principles of the Soviet model, type Semașko.

Since 1989, the healthcare reform was approached in several stages, governments trying to develop structures and policies. Primary health care system is represented by the social security, based on the following principles [3]:

- mandatory coverage of all Romanian citizens residing in the country or temporarily abroad, and foreign citizens and stateless persons residing in Romania;

- solidarity among all social categories;
- subsidiarity in the collection and use of funds;
- accessibility of the insured at a package of health services;
- compliance with the financial balance between the amount of contributions received and expenses incurred for performing medical services;
- independence of health insurance organisms (Health Insurance National House, Health Insurance County Houses) in managing their funds;
- possibility for insured to make a free choice of a family doctor, specialized physician and health units.

Other categories of persons covered by the social insurance system, without contribution payments, are children and young people up to 26 years if they are students, apprentices or have no income from employment, as well as disabled people who do not realize income from employment or are in their family care.

Both employees and those who are not employees but pay their contribution have the quality of insured.

Health insurance funds [4] are intended for payment of drugs and medical services provided formation of a reserve and redistribution fund, and funds' management expenses. The risk of death is assured.

For different occupations and different sexes, insurance premiums are diverse, covering costs [5] relating to: hospitalization, convalescence, home treatment after discharge, allowances for maternity, family doctor consultations, other consultations, diagnoses, surgery.

The insured sums paid are inclusive, equal to a daily allowance in case of hospitalization or surgery, or as compensation.

In case of permanent health insurance, the insured shall get a preliminary investigation, whereas by paying it he wants to protect himself against incapacity for work due to accident or illness. Insurance premiums are fixed and the insured will receive regular compensation when incapacity for work occurs.

The insurance represents a primary coverage or additional clause in the case of terminal illness, the sum assured being paid from the moment of disease diagnosis and

having the aim to offset the costs of medical treatment.

New healthcare bill brings up some modifications [6]:

- cheap medical services will be deleted from the basic healthcare package;

- doctors are no longer employees of the state and their salary will be negotiated with the hospital manager;

- hospitals will be autonomous financially and managerially and will raise funds from any activities (programs and projects), provided that these do not affect the quality of medical services and the hospital's good functioning.

- citizens will be able to enroll in a public or private insurer, dismantling the CNAS monopoly and insurance houses will reorganize in the mutual type insurance companies, after the Belgian model;

- emergency medicine remains guaranteed by the state.

Lack of expertise and quality of the services offered by the national health system has determined a number of people to go into the private health sector, although lower costs for patients (insured) in public hospitals convince many individuals to stick to the health services of public sector.

Development of the society and increasing health incidents on individuals determine the development of private medical sector which offers a variety of services, both in the primary and secondary line of treatment

According to Law no. 212/2001, the types of private insurance for payment of medical services are:

- Complementary, private insurance supporting entirely or partially the payment of services that are partially excluded by social health insurance from the basic package, including co-payments;

- Additional, private insurance supporting entirely or partially the payment for services which exceed the basic package of social health insurance system by providing a high level of comfort, easy access to special health care at home or abroad;

- Substitutive, private insurance cover totally or partially the payment for any service.

Economical-financial operation, the insurance is prefigured by law and is

represented through a contract in which the insured commits himself to pay an insurance in exchange of which the insurance company guarantees and commits itself to pay compensatory finances or insured amounts in the case of production of an event with consequences over the insured.

Both the insurances and reinsurances represent a complex system which contains beside personal insurances, goods insurances, third-party liability insurances, foreign insurances and reinsurances in currency and other insurances like those regarding welfare, health, and lay-off.

The way in which an insurance company is organized and managed is strongly related to the requests of the national and international insurances and reinsurances market.

Besides the factors which are common for all activity domains, in insurances interfere specific factors which determine the way of organization and management of the insurance activity.

The relations between the insured and the insurer, their rights and obligations are established by private health insurance contract. The insured agrees to pay a private health insurance premium to the insurer, the insured being an individual or the employer.

Conclusions:

In conclusion, we can say that prove to be extremely useful the following measures: reorganization of municipal insurance houses into mutual type societies, creation of a system of private health insurance in competition with the public insurance system, review of the basic package of health services, but also that costs made on private health insurance, incurred by the individual or the employer, are tax deductible and the choice of health care providers by the insured and the insurer is free.

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Corruption in the Public Sector of the Emerging Economies Inside the European Union Perimeter. Causes and Scores of the Phenomenon.

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Abstract

This article is presenting his debut as a corruption-related concepts such as those involving its definition, the corruption importance, the institutional causes of corruption in the public sector and the attempts to quantify it by Transparency International, world leader in the fight against corruption. Looking the definition of corruption, this proves a quite difficult element due to the lack of an unanimous opinion about what this phenomenon means. Regarding the causes or the roots of corruption, the opinion according to that at the corruption basis exists the poverty is invalidated by the fact that the phenomenon is captured also inside the developed economies. In the end of the paper we have tried a presentation of corruption scores calculated by the international organism previous mentioned, with examples for the European Union emerging economies.

Keywords: corruption, cause, effect, emerging, economy.

J.E.L Classification.: M, M4, M48.

1. Introduction

Motto: Well for that is creating this huge LEVIATHAN named COMMON Good or STATE (in latin, CIVITAS), which is only an artificial man, even of a greater stature and strength than the natural, for whose protection and defense exists; and in which the sovereignty is an artificial soul, giving life and movement to the whole body; magistrates and other legal officials..., artificial joints; (...) property and wealth of all private members are the force; people's health (its security) is their firm; (...) equity and laws, an artificial and voluntary

reason...(T. Hobbes, Leviathan). The characterization of a society requires the surprise of the two levels that its existence is going on and which are taking the form of two distinct sectors, public and respectively, privat. Providing essential public services for society members, the public sector is characterized by a particular form of monopoly. At the opposite pole, the private sector is the manifestation of competition due to the existence of alternative in terms of goods and services provided to the consumer. And while private sector leads on principles of efficiency, exist the same concern for the public sector [1].

2. The public sector and the corruption associated with it

The public sector can not be effective while it is governed by corruption, in greater or less measure. Generally speaking, the evaluation of the mode in which a country is lead use, for most of the cases the GDP/capita value, even if the welfare of a nation depends bu a serie of factors not related to the GDP calculus (the unequal distribution of income, the qualitz of environment, the leisure modality etc.) [2]. As consequence, the welfare of a nation can not be reduce only at GDP and productivity because the citizens are confronted with various dimensions of political, social and cultural type. As a logical consequence, a good governance must assure an environmenta characterized by the existence of efficient policies and institutions [3]. Regardless of the economy that characterizes a state (developing, emerging or developed) it suffers, in greater or less measure, state intervention embodied in the objectives that government aims to achieve. The greater or less measure in which this thing is is materialized or more precisely is quantified

by means of certain indicators associated to the government power and channeled on the following directions: ▪ *information* (of the various interested parts, including public, about the state of public finances and the performance of governmental activity); ▪ *help* (for the public - members of society - for it to choose for one or other action knowingly and, finally, to understand the impact of his/their actions on public money); *the ability of public to judge the performance of a government and its institutions*. The accumulation of these three areas will result, finally, in the society guiding for the evaluating and possibly redefine, of the tasks to be performed by the public sector and its specific institutions. Excessive government regulations are not necessarily the way because on the one hand have the effect of increasing workload in the informal sector On the other hand, allows regulators to be corrupt.

2.1. The definition and the importance of corruption in the public sector

One difficulty in fighting corruption is the one of its defining because the lack of unanimity opinion about what is corruption put under question or make non-operational the anti-corruption strategies. In many cases, corruption and illicit are seen as similar terms (Bardhan, 1997), fact which could lead us to conclude that a corrupt behavior is in violation of legality [5]. However, we have to be careful on this absolutization given that not all illegal behavior shows corruption as not all the corrupt conduct is illegal. Talking about corruption is preferred the approach of the two levels of corruption (state sector versus private sector) because, not infrequently, they are interrelated. Related to corruption in the public sector, Typically this may occur when to certain taxpayers which can roughly be regarded as sources of revenue for the public budgets, through the taxes they pay, are providing poor quality public services, when some are served preferential for a bonus or when they are asked for bribes by public officials. The other side of the coin represented by the private sector "benefits" also by the existence of corruption in the form of decisions made by company managers in their favor and thus detrimental to the company or shareholders

[7]. In both types of corruption exist a contradiction between what a person, represented in first case by the public official and in the second case by the company manager, should do and what it actually is doing. Any definition of corruption includes its political side expressed by the existence of an central or local executive, „for sale”. The idea is circumscribed to the definition which the World Bank associates to the corruption seen as public power exercised in exchange for a gain, with small and large values, of it which may reach, finally, to the state capture by private interests. Summarizing, it can say that the more restrictive definition of corruption is the abuse of government power related to its monopoly on public services. All previous definitions have in common that they bring to the forefront the „corruption's actors” and not the action itself [6]. Related to the public sector, all cases of corruption supposes the combination of civil servants, of individuals, firms or industries and of public officials, reason why we can not exclude private persons and companies from the definition of corruption in the public sector.

2.2. Types of corruption and their characteristics

Transparency International (TI), world leader in the fight against corruption, defines it as abuse of invested power to private gain that affects everyone whose life, livelihood or happiness depends on the integrity of the persons invested with authority [4]. This makes us look more closely for the abuse of power than to those who show a corrupt. Sharon Eicher in “Corruption in international business: the challenge of cultural and legal diversity” defines corruption as any act by which a person, who should protect the interests of another person, acting detrimental to the latter. An overview of the classification of corruption is presented in Table 1. The basis idea is the one that, for the last two types of corruption classified by TI we talk about a serie of corruptio acts as part of a certain management strategy directed either to increase profit or to acquire power or welfare [8]. On the point of view of Banfield but with reference to the TI classification, official corruption can be appreciated as functional and the personal corruption as

dysfunctional.

Table 1. Types of corruption and its characteristics

Classification's promoters	Types of corruption	Characteristics
Transparency International	In accordance with the law	Act committed to obtain money quickly (small corruption).
	Against the law	Act committed to circumvent the legal regulations.
	Functional	Corrupt behavior for the firm benefit.
	Dysfunctional	Corrupt behavior against the firm.
Banfield	Personal	Person who does not fulfill its obligations to serve their own interests.
	Official	The illegal acts for a purpose (bribes someone to obtain benefits for their company).
OECD	Active	The one who accept to give bribe.
	Passive	Made by an public official in return for payment.

Corruption matters because, although apparently not make victims, these: inhibit or reduce the rate of economic growth, may affect national security by distorting markets and competition; spread cynicism among citizens; undermines the rule of law, damage the legitimacy of government and corrode the integrity of private sector; reduce the investments; reduce infant mortality and decrease literacy; affect how countries formulate their economic policies; is related to economies with more restrictive regulatory environment; influence governments on how to spend the money altering the composition of government spending detrimental to the future economic growth. Is lower in developed economies, in the traditional liberal democracies, in those with a higher share of women in government and in economies with open trade history. Another dimension of the corruption's importance is

how deep is rooted in the culture of a country because as long as they benefit from corrupt behavior, leaders will not punish not honest subordinates but nor will appreciate and promote the honest one.

2.3. Knowing the causes of corruption, a step in the phenomenon's control process

According to many opinions, the most obvious cause of corruption is considered to be poverty, adding to this others because if we just stop here would mean that the rich countries could theoretically not be affected by corruption. Not true because the corruption scandals not only affect poor countries (Germany – the case of Siemens, the Bavarian power and communications giant embroiled in the largest bribery case in the history of the Federal Republic; France - the Bettencourt affair involves illegal payments by the business woman Liliane Bettencourt to members of the French government associated with Nicolas Sarkozy in 2010, etc., all great economic powers in EU). So we can say that the corruption phenomenon is not only due to poverty but also to welfare. The plundering of national wealth and the spending of public money for personal interest have negatively impact on economic and social development. Therefore, the effect is of boomerang: corruption generates poverty and poverty leads to corruption. Corruption occurs as a result of the existence of weak institutions of state, both in terms of their development and human infrastructure. When state institutions are weak, rules can be ambiguous, leaders are not held responsible for their actions and bribe, nepotism or other unpleasant behaviors related/unrelated to corruption are emerging. Corruption is, in the same time, a drain of a nation's productive effort which is more concerned with finding ways of cheating the system, often without realizing that it is in fact the system. Since corruption in the public sector can be equated with the state intervention in economy, policies such as those aimed at liberalizing, stabilization, deregulation and privatization can significantly reduce the possibilities of developing corruption. Where state regulations are ubiquitous but yet public officials have reserves looking their application, individuals are often tempted to

pay them bribe in order to circumvent laws and, although it would not be so, officials are tempted to accept bribes. Controlling corruption in public sector make necessary to identify the causes giving rise to its such as: Political practices (being the mechanisms by which economic and political relations are maintained, the existence of weak rules of conduct whose violation is not punished has as effect the exacerbation of the economical and political corruption). Economic incentives (motivates people to break the rules and money amounts stimulates unethical behavior). Trade restrictions - if importing a certain good is subject to quantitative restrictions, the license to import that became very precious and the importers, to obtain it, will consider the variant to bribe the officials who has the necessary competence in the domain. Generally speaking, the protection of certain domestic industries (car making for example) by the foreign competition through the prices (can be imported a limited number of foreign cars on year) lead to a semi-monopoly for the local industry. Local producers are lobbying to establish and maintain such prices and some of them will wants even to bribe influential politicians just to keep the monopoly. This protection is equivalent to reducing the openness degree of that country's trade and has the effect of increasing corruption because a high degree of the trade openness is associated, quite strongly, with a reduced corruption. In other words, countries tend to be less corrupt when their trade is relatively free according to the government restrictions from which the corrupt officials can abuse. Price control - purpose is to bring down the price of goods below their market value (most times of political or social reasons); price controls create incentives for some individuals or groups to bribes the officials to maintain the flow of such goods. State legitimacy (those who respect theirs officials, because they see them as moral leaders, are less tempted to engage in corrupt behaviour and such cheating). The assessment of the degree of openness and the public trust in the honesty of politicians are presented in Table 3. Government subsidies – can be a source of corruption and the latter flourishing for the case of certain industrial policies allowing poorly targeted subsidies to be acquired by

firms who are not targeted. The more such subsidies exist in industry, with both the corruption index will be higher. The values of the subsidies and other expenses for the governments of the emerging economies from EU was, as percent from the government expenses, inside the 2007-2009 period of time, the following one: Bulgaria – 58-64%; Hungary - 61-63%; Latvia - 65-70%; Lithuania - 62-68%; Poland - 69-71%; Romania - 50-60%. The low salaries of civil servants in comparison with the one from the private sector represents a source of small corruption. When civil service pay is too low, civil servants can be forced to use their position to take bribes especially for the case when the expected cost of their caught is small (reprimand or even less) because in the economies in transition the existence costs exceeds the monthly salary. Occurs in this way an increase in prices in the administrative system (taxpayer must submit of bribery and the civil servant is not brave enough to have a high degree of morality because it asks himself, naturally, why should he be the moral when others are not). Endowment of natural resources (oil, gold, gas, etc.) is an example of corruption cause as long as they can be sold at a price much higher than their extraction and the sale itself is subject to strict government regulations that corrupt officials can not see with intention. Resource-rich economies are often subject to corruption than the poorest. Sociological factors– an index of ethno-linguistic fractionation (division of society based on ethnicity and language) was identified as being correlated with corruption because public officials are more inclined to favor those related to them, in societies where family ties are very strong (the number of ethnic groups in the analyzed countries are: Bulgaria - 13; Hungary - 10; Latvia – over 10; Lithuania - 4; Poland – 17; Romania - 19). On the other hand, cultural orientation, moral and ethical value vary according to the fundamentals of each country, indicating its influence on individual behavior in society. Government effectiveness (the state's most powerful tool in influencing the economic activity is, no doubt, exercising its enforcement and regulatory power; but public decisions are taken by determined individuals who not always use rational criteria; state may set price controls, limits

wage growth, regulate monopolies, protect consumer controlling advertising and products quality, can set limits on contaminants emissions etc. and, especially, may reserve for itself production of certain goods and services; deal directly with the production of goods and services of strategic economic or military interest or of public goods which are used even by those who do not pay and which may not be available in sufficient quantity by private initiative (national defence, education, health etc.). The question is how well does this? In all the world countries, governments are accused of lack of efficacy in the management of public enterprises, many of them suffering losses for years and years, fact explained by the principle of subsidiarity, meaning the state's concern for unprofitable productions. State decisions are taken by politicians in power, general perception being that consumers and entrepreneurs take decisions according to their own interests but still, politicians decide/should decide according to the common good, which unfortunately does not happen in reality; without reference to the corrupt politicians who use power for personal enrichment, all over the world politicians take decisions according to their interests; in a democratic country where there is freedom of the press, politicians' interests coincide with those of most people). Anti-corruption programs of countries express the desire to improve the rule of law in spirit of society's honesty and integrity growth. Government efforts to fight corruption are seen as not effective but the role of governments and media are crucial in stopping corruption. An image for the appreciation of government actions against corruption in the emerging economies of EU is presented in Table 2. Rule of law (in countries where the rule of law is weak, people tend to behave capriciously). Capital (family, neighbors, community are factors that influence human behavior).

Table 2. *Perception of the public about the governments actions in their fight against corruption in the emerging economies of EU*

GCB 2008	VI	I	U
Bulgaria	1%	8%	13%
Hungary	41%	29%	16%

Lithuania	0%	3%	12%
Poland	20%	34%	28%
Romania	4%	13%	10%
GCB 2008	E	VE	DK/DA
Bulgaria	32%	36%	11%
Hungary	9%	2%	3%
Lithuania	39%	40%	6%
Poland	13%	0%	5%
Romania	25%	34%	15%

Source: *Own adaptation after the data from source [13]; Legend: VI-very ineffective; I-ineffective; U-unexistent; E-efficient; VE-very efficient; DK/DA-do not know/do not answer.*

So, we can say that Corruption in the emerging economies of the EU seems to have increased compared to the last 3 years. This can not be a good sign because in a corrupt environment, resources will be directed to unproductive sectors (police, army etc.) detrimental to the elite who will have to identify ways to protect their position and social welfare, the brain drain being one of these. Inside the economies take into discussion looking the corruption, the most affected parts of the public sector are political parties. The actions of governments from the analyzed economies, in their fight against corruption, are seen, in most cases, as ineffective. Among the possible causes of this situation we might mention: the legacy of corrupt government; desire for change manifested only on the lowest levels of power; too ambitious promises of politicians which can not be honored and that, so, erodes the confidence of the people that they represent; the introduction and application of state reform is seen as applicable only for ordinary citizens and not for those with high positions in state (these personalities or do not "need" for reform, or are hostile to anyone who would try to achieve it); institutional mechanisms are generally constructed that are unable to sustain progress after its promoters have left the scene.

3. Scores for corruption in the public sector of the emerging economies inside the European Union

We tackle the corruption assessment using the instrument represented by the composite index of perception of corruption (IPC) provided by Transparency International (TI), international body qualified to fight corruption (Table 3). We must say that, according to the TI methodology, corruption is even higher, as the value of the score associated to the phenomenon is smaller.

Table 3. Scores of corruption in the public sector of the emerging economies of European Union

European Union				
Country	2007	2008	2009	Score
Bulgaria	4,1	3,6	3,8	The value „0” of the score shows a very corrupted economy.
Hungary	5,3	5,1	5,1	
Latvia	4,8	5,0	4,5	
Lithuania	4,8	4,6	4,9	
Poland	4,2	4,6	5,0	
Romania	3,7	3,8	3,8	
Country	2010	2011	The value „0” of the score shows a very clear economy from the corruption point of view.	
Bulgaria	3,6	3,3		
Hungary	4,7	4,6		
Latvia	4,3	4,2		
Lithuania	5,0	4,8		
Poland	5,3	5,5		
Romania	3,7	3,6		
Average score for emerging economies				4,41
Average score for developed economies				6,91

Source: own processing using the data from reference [12]

4. Conclusions

After the analysis of the data from Table 3 we can say that, for the emerging economies inside the EU exist a high level of corruption in the public sector (the average value associated to the phenomenon is), in comparison with the value for the corruption in the public sector of the developed economies (6,91). Inside the group of the emerging economies exist differences between countries looking the corruption indicator value, the order of ranking on corruption in the public sector being as follows: Bulgaria, Romania, Latvia,

Lithuania, Poland and Hungary. For the case of Romania exist a high level of corruption in the public sector, the romanian economy being situated on the second place inside the group of emerging countries, after Bulgaria.

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Budgetary Incomes and Expenses, Expression of the Public Sector's Dimension of the Emerging Economies Inside the European Union Area

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Abstract

The issues discussed inside this article refers to the identification of certain budgetary indicators which, by their level, characterize the public sector of the emergent economies inside the European Union. Due to the fact that those indicators have different connotations, we will proceed to their particular description, as image of the public sector dimension of the mentioned economies. We propose, therefore, to address the situation of the emerging economies from the European Union area taking into discussion the public sector dimension evaluated through the prism of the total budgetary expenses, total budgetary incomes, health expenses in the public system and through the expenses which are corresponding to the social benefits.

Key words: public sector, expenses, budgetary incomes.

J.E.L. classification: M, M4, M41.

1. Introduction

Not infrequently we hear the phrase „public sector versus business environment”. As a consequence, we ask the logical question: *Are the two sectors totally independent or not?* Let's suppose, by reductio ad absurdum and according to the mathematical theory, that the answer would be affirmative [1]. The hypothesis of any connection lack is, first of all, contested by the fact that the activity of private sector is governed by a legislative framework whose promoters are the state's institutions (Parliament, Government, ministries) [2]. Another connection of the public sector with the private one can be addressed through the employees, most of them being graduates of

public education. And the examples in the dismantling of the initial hypothesis may continue. Once we had established the connection between the two levels of the economic life deployment, we are putting the problem of the public sector characterization through its dimension. Expression of the domains in which we have the state's intervention inside the economy, the dimension of public sector could be interpreted as a dependent variable by the political ideology of the government in duty. Along with the dimension of public sector, it's intensity could be translated through the amplitude of the state actions in different domains of the economic life. The proportion between the number of public education institutions and the private ones or the one registered between the number of public hospitals and the private ones are just a few examples of the public sector's intensity in domains such as the one of education or health. We can say that the higher this ratio is greater, with both the intensity of public sector in such activity areas is bigger.

2. The dimension of the public sector under the impact of the influence factors

Considered to be unproductive in comparison with the business environment (private sector), the public sector has been and is subject, especially in recent years, to a series of pressure looking its dimension reduction, the last one action turning, in the current global economic situation, into a permanent concern [3]. As an alternative, we can say that to avoid this situation in which the public sector reducing will generates economic and social costs, for the public sector is more appropriate the alternative of the appropriate management of the factors with influence the dimension of the public sector such as: the impact of modernization over the public sector (it can be translated by

imposing new requirements to the public sector such the ones bounded to investments in infrastructure and to the process of generating higher skilled workforce, whose finality can be translated through changes of the existent structure and whose effects could be found in the unemployment increasing, as a consequence of the occurrence of ultra skilled trades; in the same time, the dimension of public sector depends by the improving of the material conditions and also by a stronger concern for the health insurance, actions which have as effect the life expectancy increasing and, implicitly, the increasing of the funds allocated for the social programs, retraining of the unemployed, public health and pension systems, fact which put pressure on the public sector dimension, through the increasing of the expenses on such destinations); the redistribution of incomes between the social segments under the impact of democracy [(is related to the desire of politicians to get majority of votes and can influence them to take a number of regulations with fiscal nature by which to achieve a transfer of income from the rich one (fewer) to the poor one (more numerous); thus, the state revenues obtained through the taxation of the wealthier social strata (property taxes, incomes taxes etc.), will return to the poor, through the social assistance programs, or through the programs of subsidizing various activities that they had benefit (road and rail public transport, education and public health systems etc.); the result of these measures could be reflected by the increasing of the public expenses on certain destinations and by the changing of their structure, with final impact over the public sector dimension, in the sense of its increasing]; the economic internationalization; the mobility of the production factors (work and capital) increased significantly in the context of globalization, fact which impose restrictions for the governments looking taxation and public money spending (that, because if it assumes that the economic increasing depends on investments, and the last ones depends by profit, the governments are interested to maximize the investors profits through a low taxation, so as to attract investors and to avoid the capital export; on the other hand, the existence of small taxes do not represent a certainty in terms of

attracting investors; if, instead, at a low level of taxation we add the maintenance of the wages at a low level, the investors interest can be stimulated; in other order of ideas, taking account by the fact that the gains which correspond to the invested capital depends, the utmost by the production factors productivity, the investors will prefer a country with a high level of taxation and very high productivity to a country in which both, taxation and productivity, are very low [8]. Reported to the last option of the capital suppliers [6] we can talk about an increasement of the budgetary incomes, with directly and proportional implications over the public sector dimension.

2.1. Total budgetary expenses-expression of the public sector dimension

As general tendence, the expenditures of the public sector are situated, for all the analised emerging economies, under the level of the resources which are necessary to be allocated on the respective destinations (Table 1).

Table 1. Total budgetary expenses in the public sector of the emerging economies inside the European Union area

Country	I % GDP	2007	2008	2009
Bulgaria	TBE	34,935	35,167	36,174
Hungary	TBE	50,641	49,205	51,380
Latvia	TBE	35,701	43,149	44,073
Lithuania	TBE	34,809	37,282	43,941
Poland	TBE	42,187	43,194	44,510
Romania	TBE	35,724	36,994	38,469
Country	I % GDP	2010	2011	2012
Bulgaria	TBE	36,639	34,566	34,893
Hungary	TBE	45,163	52,402	45,839
Latvia	TBE	43,379	39,337	38,496
Lithuania	TBE	42,058	39,320	38,577
Poland	TBE	45,366	44,472	44,013
Romania	TBE	38,705	35,503	34,047
Average of the total budgetary expenditures for the emerging				40,92

economies	
Average of the total budgetary expenditures for the developed economies	47,12

Source: own processing using the data from source [9]; Legend: I-indicator; TBE-total budgetary expenditures.

The analysis of the data from Table 1, looking the dimension of the public sector, through the prism of the approach regarding at the budgetary expenditures, shows a first feature for the emerging economies, namely the one to be situated, from the point of view of the public sector dimension, to a level describe by an average value of 40,92% from GDP (under the average value registered by the developed economies of the same area which is about 47,12% from GDP). And then, questions naturally arise: Why all the concern for reducing the size of the public sector in emerging economies?; It's so bad to have a large dimension for the public sector? and Why the developed economies allocate a bigger percent of GDP to the public expenditures, increasing in that way the dimension of their public sector, in comparison with the emerging economies? The answer for the first question could be the one that, unlike the developed economies, the emerging one are confronted, on one hand, with the existence of insufficient resources to cover the expenditures and, on the other hand, with the inefficiency of the public money spending [4]. Bounded to the second question, the answer is negatively in the sense that not the existence of a public sector of big dimension represents a problem, but to can ensure the resources which are necessary to fulfill efficient the public sector functions. For the last question, the answer could be the one that, for the developed economies, on one hand, the budgetary incomes are well dimensioned and, on the other hand, the stage of economic development allows allocation of larger sums of public money on primary destinations such as those related to education, health and social protection. On the other side, the developed economies affords an overbidding public expenditures in relation to the incomes (budgetary deficit), superior of the one of the emerging economies, because the stage of economic development and the stable political climate can constitute guarantees for budgetary

deficit correction [5]. At the opposite pole, the emerging economies, which not yet reached their level of desired development, are tempted to primary use the public money for economic actions, allocating much smaller amounts on other destinations. For the particular case of Romania, the average value of the indicator of total budgetary expenses represents 36,51% from GDP, fact which makes Romania to occupy the penultimate place in the top of the emerging economies looking the dimension of the public sector, under the aspect of the total budgetary expenses.

2.2. Expenditure on social benefits, expression of the public sector's dimension

The overall picture of the public sector dimension through the prism of the total budgetary expenses and incomes is completed by the expenses on social benefits. Any economy, no matter how gifted as the natural resources point of view or through the advantages appeared as a consequence of it's geographical location, could not progress if, in addition to those two fundamental factors (nature and capital) did not also exists the work factor. This is because in both, private sector but especially public sector, the performance largely depends by the employees occupational training, seriousness and conscientiousness. The normal remuneration of their labor is represented by the salary but, when from certain motives they can no longer perform their work capacity, the state, at whose revenues contributed, is required to provide them help through social benefits. The latter are represented by the public sector expenses materialized in the amounts that it pays (through the government) toward citizens, and whose destination is the one to help people in a difficult situation from financial point of view, due to one of the following circumstances: sickness, disability, accidents, because of age, following the loss of the breadwinner, maternity leave, iparental allowance etc. Due to the fact that emergent economies are charaterized by the existence of a population with a modest standard of living, it is interesting to quantify the dimension of the public sector through the public social benefits (in other words we are

talking about the amounts allocated on that type of destinations). The data for the above theoretical aspects are presented in Table 2.

Table 2. Expenses with social benefits in the public sector of the economies inside the European Union area

Country	I % GDP	2007	2008	2009
Bulgaria	ESB	9,6	10,1	12,1
Hungary	ESB	15,5	15,9	16,5
Latvia	ESB	7,1	8,1	12,6
Lithuania	ESB	9,1	10,9	15,2
Poland	ESB	14,2	14,0	14,7
Romania	ESB	9,2	10,4	12,7
Country	I % GDP	2010	2011	2012
Bulgaria	ESB	12,6	11,9	NAD
Hungary	ESB	15,9	15,3	NAD
Latvia	ESB	12,5	10,8	NAD
Lithuania	ESB	13,0	11,2	NAD
Poland	ESB	14,8	14,1	NAD
Romania	ESB	13,0	11,5	NAD
Average of the expenditures for the emerging economies				12,48
Average of the expenditures for the developed economies				15,30

Source: own processing using the data from source [9]; Legend: I-indicator; ESB-budgetary expenses with social benefits; NAD-not available data.

Interpreting the data in Table 2 reveals a new feature for the emerging economies in comparison with the developed one, namely a much smaller size of the public sector, translated in terms of sums allocated for social benefits. The present statement is substantiated on the average values of the indicator looking social benefits which, for the emerging countries group is by 12,48% of GDP, and for the developed one, by 15,30% of GDP. For the particular case of Romania, the average value of the indicator is by 11,36% from GDP, fact which ensures to the country the third place in the bottom of the table prepared on this occasion, after Latvia and Bulgaria. As consequence, for the emerging economies, the social needs arising from

events by the type of the one previously mentioned will be done in a much less measure than for the case of the developed economies.

2.3. The dimension of the public sector for the emerging economies inside the European union through the prism of public health expenses

In general, to meet economic and social needs of citizens, with a limited level of resources, appears the temptation of governments to reduce the size of the public sector (considered unproductive), through the expenses diminution. Nothing more inappropriate because the effect is one of vicious circle: the diminution of personal expenses for example, that for Romania's case fell from 9,2% from GDP in 2009 to 8,4% in 2010, 7,0% in 2011 and 3,2% in 2012 (at the level of January-May period of time), had as effect the diminution of the contributions (social and health one), the impoverishment of state social insurance budget, respectively of the single national health insurance fund budget and, finally, the reducing of the life quality of those who depended on those amounts. And the examples could go on (goods and services - impediments to the activity of state institutions, education, health and so on). A conclusion can be drawn from this: the public sector downsizing, by budgetary expenses reducing, must be done very carefully and focused to identify those categories of expenditures, whose decreasing variation produces a minimal negative impact particularly on citizens, generally on the economy [7]. That, because a nation who is doing badly can not have a high labor productivity, may give rise to social conflicts, political and economical instability, is not relevant to investors, stagnating or even falling into recession. A number of other elements which are characterizing the status of emerging economies in comparison with the one of the developed economies is the small size of certain components of the public sector such as the expenses in the public health system (Table 3).

Table 3. Health expenses in public sector of the economies inside the European Union

Country	I % GDP	2007	2008	2009
Bulgaria	HE	3,95	4,09	3,98
Hungary	HE	5,34	5,18	5,29
Latvia	HE	4,24	4,12	4,06
Lithuania	HE	4,52	4,77	5,50
Poland	HE	4,53	5,05	5,35
Romania	HE	4,26	4,42	4,42
Country	I % GDP	2010	2011	2012
Bulgaria	HE	3,76	NAD	NAD
Hungary	HE	5,06	NAD	NAD
Latvia	HE	4,09	NAD	NAD
Lithuania	HE	5,14	NAD	NAD
Poland	HE	5,44	NAD	NAD
Romania	HE	4,37	NAD	NAD
Average of the expenditures for the emerging economies				4,70
Average of the expenditures for the developed economies				6,80

Source: own processing using the data from source [9]; Legend: I-indicator; HE-health expenses in public sector; NAD-not available data.

Thus, according to the data from Table 3, the poor allocation of public funds for health is given by spending on this destination which are about only at the level of 4,70% from GDP, in comparison with the developed countries which have in view, for that destination, a value of about 1.5 times higher (6,80% from GDP). As we also observed in the previous examples, there are differences in this indicator including between the emerging economies, Romania being on the third place at the end of the ranking, before Latvia and Bulgaria, but well below the developed economies average. From the priorities point of view some similarities occurs in sense that for both, developed and emerging economies, the resource allocation policy is social welfare and health (we took into consideration in rank only the analyzed expenses).

2.4. Total budgetary incomes-expression of the public sector dimension

The approach of the public sector dimension from the total budgetary incomes point of view (Table 4) put into evidence one new feature for the emerging economies case namely that, reported to the GDP, the level of the incomes mobilized to the budget is significantly lower than the one of the developed economies group (only 37,27% from GDP for the first category of countries in comparison with 43,38% from GDP for the developed economies).

Table 4. Total budgetary incomes of the economies inside the European Union

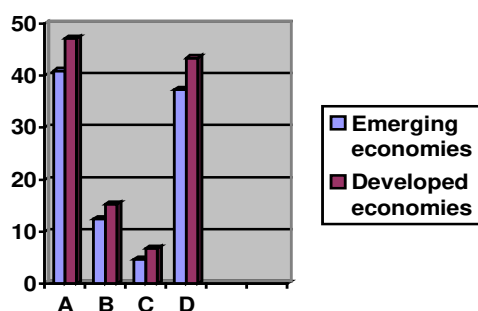
Country	I % GDP	2007	2008	2009
Bulgaria	TBI	38,191	38,037	35,256
Hungary	TBI	45,563	45,528	46,892
Latvia	TBI	36,344	35,606	36,224
Lithuania	TBI	33,800	34,013	34,733
Poland	TBI	40,306	39,514	37,162
Romania	TBI	32,253	32,164	31,203
Country	I % GDP	2010	2011	2012
Bulgaria	TBI	32,694	32,466	33,009
Hungary	TBI	45,163	52,402	45,839
Latvia	TBI	36,165	35,925	37,310
Lithuania	TBI	34,972	34,084	35,702
Poland	TBI	37,523	39,241	40,782
Romania	TBI	32,271	31,383	32,183
Budgetary incomes average of the emerging economies inside the European Union				37,27
Budgetary incomes average of the developed economies inside the European Union				43,38

Source: own processing using the data from source [9]; Legend: I-indicator; TBI-total budgetary incomes.

For the particular case of Romania, according to the Table 4 data, the reporting to this indicator allows it, unfortunately, the occupying of the last place in the top of the emerging economies takes into discussion,

with an average dimension of the public sector, from the total budgetary incomes point of view, of 31,909 % from GDP. Generally speaking, taking into consideration all the indicators previously mentioned we present, in Figure 1, the dimension of the public sector of the emerging economies inside the European Union, in comparison with the developed economies which belongs to the same area, in terms of total budgetary expenses, social benefits expenses, public health expenses and total budgetary incomes.

Figure 1. Average of total budgetary expenses, social benefits expenses, public health expenses and total budgetary incomes for the emerging economies of the European Union in comparison with the same categories of expenses for the developed economies inside the same area.



Source of data: tables 1-4; Legend: A- Average of total budgetary expense; B- Average of social benefits expenses; C- Average of public health expenses; D- Average of total budgetary incomes.

Further on, taking into discussion the last indicator as total budgetary incomes, the dimension of the public sector in the emerging economies is subordinated, as value, to the one of the developed countries inside the same area. A new question arises: The economy of the emerging countries can not emit more resources or there are impediments to mobilizing it to the budget? The answer is a middle one in sense that the income's release is bounded to the amounts affected to certain public sector expenses (salaries—subsequently generating direct taxes, VAT – indirect tax (through the final cost supported by the final consumers), contributions – part of the current budgetary incomes; goods and services – bounded to the good functioning of the state's institutions

etc.) and as long as they are subject of a diminution process, to reduce the size of the public sector purpose, automatically, the effect is the one of the budgetary incomes decreasing. On the other side, the budgetary incomes will be better and in bigger proportion collected to the budget and certainly more plentiful if the emerging economies will not „benefit” of a high level for the tax evasion.

3. Conclusions

In the end we can conclude that the keeping under control of the public sector dimension, to avoid its oversize (which requires, later, legal regulations for dimension's reduction) suppose, in fact, a permanent supervision of the budgetary incomes, budgetary expenses and other public expenses, as a means for quantifying the public sector size.

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The Analysis of Financial Structure Rates at Private Pension Funds Managing Companies

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Abstract

The pension reform in Romania has pursued the following main directions: the changes in the retirement age which is set to increase gradually, the decline of early retirement in the system, benefit reduction of certain professional categories and the development of the private pension system. The main direction of activity is the development of private pension markets: Pillar II and III in order to ensure adequate incomes in retirement. The study focuses its attention on public pensions market privately managed, pillar II, aiming to analyze the private pension funds and the financial structure rates of Private Pension Funds Managing Companies.

Keywords: private pension pillar II pension fund, financial structure, liquidity.

J.E.L. Classification: C60, H5.

1. Introduction

Pension funds are currently a source of capital which needs to be maximized by consistent fiscal measures in order to ensure a balance between investments and benefits. The financial security of retirees can be achieved only through diversification of pension sources:

- public pension system based on the principle of solidarity between generations;
- private pension system based on capitalization and highlighting participants' contributions in individual accounts.

The second pillar on which we will focus it is a public pension system privately managed, which has a defined contribution scheme, ensuring taxpayers a minimum benefit resulting from the contributions paid

less the legal fees and any other transfer penalties. The participation in the system is mandatory only for new entrants of age under 35 years.

In 2007 (the year when it was completed the implementation of Pillar II in Romania) on the mandatory private pension market acted no less than 18 pension funds remaining at present only 9 pension funds with a value of net assets of 8762.59 million lei as shown in the table 1. [3]

Table 1. Net assets (million. RON)

Crt. No.	Privately Managed Pension Fund	Net Assets September 2012	
		million	%
1	ING	3.320,16	37,89
2	AZT VIITORUL TĂU	2.046,17	23,35
3	ARIPI	717,28	8,18
4	ALICO	623,19	7,12
5	PENSIA VIVA	600,97	6,85
6	EUREKO	492,22	5,62
7	BCR	483,04	5,52
8	VITAL	248,47	2,83
9	BRD	231,09	2,64
Total		8.762,59	100

Source: table accomplished by authors based on data provided by PPSSC

Pillar II of public pensions privately have enrolled in September 2012 a total of 5708, 61 thousands persons registered in the Register of participants (see table 2), an increase of 5.65% compared to September 2011 [3].

Table 2. Number of participants (thousands)

Crt. No.	Privately Managed Pension Fund	Participants September 2012	
		thousands	%
1	ING	1.717,46	30,08
2	AZT VIITORUL TĂU	1.360,32	23,83
3	ARIPI	554,45	9,71
4	ALICO	432,25	7,57
5	PENSIA VIVA	426,75	7,48

6	EUREKO	418,62	7,33
7	BCR	378,09	6,63
8	VITAL	226,19	3,96
9	BRD	194,49	3,41
Total		5.708,61	100

Source: table accomplished by authors based on data provided by PPSSC

It is noted that ING PPFMC has a market share based on net assets of 37.89% and a market share of 30.34% according to participants, maintaining the top position in participants' option since 2007 when it had a market share of 33.21%.

2. Analysis of the financial structure rates

Financial structure ratios are parameters for the orientation of company management regarding the cost of funding sources and its on influence the effectiveness [1]. To reach this goal we calculate and interpret several installments of financial structure. The Private Pension Funds Managing Companies (P.P.F.M.C.) following structure simplified balance sheet at 31.12.2011:

Table 3. Simplified financial structure

Crt. No.	Assets ING	Balance Sheet (lei)
1	Fixed assets	2.190.797.401
2	Current assets:	269.099.595
	-debt instruments	4.732.372
	Financial investments in the short term	263.939.657
	- House and accounts from the banks	427.566
	Liabilities ING	Balance Sheet (lei)
3	Equity	2.458.673.173
4	Debts up to one year	1.223.823
	Assets GENERALI	Balance Sheet (lei)
5	Fixed assets	315.667.302
6	Current assets	205.162.121
	-debt instruments	242.430.307
	Financial investments in the short term	204.430.307
	- House and accounts from the banks	489.788
	Liabilities GENERALI	Balance Sheet (lei)
7	Equity	520.509.228
8	Debts up to one year	320.195
	Assets	Balance Sheet

	ALLIANZ TIRIAC	(lei)
9	Fixed assets	1.349.746.493
10	Current assets:	269.750.766
	-debt instruments	111.065.894
	Financial investments in the short term	158.683.339
	- House and accounts from the banks	1.533
	Liabilities ALLIANZ TIRIAC	Balance Sheet (lei)
11	Equity	1.506.888.492
12	Debts up to one year	112.608.767
	Assets BRD	Balance Sheet (lei)
13	Fixed assets	0
14	Current assets:	167.078.993
	-debt instruments	0
	Financial investments in the short term	167.072.886
	- House and accounts from the banks	6.067
	Liabilities BRD	Balance sheet (lei)
15	Equity	166.971.595
16	Debts up to one year	107.338
	Assets BCR	Balance Sheet (lei)
17	Fixed assets	303.357.238
18	Current assets	39.260.783
	-debts instruments	605.225
	Financial investments in the short term	38.622.588
	- House and accounts from the banks	32.970
	Liabilities BCR	Balance Sheet (lei)
19	Equity	341.476.808
20	Debts up to one year	1.141.213
	Assets EUREKO	Balance Sheet (lei)
21	Fixed assets	0
22	Current assets:	358.778.781
	-debt instruments	0
	Financial investments in the short term	358.705.789
	- House and accounts from the banks	72.992
	Assets EUREKO	Balance Sheet (lei)
23	Equity	358.577.414
24	Debts up to one year	201.367
	Assets AVIVA	Valori din bilanț (lei)

25	Fixed assets	323.460.012
26	Current assets:	109.315.090
	-debt instruments	0
	Financial investments in the short term	109.294.528
	- House and accounts from the banks	20.562
	Liabilities AVIVA	Balance Sheet (lei)
27	Equity	432.559.298
28	Debts up to one year	215.804
	Assets ALICO	Balance Sheet (lei)
29	Fixed assets	297.148.963
30	Current assets	225.078.294
	-debt instruments	67.252.993
	Financial investments in the short term	157.825.142
	- House and accounts from the banks	159
	Liabilities ALICO	Balance Sheet (lei)
31	Equity	454.348.083
32	Debts up to one year	67.879.174
	Assets AEGON	Balance Sheet (lei)
33	Fixed assets	131.891.840
34	Current assets:	45.688.993
	-debt instruments	1.012.404
	Financial investments in the short term	44.676.589
	- House and accounts from the banks	0
	Liabilities AEGON	Balance Sheet (lei)
35	Equity	177.313.581
36	Debts up to one year	267.252

Source: table accomplished by authors based on data provided by PPSSC

2.1 Patrimonial solvency (P.s.)

$$P.s. = \frac{\text{Equity capital}}{\text{Total liabilities}} \cdot 100 \quad (1)$$

Patrimonial solvency reflects the degree to which the company meet payment obligations.

Table 4. Patrimonial solvency

Nr. Crt.	S.A.F.P.A.P	P.s.(%)
1	ALLIANZ ȚIRIAC	93,04
2	GENERALI	99,93
3	BRD	99,93
4	BCR	99,66
5	AVIVA	99,95
6	EUREKO	99,94
7	ALICO	87,00
8	AEGON	99,84
9	ING	99,95

Source: table accomplished by authors based on data provided by PPSSC

We think that patrimonial solvency is good, because it exceeds 30%.

Patrimonial solvency of the 9 Private Pension Funds Managing Company is considered good and is due to the high value they have their sources in liability company.

2.2 The financial autonomy ratio (F.a.r.)

$$F.a.r. = \frac{\text{Equity capital}}{\text{Permanent capital}} \quad (2)$$

This report expresses the independence of the company to creditors. The value of this ratio must be greater than or equal to 0.5.

Table 5. The financial autonomy ratio

Crt. No.	P.P.F.M.C.	F.a.r.
1	ALLIANZ ȚIRIAC	1
2	GENERALI	1
3	BRD	1
4	BCR	1
5	AVIVA	1
6	EUREKO	1
7	ALICO	1
8	AEGON	1
9	ING	1

Source: table accomplished by authors based on data provided by PPSSC

The higher this ratio is greater than 0,5 with the degree of financial independence is higher societies. In our case analyzed companies' financial autonomy ratio is 1, which means that they are independent from creditors.

2.3 The rate of indebtedness in term (R.i.t.)

$$R.i.t. = \frac{\text{Medium and long term obligations}}{\text{Permanent capital}}$$

The company can benefit from a medium and long-term debt, if the rate is less than 0,5.

Table 6. The rate of indebtedness in term

Crt.No.	P.P.F.M.C.	R.d.f.
1	ALLIANZ TIRIAC	0
2	GENERALI	0
3	BRD	0
4	BCR	0
5	AVIVA	0
6	EUREKO	0
7	ALICO	0
8	AEGON	0
9	ING	0

Source: table accomplished by authors based on data provided by PPSSC

All companies can benefit considered medium-term debt.

2.4 The rate of debts (R.d.)

$$R.d. = \frac{\text{Total debts}}{\text{Total of assets}} \quad (4)$$

Table 7. The rate of debts

Crt. No.	P.P.F.M.C.	R.d.
1	ALLIANZ TIRIAC	0,0069
2	GENERALI	0,0061
3	BRD	0,0064
4	BCR	0,0033
5	AVIVA	0,0049
6	EUREKO	0,0056
7	ALICO	0,1299
8	AEGON	0,0015
9	ING	0,0049

Source: table accomplished by authors based on data provided by PPSSC

Values resulting from debt rate analysis shows that the analyzed companies are financially stable, mainly due to the low level of debt.

2.5 The rate of equity capital to fixed assets (R.E.c./F.A.)

$$R.E.c./F.A. = \frac{\text{Equity capital}}{\text{Fixed assets}} \quad (5)$$

This ratio expresses the conditions for financing all fixed of capital assets of the company.

Table 8. The rate of equity capital to fixed assets

Crt. No.	P.P.F.M.C.	R.E.c./F.A.
1	ALLIANZ TIRIAC	1,116
2	GENERALI	1,648
3	BRD	0,000
4	BCR	1,125
5	AVIVA	1,337
6	EUREKO	0,000
7	ALICO	1,529
8	AEGON	1,344
9	ING	1,122

Source: table accomplished by authors based on data provided by PPSSC

A value higher than one, means that all assets are financed by equity. If our two BRD company Eureka recorded a nil value which means that all equity is not sufficient to finance all fixed.

2.6 The rate of permanent capital to fixed assets (R.P.c./F.A.)

$$R.P.c./F.A. = \frac{\text{Permanent capital}}{\text{Fixed assets}} \quad (6)$$

The over-unit value of this ratio means that all assets are financed from permanent capital as natural.

Table 9. The rate of permanent capital to fixed assets

Crt. No.	P.P.F.M.C.	R.P.c./F.A.
1	ALLIANZ TIRIAC	1,116
2	GENERALI	1,648
3	BRD	0,000
4	BCR	1,125
5	AVIVA	1,337
6	EUREKO	0,000
7	ALICO	1,529
8	AEGON	1,344
9	ING	1,122

Source: table accomplished by authors based on data provided by PPSSC

Two of the companies analyzed (BRD EUREKO) have a value of nil rate permanent capital to fixed assets which means that not all fixed assets are financed by equity capital standing like normal.

2.7 General liquidity (G.I.)

$$G.I. = \frac{\text{Current assets}}{\text{Current liabilities}} \quad (7)$$

This rate reflects the economic components to turn into a short-term liquidity. In our case the resulting value exceeds the permissible limits, this is a feature encountered in investment funds.

Table 10. General liquidity

Crt. No.	P.P.F.M.C.	G.I.
1	ALLIANZ ȚIRIAC	2,39
2	GENERALI	640,74
3	BRD	1556,56
4	BCR	34,40
5	AVIVA	506,54
6	EUREKO	1781,71
7	ALICO	3,31
8	AEGON	170,95
9	ING	219,88

Source: table accomplished by authors based on data provided by PPSSC

All companies analyzed show a general solvency higher than one, more than 2.5, which means that they are available to shelter cash shortages caused by debt repayment.

2.8 Immediate liquidity (I.L.)

$$I.L. = \frac{\text{Current assets-stocks}}{\text{Current liabilities}} \quad (8)$$

This indicator should be between 0,8 and 1. In our case, all Private Pension Funds Managing Company have the ability to meet short-term debts of receivables and cash. The high value of this indicator is due high assets compared to liabilities.

Table 11. Immediate liquidity

Crt. No.	P.P.F.M.C.	I.L.
1	ALLIANZ ȚIRIAC	2,39
2	GENERALI	640,74
3	BRD	1556,56
4	BCR	34,40

5	AVIVA	506,54
6	EUREKO	1781,71
7	ALICO	3,31
8	AEGON	170,95
9	ING	219,88

Source: table accomplished by authors based on data provided by PPSSC

A special feature of immediate liquidity value we find for BRD and Eureka, a value which is due to low level of company debt.

2.9 Overall solvency ratio (O.s.r.)

$$O.s.r. = \frac{\text{Total assets}}{\text{Current debts}} \quad (9)$$

The high value of this ratio reflects a situation where creditors of the company enjoys good security on its part.

Table 12. Overall solvency ratio

Crt. No.	P.P.F.M.C.	O.s.r.
1	ALLIANZ ȚIRIAC	14,38
2	GENERALI	1626,60
3	BRD	1556,56
4	BCR	300,22
5	AVIVA	2005,40
6	EUREKO	178,71
7	ALICO	7,69
8	AEGON	664,46
9	ING	2010,01

Source: table accomplished by authors based on data provided by PPSSC

Results can only enjoy company creditors because they have sufficient funds to meet financial obligations.

2.10 The rate of overall indebtedness (R.O.I.)

$$R.O.I. = \frac{\text{Total debts}}{\text{Equity capital}} \cdot 100 \quad (10)$$

Short-term, medium and long commitments of Private Pension Funds Managing Company are guaranteed by equity capital of the company.

Table 13. The rate of overall indebtedness

Crt. No.	P.P.F.M.C.	R.O.I.(%)
1	ALLIANZ ȚIRIAC	7,472

2	GENERALI	0,061
3	BRD	0,064
4	BCR	0,334
5	AVIVA	0,049
6	EUREKO	0,056
7	ALICO	14,93
8	AEGON	0,150

Source: table accomplished by authors based on data provided by PPSSC

3. Conclusions

Considering the value resulting from the analyzed financial structure rates we can say that ING is a stable and efficient pension fund, confirming leadership status private pillar. Not only ING but the eight other pension funds showed good results, being among the first in Europe due to prudent investment due to, exposure to low stock and high exposure to government securities, managing overall performance to overcome in some places not only inflation but also interest on bank deposits, gaining profit.

To ensure an adequate and sustainable income to pensioners, pension funds should record higher rates of return as the accumulation phase and in the payment of pensions

The weighted average rate of return of private pension funds for the last 24 months is 6.1856%. Overall the value of pension funds confirming his leadership status on the private pension pillar II market has grown steadily since 2007, reflecting a mature market of mandatory private pensions.

4. Acknowledgment

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Possibilities to Increase the Funding of the Healthcare System in Romania

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Abstract

Many studies about the healthcare system in Romania highlights the funded under the European average and the money is allocate often not well spent. To increase the quality of healthcare the state must develop a series of reforms that will lead to increased revenues and reduce the costs of healthcare services. This paper aims the evolution of the healthcare system in Romania in the last decade and presents some opportunities that deserves used to increase funding in this area.

Keywords: *healthcare system, financial increase, general income, value added tax on productive activities*

Classification J.E.L.: M40

1. Introduction

Performing health systems are characterized by a high capacity to prevent disease through an efficient management of chronic disease development through an appropriate response to patient needs and in a fair and efficient and effective allocation of existing resources. These desiderates can be made through a series of mechanisms for generating and allocating funds in the healthcare system. Health care systems in European Union countries are very complex and vary from country to country.

In all European Union, governments are involved in financing health care. Most Member States are using a combination between social insurance contributions and direct government funding of health. Finance a system at national level can be achieved only by involving the state to purchase resources, directing them in accordance with the aims pursued and levers to influence

economic, social and cultural development. [1].

The main objective of financial mechanisms is to create sufficient financial resources for pay the services and spread financial risk in terms of ensuring a fair health care.

Strictly from the perspective of public funding, the **general income model** tends to bring a progress in financing the healthcare services in comparison with individual payroll taxes or individual insurance. In a certain manner, adapted to the Romanian fiscal and financial system, a tax "for health" in fixed rate could be applied to the total income obtained by economic entity which uses employed staff.

2. Short analysis of the health system in Romania

In essence, the healthcare services in Romania was, and is an organized and financed by the state, and it is made from a network of state-owned hospitals, managed into a centralized structure with have on top the Ministry of Health.

Financing the health care system is based on social health insurance is the main system economic and social relations health care, are compulsory and works decentralized on the principle of social solidarity and subsidiarity in the collection and use of the Funds, and the right of patient to choice free the physician, hospital and the health insurance entities. Social insurance for health funds are composed by contributions of insured persons, contribution of entities that employ employee, subsidies from the state budget and local budgets and other sources.

The system was developed on the equity principles, ensuring access to health care services for all people. Access to services was not influenced by the patient's payment

capacity.

At present, financing public healthcare budget is: the state budget, the budget of National Fund of Health Insurance (FNUAS), local budgets, revenues, external credit external grants, donations and sponsorships. In total financing sources, the share is held by National Fund of Health Insurance (FNUAS) with 75%. FNUAS is currently funded by employee contributions (5.5% of their income) and employers' contributions (5.5% of salary fund).

So financing healthcare system in Romania is made by allocated from the state budget a percentage of GDP, which in 2008 was 4.1% and 3.9% in 2009, amounts to arrive in system through the Ministry of Health and subordinated organizations.

In time the contributions to FNUAS decreased progressively from a total percentage of 14% in 2001 to 11% in 2008. At the same time, it should be noted that the number of direct tax payers has declined significantly in the same period by about 4 million people in 2007 compared to 2000. In this moment 5 million people contribute to financing the system that should benefit equally 22 million citizens. This was due to the exclusion of payment of the different categories of population, without allocate equivalent funds to compensate the exemption of payments.

Since 2006 the government has tried to find new sources of financing the health budget by introducing the **vice tax** imposed on tobacco products and alcohol and contribution on sick leave. This contribution rate of 0.75% was applied on salary fund, and in 2007 the percentage was changed to 0.85%. Of this contribution it will be paid employees whose sick more than 5 days.

Financing the health care units and ambulatory units privatized, is performed through contracts with health insurance funds that reimbursed medical services. Reimbursement the medical services is written on Framework Contract, which is approved annually by government decision.

In the Romanian healthcare financing system have appeared the private insurance, they are a supplement rather than a substitute for financing the primary healthcare system.

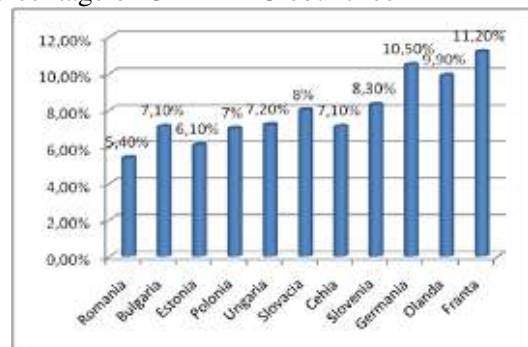
3. Increase the health financing system in Romania.

Health systems consume large resources in all countries, in the last 30 years recorded a continuous increase in the level of resources needed, increase due mainly: aging population; discovery more efficient medicinal products and more advanced technology, but also more expensive, increasing number of people which receiving healthcare.

Increased financing of healthcare system in Romania has been a priority of the government focused lately, so Presidential Commission produced a report which shows that "areas where authorities must intervene are financing and organization primary care system services, medicinal product policy and human resources". [2] Following this report written in 2008 there were a series of debates on the subject that ultimately focused on the issue of increased costs in the system. Increase total spending on health has aroused much controversy both nationally and intentional being considered as a future investment that creates benefits but also increase costs in the current economy.

As can be seen from the following figure in Romania total expenditure on health percentage of GDP is the lowest in the EU, which shows lack of interest of the government to invest in the future population health and unable to ensure continuity of production.

Figure no. 1. Total expenditure on health as percentage of GDP in EU countries



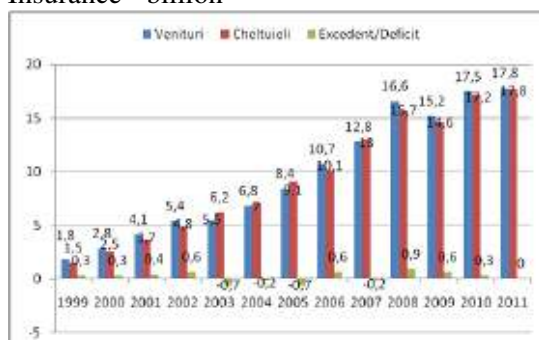
Source: WHO Department of Health Statistics and Informatics (May 13, 2011). "World Health Statistics 2011". http://www.who.int/whosis/whostat/EN_WHS2011_Full.pdf

Romanian health system is faced with a very delicate issue, namely National Fund of Health Insurance (FNUASS) insufficient and does not cover expenses incurred for the care and treatment of patients - people at a certain quality level. (Figure 2 .). With this problem faced other EU countries. For example Italy which seems passed over this situation, it following the example of the UK health system by introducing **value added tax on productive activities**, which employers have to pay. Employer activities without a healthy person cannot give expected benefit.

Solving the problem involves creating a financing system consists of general and specific taxes, private insurance, consumer spending and other direct payments to distribute the risk equitably as possible across the population, according to the existing political and institutional realities.

As a solution to resize the National Fund of Health Insurance would be the introduce a percentage rate to be applied to the value added production activities and the elimination rate of 5.5% paid by the employer and currently applied on salary fund, and reducing the rate of 5.2% to 2% retained by the insured persons. In this way we can speak of an increase of net salary of the employee with the opportunity to invest or save money and contribute to future growth.

Figure no.2. National Fund for Health Insurance - billion



Source: <http://www.cnas.ro/informatii-publice/bugetul-fnuass/evolutia-fnuass>

Creating a pluralistic financing system of health activities, choosing the financing of the German health system, composed of public and private resources (with a total of 52 houses private health insurance), could lead to the creation of a competitive

environment and thus increasing the quality of care.

Creating a pluralistic financing system of health activities, choosing the financing model of the German health system, which is composed of public and private resources (with a total of 52 houses of private health insurance), could lead to create a competitive environment and thus increasing the quality of healthcare.

The system will provide equal opportunity to access the medical services and will ensure an equitable payment services. Payment arrangements will be made known to the entire population. Financing the health system will make by insurance funds and patients payments. The state budget will fund national health programs and investments in hospitals, high performance buildings and equipment. Health insurance funds will finance health services (primary, outpatient, hospital, emergency, dental, rehabilitation, pharmaceuticals offset). The patient will pay just a part of medical services and other health services it must be paid without discounts.

Ministry of Health should elaborate a contract model by establishing a series of protective clauses in public acquisition undertaken by public health entities that cannot make some investments in various equipment that are inefficient and would increase total costs unnecessarily. [3].

The National House of Health Insurance, the provider of funds for primary health services must clearly define the package of minimum health services for the population, to establish the rights of patients, to improve quality of care by imposing quality standards, streamline medical services, to support decentralization in central and local growth management act.

Quick and easy access to European funds could be one of the alternatives for financing healthcare entities with funds. Ministry of Health should promote and support these actions. 2013 is the year in which the Romanian Government should prepare the entities to make projects for the year 2014 to access the European funds.

4. Conclusions

Romania must choose a new kind of health policy, to make citizens more

responsible to not abuse with the medical services and local authorities to be more attentive to health care costs.

Once with redefinition the minimum package of services and introduction of co-payment, the patient has control over healthcare services, which has access for free. Also the patient must know the cost of medical services and medications received and that it must pay because they are not covered by private health insurance.

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Licit Tax Evasion And Its Implications

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Abstract

Tax evasion represents, undoubtedly, the central vector of underground economy, which, in interaction and interdependency with the other specific components of economic-financial criminality, gives the true amplitude to the informal side of economy. Tax evasion is one of the complex, extremely important, economic-social phenomena which countries nowadays are faced with and its undesired consequences are sought to be diminished, eradication being, practically, impossible. The effects of tax evasion are reflected directly on tax levels, they lead to distortions of the market mechanism and may contribute to social inequities due to the taxpayer's different "access" and "inclination" to tax evasion.

The actions carried out by the organised crime structures in the field of business, favoured by the legislative ambiguity and normative volatility, and, especially, by the weaknesses of the tax administration and coercion, lead to the disequilibrium of the supply and demand on markets, by means of the system of markets and parallel prices. Consequently, a reduction of the volume of public financial recourses occurs, "manipulating" (negatively) even the budget deficit.

Key words: tax evasion, licit tax evasion, illicit tax evasion, evasion ways

JEL classification: M41

1. Introduction

Being a social phenomenon with financial implications, tax evasion consists in *taxpayer's totally or partially evading taxes, by any means, benefitting from the legislative gaps and resorting to*

ingenious manoeuvres for wholly or partly hiding the taxable matter.

The use of the phrase "by any means" does not mean that both legal and illegal means have been considered because, by making use of exclusively legal means, one cannot break the law. Thus, all the means referred to above are illegal.

Similarly, in the French specialty literature, there were opinions according to which "in tax, we cannot speak of permitted and forbidden fraud. There is a licit ability and an open or hidden violation of the law".

Consequently, tax evasion consists in *taxpayer's evading the total or partial payment of financial-budgetary obligations, by any means banned by the law.* [1]

Criminal liability in terms of non-patrimonial tax obligations is regulated by Law 241/2005 which sanctions tax evasion and related crimes.

In terms of the manner of perpetration, there are two types of tax evasion:

- Licit tax evasion (carried under the cover of law)
- Illicit tax evasion (fraudulent)

Licit tax evasion occurs when part of the income of assets of a person or of a social category is saved from taxation by resorting to a combination unconditioned by the law and thus "tolerated", overlooked. Therefore, this is the result of the ability to choose a path to follow.

Illicit tax evasion consists in the dissimulation of the taxable item, in the undervaluation of the taxable matter or in using other ways for eluding the payment of the due tax, all by trespassing legal provisions.

The avoidance of the tax laws and, implicitly, the avoidance of paying financial obligations, are achieved by three main ways:

- creation by the law of favourable tax regimes;

- taxpayer's refraining from performing heavily taxed activities;
- simply breaching the tax law.

In the present paper, we will analyse in detail the phenomenon of licit tax evasion, in accordance with existing legal regulations, based on a practical application.

2. Licit tax evasion – application

Tax evasion, as strange as it may seem, is not just a deed worthy of the public contempt. There is the so-called "legal tax evasion", under the cover of creative accounting and characterised by the taxpayer ducking the law, resorting to a combination which is not provided by the law and, therefore, tolerated. Essentially, creative accounting is a set of accounting techniques or methods (recording, synthesis, consolidation and communication to stakeholders) which aims at maximizing company results from the perspective of the managers' interest.

It is not hard to notice that, in the case of creative accounting, we are speaking of the performance of licit tax evasion. Consequently, creative accounting only exploits certain inaccuracies, gaps or inconsistencies of the tax legislations, in order to minimise the impact of taxation on the final results of the organisation. Or, this is precisely the description of legal (licit) tax evasion. As long as creative accounting is "correct", meaning that it only exploits the deficiencies and inaccuracies of the tax laws, we cannot speak of tax fraud. When tax laws are breached, of course, we are faced with tax fraud. Therefore, things are just like in "orthodox" accounting: as long as tax laws are not violated, we cannot speak of tax fraud. [2]

Exploiting the insufficiency of legislation, taxpayers pay only what they cannot avoid. Examples are plenty: from the classical system, regarding the creation of amortization or reserve funds, in a larger amount than it would have been appropriate from an economic standpoint (shrinking thus the taxable income) and up to the transfer of salary costs to the company-individual or self employed person, the range of the used means arouses both admiration and concern.

"Licit" tax evasion is not conceptually defined by our legislation, although the term

is accepted by tax practice, based on intra legem operational procedures which elude the provisions of a sanctioning regime. Licit tax evasion is built on the basis of legislative paradoxes which do not allow an unequivocal confirmation or information of certain controversial and interpretable legislative aspects. Licit tax evasion represents the underestimation of the taxable matter by promoting certain tax exonerations or facilities (generically named favourable tax systems) which allow the "run from taxation" without breaking the law directly, these practices being somewhat tolerated by the permissiveness of tax regulations. We can say that the tolerated tax evasion is the natural consequence of legal inadvertencies, sometimes imperfectly assimilated in practice; the basis for its existence is the equivocalness of law and the principles of the tax law according to which the institution and levy of taxes and dues cannot be interpreted by their extension.

"Tolerated" tax evasion is based on the full exploitation of any possible legislative gaps in the field of taxation and appears under a range of manifestation forms, know also as "apparent" tax deductions. Apart from the tax deductions explicitly regulated by the applicable law, there is also a series of tax deductions which are not expressly specified, but which are not forbidden either. Practice has proven the existence of these "hidden" tax deductions, assimilated with the forms of "tolerated" tax evasion and favoured by the relativity of the legal - illegal delineation. [3]

The economy, still inappropriately adjusted in point of structure, the existence of sources of bureaucratic circuits, as well as the diversification of contradictions and redundancies which facilitate the interpretative instability of the law texts favoured the ascending trend of licit tax evasion.

"Hidden" tax evasion focus on promoting a tax system favourable for the taxpayers, sometimes even to the detriment of economic performances. Taxpayers attempt to place themselves on a favourable position in relation to the tax burden they are subject to, in order to benefit as much as possible from the advantages implied by the applicable tax regulations.

A concrete example is the one of micro-enterprises which can pay either tax on profit

(16% afferent to the profit) or on income. The question is simple: when is it more "profitable" to pay income tax and when profit tax? The answer is mathematical in nature: it is more profitable to pay income tax when 3% of the income is below 16% of the estimated profit (seen as difference between income and costs). The inequality leads to the conclusion that for the 3% income tax to be more profitable, the estimated costs must be below 81.25% from the total estimated income. [4]

S.C. EURO MONTAJ GETA S.R.L. Galați produces commodities in value of 30.000 Euro/month (360.000 Euro/year), the gross profit being of 10% (36.000 Euro/year). As it has exceeded the turnover of 100.000 Euro/year, the following year the profit tax will be of 16% of the gross profit:

profit tax = 16%*36.000 = 5.760 Euro

Shall be accounted:

691	=	441	5.760
<i>Income tax expense</i>		<i>Income tax</i>	

Net profit 36.000 Euro - 5760 Euro = 30.240 Euro

Dividend tax = 30.240*16% = 4.838 Euro

Shall be accounted:

457	=	446	4.838
<i>Divident payment</i>		<i>Other taxes</i>	

Total tax 5,760 Euro + 4,838 Euro = 10,598 Euro

Shall be accounted:

%	=	5121	<u>10.598</u>
441 <i>Income tax</i>		<i>Current bank</i>	5.760
446 <i>Other taxes</i>		<i>accounts</i>	4.838

It remains effectively with the entrepreneur 36.000 – 10.598 = 25.402 Euro

What can he do be left with more money? In other words, how can he use the legal provisions in his interest, thus entering the so called "legal tax evasion"?

Usually, Romanian entrepreneurs do not organise PR, marketing, advertising, database analysis, customer analysis, etc. departments, although these activities are vital to the proper development of the business and should be given a great deal of attention. But, if in another company, the entrepreneurs externalised these services they fulfil now among many other things? These services would be: advertising, market research, transport, but other as well: databases

processing, handling-storing, even lease of goods (the hall in which the production company operates can be transferred to the micro-enterprise, and the latter can lease it to the production company), lease of equipment, etc. This company would have the status of a micro-enterprise provided that one employee (two at most) is enough for dealing with finding customers, maintaining customers and consecrated suppliers, competition research, organisation of meetings between the management of the first company with business people, processing partnership and credit files, elaboration of personnel policies, etc. Of course, its scope of business could be business and management consultancy but the income obtained from this source cannot exceed 50% of the total income.

Going further with the example, we assume that this second company, S.C. Star Consulting SRL Galați perceives a 2% fee of the turnover of the larger company for consultancy services and 8% of the turnover for the found partners, for market research, management of exportation contracts (marketing services), etc.

Therefore, the turnover of the second company is of 36.000 Euros and the profit of the first company is 0 or near 0, therefore the first company does not owe profit tax. We assume that in the case of the micro-enterprise costs (salaries, prospecting, organisation, etc.) are of 1.200 Euros per year (presuming that the same employees are used as for the producing company, with moonlighting, one hour per day, as allowed by the Labour Code, and the employees have self-employed persons licences and contributions are lower than in the case of employees).

The income tax of the second company, which is a micro-enterprise, because consultancy incomes are below 50% of the total incomes:

Income tax = 3%*36.000 = 1.080 Euro

Shall be accounted:

698	=	441	1.080
<i>Other expenses</i>		<i>Income tax</i>	
<i>with taxes</i>			

Dividend tax = 16%* (36.000 – 1.080 – 1.200) = 5.395 Euro

Shall be accounted:

$$\begin{array}{rcl} 457 & = & 446 \quad 5.395 \\ \text{Divident payment} & & \text{Other taxes} \end{array}$$

total due taxes in the case of the micro-enterprise

$$1,080 + 5,395 = 6,475 \text{ Euro}$$

Shall be accounted:

$$\begin{array}{rcl} \% & = & 5121 \quad 6.475 \\ 441 \text{ Income tax} & \text{Current bank} & 1.080 \\ 446 \text{ Other taxes} & \text{accounts} & 5.395 \end{array}$$

The entrepreneur is left with $36.000 - 6.475 - 1.200 = 28.325$ Euros

It results that through a more structural activity, the difference between the taxes paid in the first situation 10,598 Euros and the costs with the micro-enterprise ($6.475 + 1.200 = 6.675$) is of almost 3.000 Euros! And this for a turnover of 30.000 Euros per month.

3. Ways of licit tax evasion

We will present below some of the ways available to taxpayers for carrying out such evasion activities, under the cover of law, as the used procedures are extremely diverse and vary with the type of tax. Among the main forms of licit evasion used at present in various countries of the world are:

- advantages in kind (work cars, more than generous compensations constituting professional costs, etc.) granted by the company owners to the best paid employees in order to elude higher rates of income taxation;
- reductions of income tax for the profit reinvested for the purpose of developing profitable activities;
- the possibility to deduct from income (profit) certain costs regarding amortization and reserve funds in a larger amount than economically justifiable;
- residences abroad, in tax paradises (financial centres which offer more favourable taxation conditions) for natural persons and commercial companies.

Japan offers an entire range of tax-free incomes (the interest recorded for the current bank deposits, the interest for governmental debentures which do not surpass 3,5 millions of yens, incomes from interests for smaller

deposits, etc.) which allows full resort to licit tax evasion.

Regarding the "doors" opened in 1990 by the Romanian tax law, there was the massive possibility of evasion by the creation of new commercial companies by the entrepreneur of a company which approached the period of profit tax exemption.

An example of tax evasion under the cover of law is the taxation of the income obtained by certain categories of natural persons on the basis of average income norms, taxation which creates conditions for the taxpayers obtaining incomes above the average to avoid paying tax for the difference in question.

Another example of legal evasion which allows for a part of the income to escape from taxation is represented by the tax facilities granted to the economic agents from certain branches of the economy, upon the establishment or during the development of the activity, such as VAT exemptions on importation or exportation, excise duties, etc. or reductions of the profit tax.

Accelerated amortization, when permitted by the law for certain categories of fixed funds, leads to the diminution of the taxable profit in favour of creating an amortization fund larger than the one imposed by the value of wear and obsolescence, recorded by fixtures during the concerned period.

Table 2.1 Structure of tax evasion on income sources, between 2007 and 2010

	2007	2008	2009	2010
VAT	28,1	37,8	58,9	56,2
Profit tax	19,6	25,4	24,8	22,6
Excise duties	4,8	1,6	4,8	5,98
Payroll tax	2,1	2,3	1,0	2,3
Other taxes	45,4	32,9	1,5	13,0

Source: D.A.P. Florescu [5]

The analysis on sources of origin of tax evasion reveals that between 2007 and 2010, the largest part is located in the VAT where the total share of evasion is placed between 28,1 and 58,9%, followed by profit tax (19,6 - 25,4%), other taxes and dues (10,5 - 32,9%), excise duties (1,6 and 5,9%) and payroll tax (1,0 - 2,3%)

4. Conclusions

As an economic-social phenomenon with most ingenious forms of manifestation, tax evasion remains a “poisoned” presence in the Romanian society (and not only), its negative effects being generalised at the level of the entire functional circuit of the economy. According to the (undesired) span of the phenomenon, it generates distortions and even blockages (even if only partial) in the proper operation of the mechanisms specific to the competitive market economy.

The competitive advantage conferred by tax evasion to its “adepts” is not one to be neglected; thus, while, the people resorting to evasion thrive by eluding tax obligation, fair companies are sometimes forced to shut down due to the unequal competition they are exposed to.

The authorities which should tackle the issue of licit tax evasion are the political (parties and the parliament) and administrative (government) bodies. Tax evasion under the cover of law can be avoided by correcting, improving and optimizing the legal framework which allowed it in the first place.

The concept of tax evasion existed, exists and will exist as long as the state and the tax will continue to exist. Tax evasion is the result of the permissiveness of an imperfect and erroneously assimilated legislation, with faulty and cumbersome applicability, with structures full of tidewaiters and unprofessional individuals, concerned by personal gains - all these are as many nuanced and significant elements in the study, analysis and identification of solutions for fighting this phenomenon which breaks one of the essential principles of the constitution of any country: “before the law, all citizens are equal”.

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Offshore Jurisdictions And Tax Evasion In Romania

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Abstract

Tax is the price of civilization. Tax havens are the price of globalization. By using tax havens, we demonstrate how to avoid payment of taxes through legal methods of tax evasion.

The most important advantage gained by offshore companies is an attractive tax due - "low tax" or "no tax". There are other arguments in favor of offshore companies - confidentiality guaranteed for the final beneficiaries - owners, flexibility in the management, readiness with which such companies can be established.

This will lead to increase social inequitable social as well as deepening economic-financial crisis.

Key words: tax evasion, jurisdiction offshore, tax paradise.

JEL classification: M48

1. Introduction

Do you think that taxes and fees that you paid are too big and starting a business effective becomes today a lens very hard to reach? The solutions for this problem, presented in this paper are classical tax evasion and set up a company in a country considered as tax paradise (the method to be used very often by the big companies).

Thus, tax evasion is a mass phenomenon, a real plague of the economy, although it has been carefully studied and analyzed by the practitioners and theoreticians it is vaguely defined and dominated by contradictory views.

In the second part of the work we support the idea that it is a high level of tax evasion in our country, without the risk that it may be a merely political statement because only subtraction of sum from debts by tax

payers, it may be the key to the survival of 60% of the population of Romania in view of the fact that their income shall be placed below the poverty.

On the other hand, the level of investigation is unnatural for the persons associated with different companies which have recorded losses in each year.

In the third part of work we have presented methods for tax evasion through offshore jurisdiction and advantages that it offers companies registered in these countries.

In the end of work we have presented concrete cases of tax evasion and the conclusions that we reached from the study of this topic.

2. Tax evasion in Romania

Tax evasion is a very complex social economical phenomenon facing all countries in the world, fight against it being practically impossible.

There are views according to the which tendency towards tax evasion has in the report inversely proportional to the level of income tax and directly proportion to the rate tax. Excessive taxation by the state is a cause which leads to an essential tax evasion.

From the point of view legislative, a taxation exaggerated is understood through the prism large number of tax to which it is forced cart Romanian taxpayer, but also of instability in time of founded legislation of duties and taxes.

Romania is on the second place in the world by number of payments of taxes to be paid annually by firms-133- on the first place being Ucraina-with 135 payments of taxes, regarding the "Doing Business 2011", report by World Bank.

Romania is on the 151 place from 183 world economies (in world are 194 states recognized), by the ease with which a

company may satisfy its obligations to the state.

A business in Romania lose 222 hours per year for the 113 pay taxes and total tax rates is 44,9%. For comparison in Sweden taxes companies pay twice a year, and in Hong Kong, three times.

Regarding "Doing Business 2011", Romania is on 56 place (55 in Doing Business 2010), in a ranking of 183 economies analyzed the situation of the world. So in the "Where it's easier to do business", Romania is itself in the document cited after Bulgaria (place 51), Botswana (52), St. Lucia(53), Azerbaidjan (54), so that in 2012, Romania is on 72 place, after Bulgaria(59),Hungary (51),Slovakia (48).

According to a report by the U.S. State Department, the financial fraud in Romania could increase about \$ 1.5 billion. According to this report illegalities about the value added tax(VAT) is 10% of all financial fraud down from previous years when they represented 45%.

As tax evasion is so far only by approximate methods. According to a report by the Ministry of Finance, tax evasion in Romania was estimated at a level of 17-18 % from GDP (gross domestic product) between 2009-2010.

Our country is the only state affected by the crisis who tightened taxation in all its components.

Areas that is very prone to evasion are: alcohol and tobacco which expects an explosion on the black market.

Table 1: Summary of tax rates and administrative burden in Romania 2011

Tax or mandatory contribution	Payments (number)	Statutory tax rate	Tax base
Social security contributions	12	20.8%	gross salaries
Corporate income tax	4	16.0%	taxable profits
Health insurance contributions	12	5.2%	gross salaries
Fuel tax	1	included in fuel price	
Building tax	2	1.0%	building value
Medical leave	12	0.9%	gross salaries
Unemployment	12	0.5%	gross

contribution			salaries
Accident risk fund	12	0.15-0.85%	gross salaries
Labor inspectorate commission	12	0.25%-0.75%	gross salaries
Guarantee fund	12	0.3%	gross salaries
Vehicle tax	2	fixed fee	
Land tax	2	RON 0.3 per square meter	land area
Firm tax	4	A fixed amount per square meter of lighting panel	the surface of the lighting panel
Environmental taxes	1	RON 1 per kilo of packaging	weight of packaging
Stamp duty on contracts	0	various rates	type of contract
Total	113	222	

Source: Doing Business database

Tax evasion profile fits that of employees who are overworked. Such offenses are committed by officials (or private entrepreneurs) with training in economic and financial, bearing the name of "white collar".

Occidentale surveys, reveal that people that commit fraud are:

- a rate of 30% women;
- with a stable family situation;
- in general married people;
- less likely to be true but they are educated;
- less likely to have criminal record;
- is unlikely to abuse of alcohol;
- also more optimistic;
- more motivated and more self esteem than others.

Tax fraudsters are between 25-54 years and they have a profession that involves swelling of expenditure or the omission of income.

3. Offshore Jurisdiction

Tax Haven, get a resonance today increasingly deeper into the world so big giant and across the world living standards well below the poverty line and multiplying them simultaneously and complex number of advantages offered to foreign investors.

OECD (2001 - Organization for Economic and Cooperation and Development), identifies key factors in the definition of the paradise fiscal must meet three criteria:

- no tax or only nominal taxes, these jurisdictions offering a place to escape oppressive taxation of non-residents out of the way the country of residence;
- lack of effective exchange of information (strictly confidential);
- lack of transparency in legislative and administrative provisions.

There are other types of benefits that can be found in offshore areas:

- elimination of exchange controls - usually, offshore companies can conduct their financial transactions and retain their financial reserves in any currency without special permission
- accounting lack the obligatory young - many offshore tax havens do not require companies to keep accounting records, which result in saving substantial savings, and related considerations of prestige.

Factors that determine the choice of tax haven include: discriminatory treatment of foreign investment, encouraging foreign investment, reduced taxation, banking secrecy, resident or resident individuals and influence their changes and operating costs.

Under the current economic crisis, more and more Romanian companies have set for "everyone is concerned with expenditure reducing". Assessments of market actors talk about an increase of 30% of the market from the beginning of the crisis and estimate that over half of its Romanian business people have a profit accumulation company.

Specifically, to establish a company you can call a law firm or accounting and presenting the activity of the company I wish to establish and specify the budget that I have then expect a personalized offer from agent then go directly to such jurisdiction and appeal to local lawyers.

Establishment as it cost me?

And to jurisdictions establishment costs range from:

- 1000 euro in Panama, Belize, Bahamas, or British Virgin Islands where is not required the existence of accounting.

- 2.00-2.500 euros in Malta, Seychelles or Dominica;
- 3000-3.500 euros in Gibraltar, Isle of Man, Hong Kong or Singapore;
- 4000 euros in Cyprus;
- 6000-15.000 euros in Switzerland, Luxembourg, Liechtenstein;

Administration cost me as?

- any money if I just want company and so and I will personally take care of all acts;
- from 700 euros yearly rated worst jurisdictions to 2000 euros monthly in Switzerland and get specialized consulting services.

Results obtained for money

A company whose establishment costs 4000 euros, get tax cuts but the shareholders are in sight and can be identified by anyone check register in that country.

Paying the maximum charge of 13.000-15.000 euros, company has nominal shareholders and directors. But they are legal and if anyone wants to check it, you find that have headquarters in other tax havens where other shareholders, the Russian doll system, benefiting the entire insurance management, juridical and accounting but has a virtual office with fax, e-mail, phone, where a secretary answers 24 hours of 24.

In offshore you can pay one kind of tax, income tax, ranging from 0 to 10%. There are several countries or regions in the world known as tax havens but the most prestigious are Switzerland, Luxembourg, Liechtenstein. How long establishment?

- Between 3 days and 1 month.

How abolish?

- Telephone within 24 hours

4. Tax evasion through offshore jurisdiction

4.1 Transfer price manipulation

It is estimated that 60% made by the trade occurs within multinational group.

Internal transfer prices established for these are not checked and are not governed by market principles.

This is the greatest irony of free market economy: a significant proportion of world trade (which occurs within multinationals) is not regulated by the prices set by the market.

Term transfer pricing is used for transactions between related parties, those transactions are not subject to free market rules and can be influenced by subjective factors such as policy group companies in terms of minimising cost group. Overall effect on the parent company could be an increase in the profits valuation.

Practically, companies operating in higher tax regiments are likely to transfer products and services below market prices to ensure that lower income and profits are reported by reducing their tax obligations. On the contrary, companies that receive goods and work in lower tax regimes are likely to report higher profits, because tax rates are lower.

An important aspect of rising the problem of transfer prices are transfers of intellectual property rights and intangible assets.

If a patent is developed in the USA and sold at a low price to a an affiliated company in a country with low taxation, income will be moved if any royalty or other payment is less than real value of the license.

Intangible assets such as: new medications or inventions tend to not have comparison and therefore is very hard to known copyright which should be paid in accordance with principle: *arms-length price*. Intangible assets therefore represents a special case in terms of control of transfer prices.

Together with the exitence of tax havens, these intra-group transactions offer a facade of legality for the passage to a new jurisdiction from another jurisdiction with very low levels of duties as a normal course of business.

Decisions establishing transfer prices have an impact on accounting, managerial efficiency, profitability investments, as well on products and prices.

In USA ,82 of the biggest companies have realized gains over 1,1 trillion dollars in the period 2001-2003 without charges by State to pay.

According to studies the USA lose each year over 170 billion dollars in uncollecting taxes, so that the share of taxes in GDP is just 1,3 %.

It is estimated that annually are lost between 25 to 85 billion pounds because of

tax evasion in tax level in Great Britain.GDP is less than 2,5 %.

Examples of large companies that use offshore areas to increase their international competitiveness: Boeing, Caterpillar, Chevron, Daimler-Chrysler, Easteman-Kodak, Exxon, General Motors, Microsoft,etc.

4.2 Carousel fraud type

Form of fraud on the VAT with a the most serious consequences through the taxes diverted away from pay and very difficult to detect is the known as the "carousel "fraud,

This fraud avoidance systems involve the payment of VAT.

Thus, there are established enterprises which claim that they are doing international trade, but they not pay the VAT indebted, to permit the other links in the chain of fraud to make the deduction of notional payment of taxes and to obtain a refund or reduction of VAT indebted.

In reality, societies concerned have no real activity and their headquarters is often the address of a postal boxes.

Ussualy after a few months of existence these companies disappear without declare and pay tax on what makes them difficult to detect by tax authorities.

This type of fraud is based on a relatively simple mechanism at least in apparent : the operator in the country of origin without VAT invoice (because of an intra-community delivery that come into the category of transaction exempted from VAT deductible) and operator in the country of destination will apply the reverse (VAT) charge for this operation (because it makes a purchase with intra-community counting and intra-community VAT cost associated with registering of the rate of taxation of his country, both the VAT deductible and VAT collected, but without effectively payment the acquisition)

Subsequently intra-community acquisition, the operator in case disappers without registering (for accounting terms), to declare (in terms of tax), and pay the VAT collected for subsequent deliveries made on its internal market (so-called "bottle filled" company, collectors of tax liabilities relating to VAT but which will never be paid).

Parties involved in this type of fraud are:

Firm ghost or missing trade is the star of this fraud and the company 's rule without real activity managed by people of the facade.

The company ghost can buy goods without paying VAT in the EU to its suppliers, and to sell the same goods with VAT without to pay VAT collected.

Company pad or buffer may have activity real or not, her role is to buy and sell large amounts of goods no added value.

Conduit company is an international firm pad, and has the same activity as buffer, only that it is a table in another state than the client and stimulates fraud in their clients' State.

This companies do not commit fraud in countries of origin.

5. Examples of legal tax evasion

Band U2

The band is Irish origin ,and his members have tax residence in Ireland.Till 2006,Ireland does not tax income artists and sigers ,but starting from 2007 annual revenue of artists that have become taxable exceeded 500.000 euros (individual income tax cca 43%).

They could keep the Irish tax residency and receive fees through an Irish company paying Irish tax on profits (12,5%).

However the band chose to incorporate a company in the Netherlands where the tax regime applicable to artists (tax on royalties) is the only 5%.

Although the band U2 adopted optimization method is perfectle legal, it does not correspond with ethical and moral model that group members have won it over the years.

On the other hand this model makes us reflect on the natural urge tax payers to lessen any legal (and sometimes illegal) tax burden.

Google

Google has cut its worldwide tax bill by about \$1 billion a year using strategies like "Double Irish" and "Dutch Sandwich", which move profits through units in Ireland, the Netherlands and Bermuda (where there is no corporate income tax).

In 2006, Google signed off on a 2003 intracompany transaction that moved foreign

rights to its search technology to an Irish subsidiary managed in Bermuda called Google Ireland Holdings, so a subsequent profit overseas based on those copyrights has been attributed to foreign subsidiaries rather than to Google in the U.S. where the technology was developed.

Following that transaction (known as a "buy in") Google made several acquisitions, spending \$1.65 billion for online-video site YouTube in 2006; \$ 625 million for e-mail security service Postini in 2007; and \$3.2 billion for web-advertising company DoubleClick Inc. in 2008 and the prices paid by the foreign subsidiaries for the rights to software and other intangibles moved offshore that formerly belonged to those three companies.

Conclusions

Tax havens contributed to the financial crisis in several other ways: by fostering dangerous complexity, secrecy and mistrust; by serving as offshore booking centres massively boosting financial liquidity, and by helping create tax incentives that led firms to load up on debt

Tax havens offers the possibility to avoid taxes, financial regulations and criminal laws.

Both welthy peple and large companies tax havens offer a way to escape the domestic constrains, risks and tasks remains valid for the population.

Image according to which offshore jurisdictions are exotic lands, islands with palms joined by Switzerland and Monaco are false.

The largest tax havens are rich countries. A revealing example is the U.S. that although leading a fierce campaign against tax evasion it offers facilities for corporate secrecy that is so difficult to "break" such as Swiss banks. Not many people know that the state of Delaware (USA) is a tax haven, and more than half of U.S. companies have a subsidiary in this state.

It takes a strong fight against tax havens development promoted especially by developed countries, but as long as the State's needs will be growing, the fiscal pressure will move in same direction. It is expected that the 21st century will be offshore

domiciles century due to rapid development of this sector

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Innovation Impact on the Beer Market during Economic Crisis in Romania

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Abstract

Innovation is a means to success for the beer companies in the years to come. Even during the recent economic crisis it is noticeable an increase of profitability by leveraging the impact of the innovation.

Key word: innovation, profitability, business excellence, success.

J.E.L Clasification: E 32

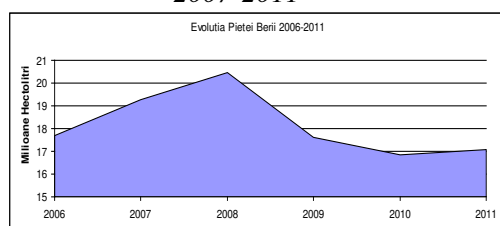
Introduction

In 2007 the Romanian beer market was estimated at one billion Euros gross turnover.

With the arrival of the crisis, in 2008, the non-food market, one of the Fast Moving Consumer Goods (FMCG) segments, was fully affected, with a powerful impact on the beer market.

Consequently, from a total volume of 19.3 million hectoliters sold in 2007, reported by INSS, in 2008 the growth rate of the beer market decreased from 9%, annual growth in 2007, to 6% in 2008, however the greatest blow to the beer market happened in 2009, when it took a fall of 14%, compared to 2008, in absolute amount a contraction of about 2.9 million hectoliters.

Graph 1. Romanian Beer market evolution 2007-2011



Source: Nielsen RA

Analysis

The descending trend of the beer market can be noticed also in 2010 with an annual decrease of 4%. Only from 2011 we can talk about market stabilization. This translates into a small growth of 1% compared to 2010. Even through the figures look positive, the total volume sold in 2011 was around 17.1 millions hectoliters, below 2006 volumes.

During the crisis period consumer preference tends to migrate to cheaper brands segment, especially to the value segment of the beer market. If in 2011, the value segment of beer market represented about 42% of total retail market, in 2012, on year to date August figures, value segment grew to about 51% of total market, main winning brands being Bucegi (Heineken), Ciucas (SAB), Noroc (Bergenbier) and other value brands.

The economic crisis had an impact not only on the total volumes sold but also from a profitability point of view, the competing brewers seeing the same effect. The final consumer became more susceptible to price offers which led the brewers to act highly promotional from the price perspective so as to make the product more appealing to the consumer.

Looking at the main competitors from the beer market, top three remained SAB (South African Breweries), Heineken and Bergenbier SA with a cumulated market share of about 75%. However, the brewer that succeeded to come on top is Heineken, which now has a market share above 35%, by leveraging a divers portfolio with multiple value brands such as Bucegi, Neumarkt, Hategana and Harghita.

Another characteristic of the crisis period is the cautious behavior of the final consumer which was tempted less to try new products or new entry segments such as strong beers, with higher ABV, Ursus Strong, Noroc Tare, or flavored beers such as Redds, where the cumulated share in the beer market remained under 1%.

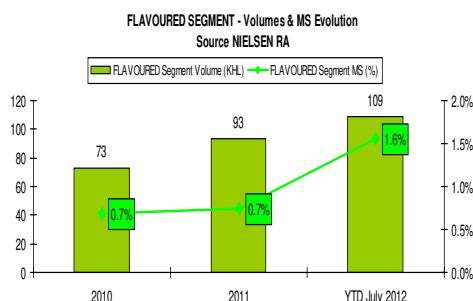
In 2011, the year that we can say the beer market decline stopped, Bergenbier SA tried to come with a new proposal for the consumer, also trying to revitalize a niche segment, the flavored beers, with the launch of a new product – Bergenbier Lemon. Despite the efforts behind this launch, the end result was not as hoped for.

As from 2012, we can talk about the reversal of the trend for the beer market. Looking at the beer volumes from 2011 and 2012 on a year to date August basis, 2012 shows a growth of 8% in terms of shipments, reported by INSS, and 10% if we consider retail market, as confirmed by Nielsen RA.

In May 2012, Heineken, by leveraging the awareness and brand health of Ciuc, one of the brands in their portfolio, launched Ciuc Radler, a lemon flavored beer. To support the launch of this product, Heineken invested massively in all media channels: Radio, Tv, Outdoor etc, the total amount spent is estimated at around 1 million euro.

The considerable effort put behind Ciuc Radler, a beer from the flavored beer segment, led also to the growth of the segment as a whole. On year to date July figures, the flavor category had a share in the beer market of 1.6%.

*Graph 2. Flavored Beer segment:
Volumes and Market Share evolution*



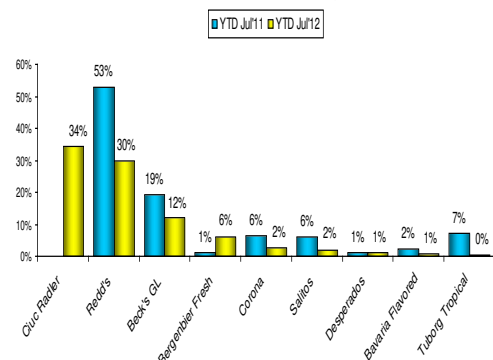
Source: Nielsen RA

Ciuc Radler's launch strategy proved to be a successful one, Heineken gaining in just

four months 34% market share from the flavor beer segment.

The momentum of the flavor beer segment, created by the launch of Ciuc Radler, helped also the other competitors to capitalize on the opportunity. Redds from Ursus and Bergenbier Lemon grew in volumes with the segment. If Redds lost some market share in the segment, Bergenbier Fresh Lemon went from 1% share in 2011 to 6% market share on year to date July 2012 figures.

*Graph 3. Flavored Brands 2011-2012
market share change*



Source: Nielsen RA

Looking at different types of innovation in the beer market, it is clear that the Romanian brew manufacturers tried to come with various ways of becoming more appealing to the consumer. From a packaging point of view, the aluminum can offer went from the traditional six pack to eight pack and even twelve pack, to increase the drop, but also to four pack, a more attractive offer if we talk about out of pocket.

Nevertheless, the undisputed winner in pack types remains the PET, especially 2.5 liter and also 3 liter PET.

We can observe that the 2.5 liter PET is slowly becoming standard packaging in the beer value segment but also in the CSD (Carbonated Soft Drinks) market, as part of the non-food category, with the main competitors Coca-Cola and Pepsi.

Prior to 2011, the Romanian brewers showed little interest in developing new products, in offering innovations, but focused more on the existing offers trying to maximize on absolute volumes sold.

Conclusions

Only from 2011 there is a visible change in the way the big beer producers tackle the beer market. And starting with 2012 the result started to come as well: higher volumes and also higher profitability, as the line extensions have a greater margin contribution than the mother brand, with positive impact in the P&L.

Only as from 2011 we can notice a totally different approach of the market, and starting with 2012 the result was visible: increase in volumes and profitability, because of the good impact of the innovations in the company's P&L.

If it were to compare the beer markets from Central and Eastern Europe during 2011 and 2012 we can see that the focus is to offer to the consumer more and more choices by increasing the portfolio of flavored beers. Looking at the actual trend, it is fair to assume that this approach will continue over the next few years as well.

Romania, as part of this region, can also expect an increase of the innovative activity in the beer market, especially in the flavored beer segment, as seen in 2012. However this activity cannot be limited at the liquid itself but also packaging wise (reintroduction of the thermo sensitive labels, other keg sizes etc.).

Creative Accounting between the Risk of Disloyal Information and the Assurance of Fidelity in Information

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Abstract

The complexity of economic transactions, their dynamic and the peculiarity of the activities carried out by each enterprise does not afford the coverage of the entire economic universe by accounting norms and regulations.

National and international organisms acknowledge the legal limitations owing to the previously mentioned objective reasons. Therefore, they acknowledge and give freedom to professional reasoning which should be a completion of norms and a supporting factor of the true and fair view.

By means of a critical approach and a qualitative method, we will analyze aspects pertaining to creative accounting. A controversial subject in the literature of the field for which we will highlight both the negative connotations (the ones encountered most often) and the positive ones.

The study emphasizes the fact that creative accounting techniques may be both a source of disloyal information and the way in which the principle of true and fair view is ensured.

Key words: creative accounting, true and fair view, financial-accounting information, informational risk.

J.E.L. Classification: M41, M42.

1. Introduction

The globalization of business is a permanent challenge for accountants. They are facing new manifest forms of identity of companies in incessant competition on a too greatly amplified market where the need for information is immense and diverse, becoming sometimes a marketing and advertising instrument. In this context, the accountant needs to find quick solutions to

adjust to the new informational demands without waiting for normalization. Thus, *the need for creativity* is imposed so as to find solutions and treatments meant to favour the companies' image and help them acquire certain advantages without breaking the law.

As many economic and accounting uncertainties rule the environment in which the company carries out its activity, many of the elements of financial statements cannot be precisely measured, but simply assessed. *The option of enterprise management for one of the multiple treatments and accounting policies implicitly creates the possibility of intended choice for the one that answers its interests.* They do not always converge to a true and fair view, but rather to a convenient one.

Thus, a distortion of the quality of accounting information occurs, generating uncertainties with respect to the consistency and compatibility of information destined to users.

In this case, we are dealing with an intention accounting, or, in other words, we are entering the sphere of creative accounting.

Originally creativity, as a term associated with human activity, has a positive connotation. Its valences impose the idea of innovation, development and improvement through creation.

In the field of accounting, due to several disloyal practices, creativity is associated with the process making use of the gaps in present norms, through accounting, engineering in view of manipulating the information provided for users.

In what follows, we will approach both the positive and the negative side of creative accounting. We will insist on the latter as it is the most encountered one and became a problem in the accounting profession.

2. Considerations on the concept of creative accounting

Although it subscribes to the list of controversial subjects and is frequently approached in the literature of the field, there is no common viewpoint in professional and academic viewpoints as far as the definition of the concept of creative accounting is concerned.

Creative accounting was first mentioned almost half a century ago by the father of accounting, Luca Paciolo. In his reputed treaty, *Summa de arithmetica, geometria, proportioni et proportionalita*, he presented several creative accounting techniques. One of them pertains to Venice where, in the context of a well-developed external commerce, the relations between traders were recorded based on the principles of double entry accounting and written in ink in primary and secondary book records. When discrepancies occurred, the bottle of ink was often spilt on the records. It was not by mere chance that the record became undecipherable every time.

Meanwhile, the concept preserved its essence, yet the implications of practicing creative accounting rose and managed to affect companies that act globally, and in this way, influence the life of people. The alignment of the accounting profession to commercial interests to the detriment of ethics was deeply criticized, being associated to the impairment of the status of accounting, its rigour and correctness.

According to various definitions, creativity in accounting is a process in which accounting professionals make use of their knowledge in the field to manipulate the figures of a business [1]. This becomes possible by exploiting legal gaps.

The responsibility of drafting financial statements to reflect the performance of the activity carried out by a company and its financial position at a certain date belongs to the company managers [2].

In principle, the leaders' conjectures and intentions have to respect the limits set by normalization. *When objectivity becomes impossible and norms uncertain, ethics comes in.* This is undoubtedly the significance of the British notion of *true and fair view* rendered in Romanian as "imagine fidelă".

Despite being true, the view on the enterprise provided by accounting needs to be fair. For this purpose, ethics is asked for help in attenuating the likely shortcomings of the technique. Without ethics from the ones producing it, there is the risk for the accounting model to become a "simulacrum" of the enterprise used for communicative purposes [3].

Creative accounting is represented by "an overall of procedures that aim at changing the result level for the purpose of increasing or decreasing it, or the presentation of financial statements without the mutual exclusion of these objectives" [4].

Also called *aggressive accounting*, *imaginative accounting* or *intention accounting*, creative accounting is the manipulation of accounting figures most often in the spirit of the law, exploiting its gaps. Despite all these, it contravenes to good practices as it does not render a faithful image of the company whose accounts are affected.

The notion was first coined in literature, in 1973 by the British researcher J. Argenti who established a *direct relation between creative accounting practices, the managers' incompetency and business decline, mentioning that the use of creative accounting is a clue for an upcoming crisis* [5].

The expression made quite an impression in Great Britain when in the 1980s, the country made obscure "business". Further on, in Anglo-Saxon literature, *the concept was mentioned several times in works referring to the bankruptcy of enterprises.*

Bernard Colasse mentions that "*it would be wrong to believe that regulations and norms render the accounting image of an enterprise objectively. They describe, in an explicit manner, only the way in which this image was "depicted". But on the other hand, they leave a manoeuvre margin which is both indispensable and irreducible to those that draft financial statements, a margin they can use in agreement with the financial or communication policy of the enterprise*" [6].

He considers creative accounting to be an overall of accounting practices at the limit of the law used by some economic agents for the purpose of improving the image of their financial position and their economic-financial performances. Furthermore, he

mentions that *these practices occur as a result of the existence of gaps in accounting norms and because human creativity is limitless.*

Almost similarly, Trotman defines creative accounting as *a communication technique which has in view the amelioration of information provided for investors* [7]. Thus, the economic agent shows financial statements to present to potential investors which were subjected to techniques meant to generate not only a favourable image on the market, but also *the illusion of results which seem more attractive than they actually are.*

Another definition which is more precise reads as follows: “creative accounting is the procedure that allows management to take advantage of the irregularities in accounting norms so as to present a distorted image of financial performance. *It observes the letter, but not the spirit of the law*” [8]. If we take this assertion into consideration, we claim that the ethics of accounting professionals is the only one compelling the respect of the law.

The list of definitions given to the concept of creative accounting is a long one. Last but not least, we mention a definition which we believe to be the most complex one. It belongs to K. Naser [9] who asserts that creative accounting is:

- *the process that, due to the existence of breaches in rules, manipulates accounting figures and, taking advantage of flexibility, measurement and disclosure practices that allow the turning of synthesis documents from what they are into what managers want them to be;*
- *the process through which transactions are structured so as to allow the „manufacturing” of the desired accounting product”.*

3. Creative accounting and the risk of disloyal information

Researchers’ definitions and opinions in the field mostly reflect the negative connotations and implications that practice attributes to the concept of creative accounting.

We may say that it *encompasses techniques which contravene business ethics, often found at the limit of the law, but which do not cross the barrier between licit and*

illicit, or we simply cannot establish whether they crossed it or not and which can be qualified as crimes and risk the intervention of the Courts of Law. By analyzing this definition, we understand that it is difficult to distinguish between a merely “creative” and non-criminal practice and a “normal” one.

Lainez and Callo claim that creative accounting is the use of possibilities – the existence of options, freedom of professional reasoning, subjectivity and gaps in norms provided by accounting legislation to present financial statements able to reflect *an intended image of reality, and not an objective one* [10].

As a journalist, Griffiths noticed that most economic agents hide their profits. He asserts that financial statements are drafted based on “embellished” records, the figures resulting having been modified. He renders creative accounting as legal fraud [11].

Most part of the specialty works present the negative significance of creative accounting and its usefulness in misleading external users of synthesis documents. This is because the creativity of the accounting professional was and is still used for more or less illicit purposes. Most often it serves the interests of the company or manipulates various categories of users. Therefore the notion of creative accounting is associated with the increased risk of disloyal information.

The negative side of creative accounting which pertains to the risk of incorrect information, manipulation and misleading of users is one of the main motivations for which decisional factors more and more often require professional services of financial auditing meant to check and certify the quality of process of production and dissemination of financial-accounting information. Audit is the easiest solution for decision-makers in economy to eliminate a great part of the informational risks they are subjected to and ensure the chances of success for the decisions taken.

4. Creative accounting, solution to ensure the fidelity of financial-accounting information

Creativity, according to the Romanian Explanatory Dictionary, has a positive connotation and involves the development of

positive skills for innovation or change. Accountants, in the accomplishment of their mission, respect strict rules and record figures but, at the same time, the diversity of norms, regulations, treatments and existing accounting policies gives the possibility of a legal and favourable exploitation of the flexibility provided by accounting [12].

Although second in line, *accounting creativity is shown in the provision of accounting solutions in relation to a certain management situation which is not stipulated by the norms.* In fact, this is the direction pointed by accounting provisions which give freedom and recommend professional reasoning when provisions are insufficient or absent.

Professional reasoning is one of the ways to exert accounting creativity both negatively and positively. It is consecrated by *accounting norms which require that when their application is not enough for a faithful reflection of reality, derogation from them should be made.* Although professional judgment should serve the purpose of "the true and fair view", through the freedom given to the accounting professional, room for creativity is left with the particular amount of subjectivity involved and the implied risks.

Still related to the positive connotations of creative accounting, we consider that *exploiting the legal flaws without detouring from the law in the context of serious economic difficulties, in view of ensuring the principle to continue activity, is creative.* Only when laws are broken intentionally, we can speak of inequality and fraud.

Considering the term as such, *creative accounting is not a crime as long as it is kept within legislative boundaries, irrespective of its flaws being exploited.* Once the border of legality is crossed, the area of crimes is reached and we are no longer speaking of creativity, but of fraud.

However, the positive connotations of creativity are lost. In most situations involving creative accounting, the valences vary from minor manipulations within the limits of the law, to crime and fraud. Moreover, negative advertising related to the accountants' role is associated to financial scandals and fraud, as shown in the case of financial scandals. This fact cannot be contested, having in view that accounting

professionals drafted the annual financial statements and validated them through audit.

Conclusions

Generally speaking, accounting regulations are a subject for interpretation, and company managers tend to make a profit from this aspect. Legal flaws, accounting options, norms ambiguity lay the foundation for the display of creativity in accounting professionals.

Accounting creativity can be applied in several ways which are more or less accepted by the law. It can have a well intended accounting support – the observance of accounting rules and the assurance of economic fidelity shown in accounting records, but most often it overcomes the border of correctness, taking the shape of disloyal accounting.

The concept of creative accounting is usually employed to describe the process that allows accounting professionals to contribute their experience and knowledge for the purpose of manipulating the figures included in annual financial statements.

Only in a secondary plan does creativity support the development of regulations, yet this acception is nowadays outdated.

While the concept of social responsibility is developing more and more, and society seeks responsible directions for sustainable business practices, the accounting profession became guilty of deprioritizing public interest. In spite of social order, the increase in importance of synthesis documents, the intensification of the activity carried out by normalizing bodies, accounting information manages only in part to meet its objective of rendering an image as real as possible of the profit and business of an entity.

In most cases, creative accounting practices support personal interests, and not the aim of a true and fair view. Taking this aspect into consideration, and recalling the essence of the term of "creativity" which is a positive one, "intention accounting" "disloyal accounting" or an equivalent term to design these embellishment techniques could be more proper.

Even if creative accounting techniques are most often a speculation of the lack, ambiguity and flexibility of norms, they are also the solution for adapting accounting

practices to the peculiarities of the company and the evolution of its activity. In many cases, it can represent, along with professional reasoning, a way to reflect the substance of economic events and observance of the accounting principle of faithful representation. When serving the aforementioned objective, professional freedom contributes to the assurance of accounting information fidelity. Contrarily, it becomes a considerable source of informational risks undergone by users.

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Initial Recognition of Tangible Assets

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Abstract

Using in an appropriate way the professional judgment for the correct application of recognition criteria is a compulsory requirement for the entity. The professional judgment in delimitation and recovery the value of the assets individual or on groups has an important role for the entity because the wrong classification of the assets may have future implications on how to recover their value.

Key words: recognition, credibility, judgment, cost, tangible assets

J.E.L. Classification: M41

1. Introduction

The real assets of an economic entity is the "engine" of that entity and for the attention which the administration and management exercise in managing and capitalizing them, it was more need of their recognizing and of a correct information about the way in which they are recognized in the financial statements.

Recognition the assets is highlighted by the specific conceptual approach of the general framework. The recognition criteria are different from the ones that are specific for the patrimonial approach. Thus, the General Framework provides criteria – recognizing pairs that represent the result from the tandem: utility (get / reduce future benefits) and money quantification (cost or value determined reliably). If an item of a tangible asset is important and relevant, but these two conditions are not met for its recognition it should still presented in the explanatory notes [2].

The U.S. rules state that the recognition process includes both initial recognition and also subsequent amendments, including the elimination from the financial statements that

respectively item (the derecognition process) and any decision on recognition must meet some basic criteria.

An item of tangible asset which is recognized as an asset must be measured initially at its cost. For tangible asset recognition it is applied the general rule that assets which generate future economic benefits and that are held for more than one year are valued at cost of acquisition or production cost [4].

In order to determine whether an item satisfies the first criterion for recognition, an enterprise should determine the degree of certainty of future economic benefits flow based on the evidence available at the time of initial recognition. The existence of sufficient certainty that future economic benefits will be generate toward the entity requires to receive benefits related to the asset and bear risks. This insurance is usually available only when the entity has assumed risks and rewards of the asset, before this situation to occur, the transaction to acquire the asset can usually be canceled without significant penalty, so as in this case the asset is not recognized [1].

The second criterion for recognition is usually satisfied because through the exchange transaction which highlighted the purchase of the asset identifies with its cost. The initial recognition of a tangible asset is conditioned by a reliable assessment of the cost.

The first condition for recognition is satisfied only if the entity proves that can get future economic benefits attachable to the asset, directly or indirectly, and that it takes risks, too. The future economic benefit is the potential to contribute, directly or indirectly, to the cash flow of cash or equivalents to the entity. The potential may be a productive one as part of the operating activities of the entity.

Contribution of the assets to the cash flow is explained by the fact that the entity uses to

produce goods or provide services to customers, who are willing to pay, cash or equivalents in order to get them. Also, the assets can contribute to cash flow through their ability of reducing cash outflows by minimizing costs (eg a new technology) [3].

As regards the condition of credibility, it usually doesn't raise particular problems, as if the acquisition of tangible assets, credibility is proved by documentary evidence of purchase, and in case of assets production, cost credibility is performed on transactions concluded by entity with third parties for supplies and consumption of raw materials, staff and the use of hired labor and ensuring these factors, that by using generate costs.

As follows the reality frequently encountered in practice, namely that the structure of a tangible asset may cover tangible assets with different life, each of these must be registered by a separate manner, in accordance with the recognition principle, the cost comprises both the purchase price and the costs attributable to start-up [5].

A component of a tangible asset, whose life is shorter than the fixed combination which is part of and which will be replaced before the retirement of all, is identified and recognized as a separate component and amortized over its specific lifetime. At the end of their useful life it is recognized and replaced with a new component, the latter being recognized itself as a separate component of all fixed.

It's the case, for example of a building equipped with heating that must be recognized as a tangible asset that depreciates separately, since its lifetime is much smaller than that of the building.

Another significant example is the cost of future inspections and maintenance that are listed separately in the asset structure, as a discrete component. Since the recognition of expense for maintenance, inspection um Y for x years of life is achieved at the end of x years when the next inspection occurs, the origin of Y component um is recognized, and that bill that includes new inspection expense will be capitalized and amortized over the life.

Also important spare parts and safety equipment are considered tangible assets when the entity expects to use them over

more than one year, although usually they are recognized as inventory and carried at cost, during using them. Similarly, spare parts and safety equipments are recognized as assets when they are necessary for the operation of a tangible asset.

Daily maintenance costs of an item of tangible asset are expenses of the period, which is represented by the costs of labor and consumables, their purpose, is to repair and maintain the item of tangible asset.

In Romanian accounting regulations, tangible assets that are used in lots or sets or make a single body, lot or set are recognized at the value of the entire group, body or set only if they have the same useful life [4].

However, if the useful life of the components that enter into a tangible asset structure differs from the resulted asset then each component is recognized separately.

Using in an appropriate way the professional judgment for the correct application of recognition criteria is a compulsory requirement for the entity. The professional judgment in delimitation and recovery the value of the assets individual or on groups has an important role for the entity because the wrong classification of the assets may have future implications on how to recover their value.

According to IAS 16 Tangible assets, there are not included in the accounting treatment of tangible assets, the tangible assets classified as held for sale, biological assets, operating and evaluation assets concessions and mineral reserves. Provisions of IAS 16 "Tangible" are applied instead for the development or maintenance of tangible assets listed above, except for tangible assets classified as held for sale, their rule making it applicable provisions of IFRS 5 "Non-current Assets Held for Sale and discontinued Operations".

In accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", an entity shall classify a tangible asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. According to the principle of entity assets not classified as an asset held for sale assets (or disposal group) to be scrapped.

This follows from the fact that its carrying amount will be recovered principally through

continuing use. For an entity to classify a non-current asset (or disposal group) as held for sale must meet the following criteria:

- management (or a senior person in the company who can approve action) establish a sales plan;
- asset (or disposal group) is available for immediate sale in its present condition only under terms that are usual and ordinary in the sale of such assets (or disposal group); initiated a program to identify the buyer and all other actions necessary to implement the plan to sell the asset (disposal group's);
- sale is highly probable and qualify for recognition as a complete sale, within one year from the date of classification as held for sale assets (with some exceptions, listed in Annex B of the standard);
- asset (or disposal group to) be traded at a price that is reasonable in relation to its current fair value;
- necessary to achieve the plan indicate that it is unlikely that significant changes to the plan and that that plan will be withdrawn.

Are possible situations that are due to events or circumstances beyond the control of the entity, which may be extended for one year of completing the sale of assets held for sale. Thus, the standard IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", set out in Annex B situations where an asset will continue to be classified as held for sale by prolonging the period necessary for the sale [2]:

- the date the entity commits to a plan to sell a non-current asset (or disposal group), it is expected that third parties, but no buyer, impose certain conditions on the transfer of the asset (or disposal group) that will lead to the extension of the sale;
- Actions necessary to meet these conditions cannot be initiated until we obtain a firm commitment to purchase;
- Purchase commitment has a high probability within a year.
- Entity obtains a firm purchase and the buyer or third party shall (will) impose conditions on the transfer of asset (or disposal group) previously

classified as held for sale, which conditions will extend the period for completion of the sale;

- have taken timely action to meet these conditions;
- Expect a favorable resolution of the delaying factors.
- During the initial period a year previously considered unlikely circumstances arise and consequently asset (or disposal group) previously classified held for sale is not sold by the end of the period, and: Within one year of the initial entity has taken measures necessary to the changes in circumstances; Current asset (or disposal group) is actively promoted on the market at a reasonable price, given the changed circumstances, and
- Above criteria are met.

In accordance with standard IAS 40 "Investment Property" accounting treatment of land and buildings is different depending on the destination. These properties differ real estate or real estate investments are in properties occupied property [2].

Investment property is property (land or a building - was a part of a building - or both) held rather to earn rentals or for capital appreciation or both, rather than for: to be used for the production or supply of goods or services or for administrative purposes, or to be sold in the ordinary course of business.

Property occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

In principle, an investment property is held to obtain rental income as independent from other assets held by the entity or to increase the capital or both. Only those real estate investment properties as owner used to be covered by standard IAS 16 Property, Plant.

Investment property is sometimes called passive investment, to differentiate it from actively managed property, for property, plant, whose use is integrated into the rest of the entity's operations.

An appropriate method for understanding the definition of investment property is offered these examples of IAS 40 Investment Property in paragraph 8. According to the

standard, the following examples are real estate investment [2]:

- owned land rather for capital appreciation in the long term to short sale, in the ordinary course of business;
- land held for a currently undetermined future use;
- building owned by the entity (or held under a finance lease) and leased out under one or more operating leases;
- vacant building held to earn rentals under one or more operating leases;
- property that is being constructed or developed for future use as investment property.

A suitable method for understanding the definition of investment property is offered these examples of IAS 40 Investment Property in paragraph 8. According to the standard, the following examples are real estate investment [2]:

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- building owned by the entity (or held under a finance lease) and leased out under one or more operating leases;
- vacant building held to earn rentals under one or more operating leases;
- property that is being constructed or developed for future use as investment property.

2. Conclusion

Romanian accounting regulations do not deal differently tangible assets classified as investment property and assets held for sale. They are recognized in the category of land or construction or real estate investments are treated as part of inventories, if fixed assets held for sale.

To identify what constitutes an individual item within tangible assets requires the application of reasoning for applying the criteria to define the circumstances or different types of entities

Can be grouped insignificant individual items, such as molds, tools and dies, and then apply those criteria to the total value of these items. Spare parts and equipment, interest

may be considered to tangible when the entity expects to use them for several periods.

Similarly, if the spare parts and servicing equipment can be used only in connection with an asset and their use is expected to be irregular, they are accounted for as tangible assets and are amortized over a period not exceeding useful life of that asset.

Separate parts and servicing equipment are usually recorded as inventory and recognized in profit or loss as consumed..

However, separate and permanent equipment are considered tangible assets when an entity expects to use more than one period. Similarly, if the separate parts and servicing equipment can be used only in connection with an item of property, they are accounted for as tangible assets.

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Accounting History – the Mirror of Dynamic Economic and Social Development

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Abstract

To illustrate the social prestige or the degree of "science" that operates a profession or a scientific discipline begins with its history. Therefore, an incursion of accounting history helps us to better understand its actual statute, both as scientific knowledge and as social practice.

Accounting history, like the history of any other science, aims research, document-based, of origins and development stages, from the first accounting notes till accounts today.

Key words: accounting, history, development, institutionalization

J.E.L. Classification: M41

1. Introduction

Professor Dr. B. Pendorf, in his paper *Geschichte der Buchhaltung im Deutschland*, writes the follows: "Who want to become master in an art, must study its history", and he further stated: "without history basement all possibilities remain with no result and the appreciation of present phenomenon uncertainly and with lack of maturity".

The beginnings of accounting faced with the first economic activities of human. As man become an economic creature (*homo oeconomicus*), appeared also the need to measure and record its economic activity on individual or community. The necessity of accounting was present both on a corporate with power holders (princes, priests, kings, etc.) and those who practiced trade changes, to measure, memorize, communicate and authenticate different economic "acts" or, generally, social reports. Methods of

measurement and accounting record were very different like the material support where were made, and they started with bone and stone inlay, with notes on burned clay or papyrus tablets and then keeping paper books until the contemporary era, characterized by dematerialization of accounting records, by using electronic handling of information [1].

2. Historical landmarks in the evolution of general accounting

Accounting evolution, as social practice, is related to human becoming economic creature. The origins of accounting go back with thousands of years when people were "something" of their reality, through bone inlay or even writes on clay or papyrus tablets. Although there are opinions according to which are accounts from the period when people know about numbers, all these events are only forms of rudimentary accounting [5].

As a result of archeologically discoveries, we can support today the existence of some primitive elements of accounting from thousands of years before our era, such as the 55 numbering traces of slots, divided in two series in a radius of wolf. This is probably the oldest numbering car: each animal killed was a notch in the bone. Counting was also made by vertical grooves on the walls of prehistoric caves using pebbles. Greeks and Persians used them to count strings.

Over times, clay objects took the place of stones. In Mesopotamia, Sumerians used rectangular clay tablets where inlaid drawings and drying turned into genuine documents [2]. Signs used like this slowly gave birth to cuneiform and hieroglyphic writing so that the first accounting systems have linked the fate of the writing in general.

In antiquity, the first author of accounting is considered Hammurabi (2002 - 1960 BC) the king of Babylon, who ordered engraving on a block of diorite of the oldest commercial and social law code known, which imposes a legal obligation recording certain transactions in the form of calculations.

The first accounting centers in ancient Greece were temples, under their protection was carried out all public and private life. Here took place exchange, here appeared the first deposits bank comprising all the elements of modern financial techniques. First bankers kept a logbook or "ephemeris" where they detailed the daily operations writing the revenue and the expenditure chronologically, one under the others, allowing operations of addition and subtraction [6]. Registers were probative value.

To the Romans accounting books were known as calendar. Roman bankers, precise and meticulous perfected the accounting technique by opening accounts for others. Separating the receipts from payments is due to them by using two columns in the cash book called *acceptum* (credit) and *expensum* (debit). In Rome the obligation to keep records was for the head of the family. This requirement generally moral, may become legal in certain circumstances. Cicerone (106-43 BC) is the one who specifies regarding the accounting registers on Romans. The main accounting document was a journal of income and expenses (*Codex accepti et expensi*). The registry that keeps the track of all transactions, without spaces or erasures, a sort of Big Book today, was *Codex rationum* [9].

In its today understanding, accounting started its history from Middle Aged, with the development of monetary economy and appearance of germs capitalism. The Renaissance Spirit and especially development of business in big cities of Northern Italy (Florence, Venice and Geneva) have made possible the continuing "refine" of accounting practices, so in the fifteenth century is used accounting "after Venetian method".

In Middle Aged, is a discontinuity in the evolution of roman civilization so there took place a stagnation of accounting, probably generated also by restricting trade area and feudal development of economy.

In this era accounting registers are named: "memorials" and they record assets and liabilities chronologically. These documents were kept, especially by the monks from abbeys [4].

During the Crusades took place a development of accounting and forming international economic and financial powers as military-religious orders (as that of Templar). These kept a strict evidence of revenues, expenditures and clients, transforming the monasteries into fortress where they kept safe values. Records were kept a real account that had in debit the amounts owned by customers, in credit the payments made by him, the balance representing the debt.

The memorial has evolved into simply entry accounting with the diversification of production and services units, and also with the increasing of transaction complexity. Thus, appear accounts as coherent assemblies that are attached to a type of operation or exploring entity. These accounts are kept at the beginning on a single column then evolve into a Venetian appearance (two adjacent columns) [6].

Economic necessities determine the appearance of some private accounts such as the account "Capital" (used by companies for their partners) or the account "Profit and loss" that keeps the evidence of business result.

The end of Middle Aged, characterized by development of commercial links, extension of credit, making operations in distant towns and manipulation of increasingly important capitals, determine the adaptation and improvement of accounting in order to face with the new requires [4].

From the end of the thirteenth century the record is kept in one account for the customer and another for the supplier. Each operation determines two records: one in the customers or supplier account and one in the home account. This requires keeping different registers.

Thus appear the accounting in double entry, long before first treaty of accounting that presents it. This is thanks to a Franciscan monk, Luca Paciolo, who published in 1494 in Venice an encyclopedia named "*Summa di arithmetica, geometrica, proportioni et proportionnalitá*" that includes thirty six capitols regarding recording accounts.

Paciolo refers to three registers: memorial, journal and big register. He demonstrates the technique of double entry and consistency of equality between debit and credit amounts. In his accounting literature work *Tractatus de computis et scriptis*, that is the Treaty of double-entry accounting, is presented for the first time the describe of double-entry, the most characteristic element of accounting, in the technical report. We owe to Luca Paciolo the promotion and popularization of double-entry accounting, that didn't suffer major changes until today [10].

Generating double-entry accounting in European countries is accelerating with the discovery of printing (XV century). Gradually, between XVI-XVII centuries, the new method of accounting- double-entry accounting, starts to have generally applicability, especially in Western Europe and emerging and accounting literature.

The current appearance of accounting is due to France where in 1673, by order of Colbert, traders are obliged to keep accounting registers and the journal receives the legal evidential quality. Thus, accounting becomes a control instrument of the state such as it is in the present, by its fiscal role.

The development of accounting to provide date (determining patrimonial results and situation), is linked to the appearance of anonymous societies and legislation regarding these (middle XIX century in Germany and 1867 in France) [9].

The way of analytical accounting that will be named management accounting is open by the development of modern industry from the second half of XIX century, with the necessity to know the products' costs.

Multiplication of joint stock companies, which separates the management of companies by their owners, industrial revolution and appearance of competition, with the second half of XIX century, will do to outline the content of management accounting, to the managers and that is undisclosed, which delimits from general accounting and produces the balance sheet and profit and loss account, for the shareholders [8].

With the first decades of XX century, business accounting becomes a nominated social practice. Nominated processes of accounting, at national level, but regional or global too, have brought a new grade to the

accounting language: this becomes also a nominated language, which is standardized. So, the existence of a standardized accounting language ensures some advantages: allows a greater transparency on organization's activity, facilitates the dialogue between actors who operate on accounting data market, facilitates the decisional and control process [5].

The current technical progresses concretized in omnipotence and omnipresence of computer change the accounting work and determine new theoretical discussions about methodology and principles of accounting.

3. Conclusion

From studying accounting in different levels of human society development, it appears that in slavery ordination existed accounting notes, presented as primitive form, especially in old nations with advanced civilization and economy (Babylonians, Egyptians, etc.).

Following the evolution of feudal ordination of accounting, it appears that in this ordination begin to systematize these notes, to outline a more advanced accounting technique as a result of improving the procedures taken from slavery ordination and introducing others, even trying to elaborate some accounting theories. In many Italian cities were used, since XII century, simple-entry accounting, and in others, even double-entry accounting.

Towards the end of feudal ordination and early capitalism that needed a better performed accounting, appeared an advanced accounting technique. By generalization of companies' practice experience, appeared a theory regarding base problems of accounting as science.

In XIX century will appear the first major attempts to normalize accounting. From one country to another, this "institutionalization" of accounting will be made in different rhythms and ways.

In conclusion, we can say that doctrinal and practice development of accounting is closely related with cultural environment where it evolves, seen in all its components: economic, social, judicial, fiscal, politic and even religious.

From entire accounting past, it appears that in all social ordination was felling the need of using accounting with the help of which they could organize, analyze and interpret the phenomenon linked to business activity of human society.

Therefore, a number of philosophers and economists, familiar with principles and role of accounting, concluded that this discipline is one of the most sublime discoveries of the human spirit and each householder must use it, as a mirror of past and guide of future.

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An Approach for Convergence Regarding the Fair Value Concept versus Fair Market Value

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Abstract

The goal of a methodical business valuation process is to arrive at a clear and supportable estimate of "fair market value". On the other hand, determining the "fair market value" of a business is important not only when the owner is putting up a "for sale" sign; it also can affect long-range planning. In the same time, the challenge in recent decades is related to the identification of methods and indicators able to measure the effects that fair value accounting and fair market value produce in the new economy. Because fair value is a very similar concept to fair market value occurred over time many divergences related to the use of these concepts. The present paper aims to capture the efforts made so far to assess and clarify need for convergence of these two revolutionary concepts in the context of new economy.

Keywords: fair value, convergence, market

J.E.L. classification: M41

1. Introduction

An examination of the definition of fair value also helps clarify whether or not other amounts used in IFRS financial statements are fair values. For example, as most (but not all) business transactions are arm's length transactions between knowledgeable willing parties, most historical costs approximate fair values at the transaction date. At subsequent dates, historical cost and historical cost-based amounts are not fair values (other than by coincidence). Therefore, cost less depreciation, cost less amortization and amortized cost, as well as amounts determined using the equity method or

proportionate consolidation and the net book value of an entity, are not fair values and are often significantly different from fair values.

Fair market value generally means the highest price, expressed in dollars, that a property would bring in an open and unrestricted market between a willing buyer and a willing seller who are knowledgeable, informed, and prudent, and who are acting independently of each other. Market value is also distinct from fair value in that fair value depends on the parties involved, while market value does not. For example, IVS currently notes fair value "requires the assessment of the price that is fair between two specific parties taking into account the respective advantages or disadvantages that each will gain from the transaction. Although market value may meet these criteria, this is not necessarily always the case"[1]. Fair value is frequently used when undertaking due diligence in corporate transactions, where particular synergies between the two parties may mean that the price that is fair between them is higher than the price that might be obtainable in the wider market. In other words "special value" may be generated market value requires this element of "special value" to be disregarded, but it forms part of the assessment of fair value [2].

The goal of fair value accounting is to estimate as best as possible the prices at which positions held would change hands in orderly transactions based on current information and conditions.

The contemporary accounting phenomenon has features based on the need or harmonization, convergence, compatibility and unity in book-keeping, seen also as general objectives of this field, which could be realized only by its normalization. The accounting convergence regarding the concept of fair value is the process of

elaboration of accounting norms in a manner able to lead to a similar fact or goal, by stressing the similarity between national – regional – international levels.

The convergence regarding fair value is realized on two plans [3].:

- (1) the convergence between the national and international standards;
- (2) international convergence IAS/IFRS – US GAAP

The competition between the American reference and the international one results in the improvement of the accounting norms, namely that they become more and more comparable, compatible but also more and more convergent.

A first dimension of convergence in accounting it is represented by the convergence between the USA ACCOUNTING STANDARDS (USGAAP) an INTERANTIONAL STANDARDS OF ACCOUNTING (IAS/IFRS). Even if there were major differences between the two accounting referential regarding this concept, IASB and FASB agreed to identify all the points of disagreement in order to insure in a reasonable period the necessary convergence.

A second reason leading to the convergence of accounting systems are the desire for unity among conditions of competition in various countries. A synthesis of phenomena and aspects which could be considered as causes leading to the need for international accounting harmonization /convergence regarding fair value includes[4]:

- (1) the economies encountering an accelerated process of globalization;
- (2) the requests from financial accounts users (a factor determined from the first one). Thus, we shall aim towards a unity of economic language and accounting as an instrument of communicating information;
- (3) the extension process of the European Union;
- (4) the phenomenon of capital markets globalization.

In this context, the national and international intercessions have as a target realizing a convergence between national and international norms for a unique value (fair value). The appliance of this concept impose the outlining of it's utility, the knowledge of attaining techniques, assures much better than the historical cost the qualitative

accountancy information and gives a plus to the user's certainty, because these one will be able to avoid the negative aspects, referring to the interest-evaluations and reliability of a patrimonial entity.

With the FASB having decided, in Statement of Financial Accounting Standards 157 Fair Value Measurement, that fair value is an exit price notion; the IASB is left to decide whether or not it agrees. Preliminary indications are that while the IASB may largely agree with the FASB's articulation of exit price, it may also see the need to articulate an entry price notion, because of the perceived use of that notion under the banner of fair value in some IASB standards. More specifically, some may make the case for the use of entry price on initial recognition of an asset or liability with a switch to exit price for subsequent measurement [5].

The fair value option is a step in the direction of making US GAAP more harmonized with international GAAP, but it is a very small step. The main point in this module is that fair value adjustment of all financial and non-financial items on the balance sheet will not necessarily bring the balance sheet significantly closer to the fair value of the firm as a whole. The problem is that the value of the firm is most likely highly impacted by unbooked items that are not on the balance sheet and cannot be adjusted for fair value. Debate should therefore center on the measurement attribute to be used in assessing an asset's recoverability; fair value, or the higher of value in use and fair value less costs to sell.

2. Fair Value Concept and Fair Market Value: antagonistic relationship

The analytical and empirical research methods and techniques used in this paper. The majority of the data were extracted from two sources: International Accounting Standard Board (IASB) and IASC.

Before considering further the use of fair values in IFRS versus fair market value, some clarification of its meaning may be useful [6]. The first point to recognize is that, as with some national standards. 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. This approach allows for the fact that fair value must be determined in some circumstances in which the asset, liability or equity instrument is not traded in an active market. This is the case when, for example, tangible or intangible assets are exchanged or unquoted equity or debt securities are used as the purchase consideration in a business combination.

Edwards and Bell (1961) [5] invite us to consider a semi-finished asset to enumerate the various dimensions through which we can describe the asset, and thus to calculate and define all the possible permutations arising from this multidimensional consideration.

Three dimensions are suggested:

1. the form (and place) of the thing being valued;
2. the date of price used in valuation;
3. the market from which the price is obtained.

They choose a subset of the alternatives in Table 1. for their own detailed theoretical development and appraisal.

Table 1. An array of value concepts

<i>Value date, market</i>	<i>Initial inputs</i>	<i>Present form</i>	<i>Ultimate form-disposal</i>	<i>Ultimate form-use</i>
Past, entry	Historical costs	Discarded alternatives	Irrelevant	Irrelevant
Past, exit	Discarded alternatives	Discarded alternatives	Irrelevant	Irrelevant
Current, entry Current, exit	Current costs Irrelevant	Present costs Opportunity	Irrelevant Current market values	Irrelevant Current economic values
Future, entry	Possible replacement costs	Possible replacement costs	Irrelevant	Irrelevant

Source: Edwards and Bell (1961) [5]; last column author

In the absence of quoted prices in active markets, the IASB requires the use, when possible, of market information and favors widely used and accepted valuation techniques. Therefore, for assets, liabilities or equity instruments that are not traded in active markets or for which current quotes from such markets are unavailable, the entity must estimate fair value using market information (e.g. market rates of interest when determining the fair value of a debt

instrument). This reflects the fact that any rational, knowledgeable and willing party would take into account market information when exchanging such an asset or equity instrument or, in settling such a liability, the estimate of fair value takes into account market prices. This principle is reflected in IFRS 2, IFRS 3, IFRS 7, IAS 16, IAS 39, IAS 40 and IAS 41. Since the advent of the IASB in 2000, the onward march of the fair value concept has continued apace[7]. The concept is included in the definitions section of IFRS 2, IFRS 3, IFRS 4 and IFRS 5. IFRS 7 cross - references the reader to the IAS 39 definition, and IFRS 6 allows the use of the revaluation model in IAS 16[8]. The new single statement of financial performance towards which IASB, FASB and others are working is clearly designed to facilitate reporting under a fair value world. It is not yet officially in the public domain, even in draft, but see Barker (2004) [9]. Notwithstanding these anticipated developments, the emanation of the fair value concept seems to have occurred more or less spontaneously, and certainly more or less haphazardly, over the past couple of decades, with no clear theoretical foundations (Warrell, 2002) [10].

The IASB is also unlikely to change this principle but it is likely to issue further guidance on its application.

For assets, liabilities or equity instruments that are not traded in active markets and for which market information is not available, the estimation of fair value is likely to be difficult and, possibly, unreliable. IFRS allow greater flexibility for the use of less reliable fair values for the initial measurement of an asset or liability or when accounting for compound transaction (otherwise the asset, liability or transaction or its components would be excluded from the financial statements). They also still require the use of fair value in impairment testing (otherwise the carrying amount of the asset might be overstated).

Fair value less costs to sell (IAS 36 and IFRS 5) and fair value less point-of-sale costs (IAS 41) are, by definition, based on fair value but are lower than fair value. Net realizable value (IAS 2) probably approximates the fair value of inventories held for resale but exceeds the fair value of work in progress and raw materials as it does

not allow for any profits on the completion of inventories.

When fair values are used for the subsequent measurement of assets and liabilities, it is less clear whether they should be entry prices or exit prices. The IASB appears to be moving towards the use of exit prices (see, for example, the requirement in IAS 39 to use bid prices for financial assets and the proposals in IASB (2007)), which could result in the recognition of a loss for the difference between entry price and exit price on the initial recognition of an asset.

It is not surprising that there appears to be some consistency between the recent IASB statements discussed above and recent FASB comments. On 23 June 2004, FASB issued an Exposure Draft of a proposed Statement, 'Fair Value Measurements' [5]. This proposes a definition of fair value as 'the price at which an asset or liability could be exchanged in a current transaction between knowledgeable, unrelated willing parties', which definition seems at pains to preserve semantic differences between FASB and IASB, rather than to seek convergence.

Fair value accounting – also referred to as "mark-to-market" accounting – has played an important role in U.S. generally accepted accounting principles (GAAP) for more than 50 years[1].

Beginning in 1979, SFAS 33 required large corporations to provide a supplementary schedule of condensed balance sheets and income statements comparing annual outcomes under three valuation bases: Unadjusted historical cost, Price-level adjusted (PLA) historical cost, and Current cost entry value (adjusted for depreciation and amortization). Companies complained heavily that user did not obtain value that justified the cost of implementing SFAS 33. Analysts complained that the FASB allowed such crude estimates that the SFAS 33 schedules were virtually useless, especially the current cost estimates. The FASB rescinded SFAS 33 when it issued SFAS 89 in 1986.

In 1993, FASB expanded the fair value recognition requirements by issuing a standard that required debt and equity securities that were held for trading or held for sale to be carried at fair value in the balance sheet and required changes in fair value to be recognized in the income

statement or in a category of equity referred to as other comprehensive income. This was augmented in 1998, when FASB standards were adopted that required derivatives to be measured at fair value.

At the joint meeting of the IASB and the FASB in October 2005, the boards established explicit long-term objectives for improving financial reporting for financial instruments, to help the boards evaluate and prioritize future projects on financial instruments. In addition, the boards agreed to work towards those long-term objectives while retaining the ability to work either jointly or separately (if necessary) on shorter term objectives that are consistent with the long-term objectives.

The IASB has subsequently issued a discussion paper Measurement Bases for Financial Accounting — Measurement on Initial Recognition which proposes that all assets and liabilities should be measured on initial recognition at their fair values even when these amounts differ from cost. Remarkably, the discussion paper does not justify this change other than by arguing that fair value is more relevant than historical cost. While that claim may be true and may lead to subsequent measurement at fair value, it does not justify recording, say, the acquisition of an asset on acquisition date at an amount different from what was paid for it.

As explained earlier' the new approach gives rise to day gains and losses when the fair value of an asset or liability differs from the fair value of the consideration given or assumed. It also places an immense burden of financial statements that will have to determine the fair value of every transaction in order to consider whether it should be recorded at fair value instead of cost. The approach is absurd in those cases in which an entity is required or allowed to measure the assets or liabilities at subsequent balance sheet dates at historical cost or historical cost-based amounts.

In 2006, FASB issued a new standard, FAS No. 157, Fair Value Measurements, which provided a single, consistent definition of fair value, established a common framework for developing fair value estimates, and required expanded disclosures about those estimates. FAS 157 establishes a hierarchy of valuation techniques that varies

based on the availability of observable market information[5]:

- Level 1 inputs are "observable market data" – such as the quoted price for an identical stock or bond in an active market;

- Level 2 inputs are "other observable market data" – such as quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; interest rate, yield curve and similar data that are observable at commonly quoted intervals; and other data that may be corroborated by market data (mark-to-market measurements); and

- Level 3 inputs are "unobservable firm supplied estimates," including the reporting entity's own analysis of the underlying economic data that market participants would factor into the pricing of the asset or liability (mark-to-model valuations).

Some of the advantages of fair value valuations, as mentioned in specialized literature, (Penman S. H., 2007) are as follows[12]:

- investors are interested in value, rather than costs, so that's why information must be reported using fair value;

- in time, historical cost becomes irrelevant for establishing the company's financial situation.

Prices provide an updating of the information regarding the value of the assets;

- the accounting system based on fair values reports an economic result;

- the fair value determined based on market prices is not affected by factors that are specific to certain companies.

Convergence regarding fair value does not mean however the failure of accounting harmonization, but an obvious intercession aimed towards using an appropriate communication in a globalizing context, with the goal of having a common reference, International Financial Reporting Statements, while the short term goal of convergence is to eliminate the individual differences between US GAAP and the current IAS IFRS. Within this short term project, FASB analyses various issues and either suggests alterations in the American norms, in order to eliminate the differences found, or it communicates to IASB the reason for which it decided not to alter the provisions of US GAAP, while at the same time IASB is carrying on a process

of revising IFRS, taking, as the case may be, the same measures as FASB.

Regarding fair market value irrespective of whether fair value is an entry price or an exit price, it is worth remembering that the range of possible estimates for the fair value of any asset or liability often significantly outweighs the difference between entry price and exit price. Recently, Mocciaro Li Destri, Picone & Minà (2012) [11] have underscored the subtle but important difference between the firms' capacity to create value through correct operational choices and valid strategies, on the one hand, and the epiphenomenal manifestation of variations in stockholder value on the financial markets (notably on stock markets). In this perspective, they suggest to implement new methodologies able to bring strategy back into financial performance measures.

On the other hand, IFRS are placing much more emphasis on the use of fair values to record transactions and to allocate the initial amount of transactions among its constituent parts. This process began almost twenty-five years ago and reflects the practice in many national standards. The growth in such requirements also reflects the increasing complexity of many business transactions as well as the IASB's desire (and that of business entities and their auditors) to ensure that IFRS deal with a large proportion of these transactions. Fair value accounting or fair market value, or some other estimates of value, must be used; otherwise non-cash transactions will be omitted from the financial statements and compound transactions will not be disaggregated. If the use of fair values in such circumstances is new, the previous financial statements lacked relevant information.

It is true to say that IFRS are placing much more emphasis on the use of fair values to record transactions and to allocate the initial amount of transactions among its constituent parts. This process began almost twenty-five years ago and reflects the practice in many national standards. The growth in such requirements also reflects the increasing complexity of many business transactions as well as the IASB's desire (and that of business entities and their auditors) to ensure that IFRS deal with a large proportion of these transactions. Fair value accounting

or fair market value, or some other estimates of value, must be used; otherwise non-cash transactions will be omitted from the financial statements and compound transactions will not be disaggregated. Furthermore, if it is seen as something new, it brings into question the way entities and their auditors were applying national standards and the apparent emphasis that some have placed in the past (and continue to place) on such notions as prudence. If the use of up-to-date estimates increases the amount of such liabilities, the previous financial statements lacked prudence.

3. Conclusions

One obvious conclusion that may be drawn is that, apart from the replacement of 'buyer'/'seller' by 'parties' and the extension to cover liabilities and equity instruments granted, the definition of fair value in IFRS has remained unchanged for almost twenty-five years. It is therefore surprising that there is some uncertainty about its meaning and some confusion about what amounts are, and what are not, fair values.

Moving from theory to practice, the question perhaps becomes: What would be gained by creating a new fair value standard? Would any of those potential differences be eliminated? This takes us back to the academically traditional debates on the pros and cons of the various theories of income measurement and asset valuation. Many academics, including the present author, have strongly held view on these issues. But since the fair value notion seems not to alter these debates, we leave our views until another occasion.

In essence, therefore, this concept in context of new economy gives a significant push towards current values in general and towards fair value in particular, but also strongly insists that fair value, as such must be genuinely based on *market* expectations, i.e. again, not entity-specific.

In conclusion is strongly supportive of current values and regards fair value as a valid contender for an appropriate current value, but, like EFRAG, is not at all convinced by the apparent determination to avoid entity-specific measurements.

Convergence especially regarding fair

value is not an easy thing! Even the president of FASB declared that the greatest challenge of the convergence process was to persuade the national business communities about the necessity for an international accounting language. Perhaps people don't like change in general, preferring rather to keep their status quo. However, it is absolutely clear that the subprime crisis that gave rise to the credit crunch was primarily caused by firms, investors, and households making bad operating, investing, and financing decisions, managing risks poorly, and in some instances committing fraud, not by accounting.

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Opportunities to Improve the Romanian Capital Market by Means of Pension Funds

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Abstract

Any state is concerned with the development of its capital market which allows it to attract important investors that can ensure economic growth and resource accessibility at lower costs. In this respect, the use of funds attracted by the private (stakeholder) pension funds can be a solution.

Key words: public pensions, privately managed pensions, capital market

J.E.L. classification: J26, J32

Introduction

Every state is concerned with the development of its best financial system which can allow for the **provision of liquidity needed in practice development with fewer and fewer gaps. In this respect, capital market in its capacity as the device to attract and invest available money** is interesting to all categories of investors, either individuals or businesses, either small or large investors. The economic financial crisis which started in 2008 has shown that capital markets can be the engine of an economy or, on the contrary, can prevent economic growth.

Speaking about the prospects of capital market development nowadays in the context of many and diverse political, social and economic events involves the attempt to find out about the solutions to increase the interest in the market.

It is known that the presence of a capital market provides the economic system where it grows the opportunity to access financing resources more quickly and sometimes at

lower costs and also the chance to invest with the purpose of better outcomes.

In this respect, economic history proves the higher concern for the identification and market presentation of appropriate financial instruments designed to satisfy the most diverse requirements of investors.

The governments of countries where there are capital markets are interested in attracting as many offerors as possible to support market growth.

Whereas private businesses have the ability to access the financial system provided by the capital market by issuing stocks and bonds, the public system represented by central and local governments can intervene by means of bond issuance. As a representative of the demand, a capital market also brings forth mutual funds and pension funds.

It is believed that a solution for increasing the interest in the Romanian capital market performance is supplied by the investment which can be achieved by pension funds.

1. Romania's pension scheme

Countries all over the world have reformed or are reforming their public pension schemes, suggesting new private saving systems for retirement because of the same reason almost all the time: the pressure upon the public system and the state's less ability to manage it properly because the population is growing older, the retired live longer, the number of national insurance contributors is decreasing which make public pensions no longer able to ensure the reasonable replacement rate for revenues during active periods.

In this context, the interest in settling this matter is quite old. In 1979 at the World

Bank's suggestion, Chile promoted the first multi-segment system for the organization of the pension scheme. The system has been followed by the countries in Eastern Europe since the 1990's.

The first country in Central and Eastern Europe which has reformed its public pension scheme is Hungary. In 1994, it commenced Segment 3 – Optional Stakeholder Schemes and in 1998, Segment 2 – Compulsory Stakeholder Pensions. Poland subsequently followed the example and started to use the multi-segment system in 1999. The detailed description of the time the multi-segment system started to work in the region's countries is shown in Table no.1.

Table no. 1: Multi-segment system in Central and Eastern Europe

Country	Segment 2	Segment 3
Hungary	1998	1994
Poland	1999	1999
Czech Republic	n.a	1994
Slovenia	2000	2000
Latvia	2001	1998
Bulgaria	2002	1994
Estonia	2002	1998
Croatia	2002	2002
Lithuania	2004	2004
Slovakia	2005	1997
Romania	2007	2007

Source: CSSPP

Romania began the reform of its pension scheme in 2007 by the introduction of Segment 2 and Segment 3. Law 263/2010 regarding the unified superannuation scheme including further amendments and additions sets out in Article 6 the people holding compulsory insurance in the public pension scheme according to the law.

Segment 2 is definitely designed to the people contributing in the public pension scheme and aged up to 35 years old, being optional to those who are between 35 and 45 years of age. The system of privately managed pensions is regulated in Romania by Law no.411/2004. At present, every employee pays social insurance contributions (Ro. CAS) associated with the public pension scheme, being equal to **10.5% of the gross wages** of every contributor.

The contributions in private pension plans are not additional financial obligations to participants, but an amount of the individual

contributions in the public pension scheme. At the moment, the transferred share is **3.5% (2012) and is to reach 6% in 2016.**

Choosing a stakeholder pension means that some of the amount shall be sent to the individual account of every participant in their selected stakeholder pension funds.

Segment 3 is available to everybody as there is no age limit. Therefore, anybody can contribute in the scheme by up to 15% of their monthly gross incomes. In order to benefit from an optional pension, the legislation in the field requires that every participant should have at least 90 monthly (not necessarily consecutive) contributions in the fund, be at least 60 years old and hold a minimum accumulated amount. As far as Segment 3 is concerned, there is one more fiscal element, therefore there is fiscal deductibility of 400 Euros/year to every employee and 400 Euros/year to every employer.

The main features of the pension scheme organization in Romania are shown in Table no.2.

Table no.2: Features of Romania's pension scheme

Segment	Features
Segment 1	Superannuation scheme
	Based on generations' solidarity, namely "you pay and go".
	Well-defined benefits
Segment 2	Private management
	Compulsory for people up to 35 years of age
	Optional for people aged 35-45
	Clear contributions
Segment 3	Private management
	Clear contributions
	Voluntary participation
	Individual accounts

Source: www.csspp.ro

2. Pension funds and capital markets in Romania

In Romania, pension funds are made up as civil entities whose operations are managed by a management company set up as a joint stock company, with a primary capital of at least 4 million Euros with respect to the fund of privately managed pensions, respectively

1.5 million Euros in terms of the companies managing the funds of optional pensions.

In Romania during October 2012, there were nine pension funds managed privately which ran activities for 5,706,913 participants and their total managed assets amounted to 9,054,273,844 Lei. As to the funds for optional pensions, the number of participants was 285,614 and their managed asset was 571,362,673.

In order to provide fund contributors with pension rates to allow for their decent living, the legislation makes it possible for pension fund managers to invest in various money market and capital market instruments.

Thus, the law sets out an investment structure that can be accomplished by pension funds in order to ensure on one hand the proper outputs of such money placements and on the other hand, the best coverage of hazards the investment in risky financial instruments might face. The Supervising Commission for Stakeholder Pension Funds states that the privately managed pension funds may have the following investment structure (Article 25, Indent 1, Law 411/2004 regarding privately managed pension funds and Article 87, Indent 1, Law 204/2006 regarding optional funds):

- money market instruments including Lei accounts and deposits in a bank, Romanian business, or branch of a foreign credit institution authorized to operate on the Romanian territory, which is not subject to special monitoring or special management, or has valid operating permit, and these instruments should not exceed 20% of the total value of the pension fund assets;
- government securities issued by the Romanian Ministry of Public Finance, issued by European Union member states, or belonging to the European Economic Area, amounting to maximum 70% of the total value of the pension fund assets;
- bonds and other securities issued by the authorities of public local governments in Romania or in European Union member states, or in countries belonging to the European Economic Area, amounting to maximum 30% of the total value of the pension fund assets;
- securities traded on regulated, controlled markets in Romania, in

European Union member states or in countries belonging to the European Economic Area, amounting to maximum 50% of the total value of the pension fund assets;

- government securities and other securities issued by third countries, amounting to maximum 15% of the total value of the pension fund assets;
- bonds and other securities traded on regulated, controlled markets, issued by the authorities of public local governments in third countries, amounting to maximum 10% of the total value of the pension fund assets;
- bonds and other securities of foreign non-governmental bodies, if the instruments are listed on authorized stock exchanges and if they meet rating requirements, of up to 5% of the total value of the pension fund assets;
- equity securities issued by certain bodies undertaking collective investment in transferable securities in Romania or in other countries, amounting to maximum 5% of the total value of the pension fund assets;
- other investment set out in the Commission's norms.

Consequently, the law allows the access of pension funds to the capital market.

The analysis of the investment structure ensuing from pension funds (Table 3) highlights the following:

- orienting the pension funds mainly to government securities – explained by the fact that such instruments yield good outcomes in relation to investment-associated risks;
- more concern for stocks, which are some financial instruments providing better outcomes with corresponding related risks, than the concern for bank deposit investment;
- lower concern for municipal bonds (1.11% in terms of optional pension funds);
- the pension funds have not used the financial instruments provided by other bodies undertaking collective investment (0%)

Table no. 3: Structure of pension fund investment (%)

Investment structure	Segment 2– 5,708,610 participants	Segment 3– 283,118 participants
Bank securities	9.19%	8.06%
Government securities	72.87%	67.12%
Municipal bonds	0.47%	1.11%
Other securities – traded corporate bonds	4.32%	4.84%
Bonds and other securities of foreign non-governmental bodies	0.93%	2.14%
Stocks	10.97%	14.26%
OPCVM equity securities	1.32%	1.24%
Other collective investment bodies	0.00%	0.00%

Source:***CSSPP Newsletter, September 2012

The analysis undertaken allows for the conclusion that the amounts engaged by pension funds may as well enliven the capital market in Romania.

Whereas with respect to pension funds that are managed privately things may be changed only as far as the people aged at least 35 are concerned and the other people have compulsory superannuations, in terms of optional pension funds, things may be different. Therefore, positive effects upon the capital market might be brought about by the awareness of employees who will be retired in the future and thus they can understand what the Romanian public pension scheme and not only will mean within the next 10-20 years and even further on.

Pension funds may be associated with mutual funds if one considers the aspects related to the legal organization (civil entities), to how contributions are collected (by participants' submissions), to the presence of investment structure. The main difference lies in risk degree and risk assumption.

While in mutual funds the degree of risks may be different from the investment structure as the state only lays down investment limits and risks are entirely assumed by investors, in pension funds apart

from investment limitation there is also a reduction of bankruptcy risks, with the Supervising Commission for Stakeholder Pension Funds ensuring the ongoing supervision of the pension scheme.

The Supervising Commission for Stakeholder Pension Funds – the autonomous government authority for prudential regulation and monitoring subject to parliamentary controls, providing the public, transparent, effective control of stakeholder pension scheme management seeks to adopt a norm which will help restrict the investment from private pension funds. In a new formula, some investment that can take place at present might be removed, such as:

- bonds of issuers that do not hold an investment grade;
- securities issued by companies mainly operating in the real estate field;
- equity interests issued by other bodies of collective investment (Ro. AOPC).

In the draft for the amendment of CSSPP norm, "investment grade" is described as a performance indicator granted to a financial instrument issuance, to an issuer, or if necessary, to the issuer's parent company. Approving the amendment could generate an increase in issuing costs by up to some hundred thousand Euros depending on the issuance value.

As to the investment in equity securities issued by other bodies of collective investment, the decisions shall not influence the capital market negatively as pension funds have not recorded any investment in this type of assets.

Conclusions

Therefore, pension funds may ensure higher attractiveness of the capital market if:

- the number of participants in optional pension funds is rising;
- they remove the proposal that municipal bonds should hold an "investment grade";
- the participants in the fund are informed, namely they are guided towards choosing the funds that can achieve high outcome investment.
- the fiscally deductible contribution rises;

- private companies initiate reward plans that include the submission to optional pensions.

The analysis undertaken herein also proves that the capital market has true growth chances on reliable bases which do not considerably affect participants' pension amounts if employees are aware of what it means to wait for public pensions and not secure their future themselves.

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Cost Information – an Objective Necessity in Optimizing Decision Making

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Abstract

An overall growth can be registered at macro and micro level without achieving a development and this only under conditions of continuous improvement methods and techniques of organization and management within the unit. Cost and cost information play an important role being considered and recognized as useful and effective tools to reach any leader. They have features such as multiple facets to facilitate continuous improvement towards business unit.

Cost awareness represents a decisive factor in decision – making or in planning further activities. The analysis and registration of data regarding past activities costs are only a facet of cost accountancy. Managers are also concerned with the future of costs, their level lying on supply and production decisions, as well as on some price policy.

Key words: decision, cost, efficiency, information

J.E.L. Clasification: M4, M40, M41, M49

1. Introduction

Considering that in the modern management thinking of a unit, its results are followed and estimated on working places, either functional or productive, it is imperative that the decision factors have, at any moment, the necessary data regarding cost level and improvement. The settling of this problem only partially answers the decisional process within the unit, the main problem being the application of some calculations to really and effectively evaluate the use of material values and physical work

generated by the production process. At present, more than ever, the leader of all the working places must intensify his activity in order to know and reduce the cost product per unit, a general appreciation factor of the business unit activity, considering the quantity of production as a second aspect. This can also be explained by the fact that the achievement of physical production does not require special efforts, as long as the production process is mechanized and automatized and the production graphics are observed.

The special importance to be paid to production cost derives from the continuous exchange of goods on the outer market, when competitive are only those products with high parameters and low costs.

Under these conditions any leader must have useful information about production costs, information which characterizes the way of organizing the production process of the whole aggregate of the unit. Eventually, the cost is the indicator which lays out the production structure, in the way that it directs the production process to the manufacture of products demanded on the market, resulting that the cost information as part of economic informational subsystem of the business unit covers a complex area of the business unit activity, enhancing a series of economic and technical factors to achieve the economic value of a product, a value which contains: the usage value, the esthetic value, the exchange value and cost which alongside with other elements is an essential factor in the efficiency of the activity.

Through its complex and etheregenous content, the cost is an indicator which sums up the value consumption and physical work in the production process, as well as their transformation and incorporation in the end

product. Under these conditions any leader of the unit, beginning with the foreman and ending with the firm manager, has to be informed about the cost level and development in order to make efficient solutions. As the costs level is equally influenced by the contribution of technical and economic staff of the unit, it is imperative a fruitful cooperation of these two professional categories, a cooperation which can be achieved by making mixed working teams within technical departments, as well as in the production, research and design ones. Data and information resulting from these analyses are useful decision factors for:

- cost control and analysis on technological operations for each cost generating product and place;
- unit operational management by fixing responsibilities and by controlling the task fulfilment;
- settlement of final financial results;
- estimation of task fulfilment by the unit departments;
- decision making for normalization and optimization of economic process.

Considering that decision-making presupposes the existence of more information, it results that the selection of an optimum decision depends on the number of information, and its value is proportional to a certain point with the heterogeneous degree of information. Therefore in this case, it is conclusive the correlation between the quality of a decision, the complexity of activities within a unit and the quality of information furnished, a decision being made optimum when there is a significant volume of information.

At the decisional level of management, there are quite often discussions regarding the causes generating the increase of information volume, they sometimes being pretty high, without and analysts' explanation of the interaction between the volume of information and inner and outer environment.

In order to put to practice the cost operational control it is necessary to modify the unit departments point of view which have cost attributions, in the way of their being more concerned with the current analysis of cost planning fulfilment, in the detriment of the effective calculation.

At present the information furnished

regarding cost production can be largely used only in making strategic decisions, in the idea that at the data when the information is presented to the unit management the production process to which the information refers is already finished, and the interventions which take place are too late, the situation being generated to a certain extent by the traditional procedures within most units.

2. The efficiency of cost informational system

In order to increase the role of cost information and to raise efficiency, the specialized departments must concentrate their attention and give more time to fixing in a fundamental way, the cost planning at the level of costs centres, and by an operational follow up to inform the decision – making factors about the deviations from the quantitative and value norms, so that they may take proper measures.

As long as this cost information does not offer these data in due time and structured on causes and responsibilities, it does not tally with the major interests of the unit, it cannot fulfill, in good conditions, the role of useful tool for unit management.

In this context, for a cost information to really become a competitive and efficient support in fundamenting and optimization of decisions, it is imperative to improve the cost calculating methods, in the way of assuring decisional factors, at all organizational levels with operational information regarding the cost level, the deviations and causative factors. Only in this way the cost can become a useful instrument in firm management and organization, to enable to clearly see the way the activity develops and the unit results, the cost information proving one of its useful principles visible in furnishing information necessary to know and direct the activity.

Being aware of the special importance of cost level in activity profitability, when the economic efficiency is important in internal and external competition, it is imposing that each leader, no matter the position he holds in the hierarchy, think economically, through the perspective of costs at which the object of activity is achieved, because not any speciality problem can be settled only by thinking in the respective domain, without

examining it as regards the costs.

Under these conditions not any action can be done, not any measure, activity or an economic process, without following up or analysing the costs in advance, a reason for which it is necessary to pay the whole attention to cost calculation, which have to be considered as a basic problem for all departments, services, firm management.

A factor which is not negligible is the efficiency of cost informational system. Therefore, if information offered by this is not useful in making decisions, or in control or planning, then which might be its value? In order not to confront ourselves with such situations, the system has to satisfy the following requirements:

- is the system adequate for the organization from the point of view of goods production and/or rendered services?
- do reports, situations, answers to questions, analyses, which are considered as outings of the system, contain relevant information to the proposed aim?
- do these outings appear at regular and small intervals so that to have an assured efficiency?
- are these reports, situations, analyses, answers to questions, addressed to persons responsible for decision – making?
- is the presented information relevant, enough detailed and exact for the pursuit aim?

Looking through these requirements it results that each cost informational system will be unique, as it will have to answer the requirements of a certain organization.

3. Decision – making optimization

The essential feature of management process, decision, represents the act of passing from thinking to action.

Specific to decision in the field of production costs is the fact that at the basis of its endorsement lie costs and costs information, the decision being the expression of a rational, coherent act taken on the basis of judicious interpretation of some data and information which are collected and worked out, so that a solution can be found to minimize the production costs.

The act of management, in all the fields of activity and at all levels, begins with the statement of the pursued aim and ends within this process with the decision taken, all the other management functions being conditioned by the objectives made through the adopted measures.

From the analysis made on several decisional processes, having in view the complex interaction within any process, there have resulted the following characteristic elements of any decisional process in the production cost:

- the decision – maker, who is to select one of the existing alternatives, considered the most efficient;
- the decision maker objectives, respectively the proposed consequences to be achieved, for the decision criteria;
- formulation the decision maker gives to the decision problem met;
- the multitude of the possible variants, which characterises a decisional situation;
- the multitude of decision criteria of the decision – maker, that is the points of view he takes into consideration in the selection of a variant;
- the multitude of states, each state represents the complex of conditions which makes that to one given alternative corresponds a certain consequence out of many possible.

The decisional process is an action which takes place at all organizational levels, covering both the short – term perspective and the long – term one. The plans are activated by decisions, and for a significant number of decisions it is necessary the contribution of a financial analysis or of a quantitative one, according to the situation, so that rational conclusions can be taken. That is why the practice of managerial accountancy is profoundly implied in the decisional process.

An important contribution to the alternatives evaluation during a decisional process is that referring to risk evaluation and uncertainty. Uncertainty is always present, the same its consequences, because the whole decisional process refers to future.

Decisions under uncertainty conditions represent a factor of capital importance in management.

A good manager has to know to promptly act and also to the point under uncertainty conditions, and for this he needs a decisional model. Practically such a model constitutes a formal model of decision – making support, often based on quantitative techniques. The decisional model includes the following elements:

- a selection criteria (objective function), which is the objective which can be quantified; usually this objective is represented by cost minimization;
- a set of alternative decisions as a result of which the objective can be achieved;
- a set of relevant decisions which can affect the results; these events, taken together, must have an exhaustive character (to cover all the possible situations); taken separately, they must be disjunctive;
- a set of probabilities, that is of possibilities of appearance of some relevant events;
- a set of possible results, which measure, in the terms of objective function the estimated consequences of different possible combinations of actions and events; every such result depends on a certain event and on a specific action.

4. Conclusions

The growth of economy complexity imposes the continuous improvement of informational, decisional system, its organization in a unitary form, efficient and modern in the same time.

In the concept of efficient management of the new business society, the economic informational system, and especially, the cost information, must assure the data necessary for the multilateral knowledge of the economic process, of reality by organizing a rational evidence, based on unitary principles to offer the necessary data for making decisions at all organizational levels, by creating informational material supports, to be able to offer an objective characterisation of phenomena and economic processes and to assure the furnishing of the necessary elements to give evidence to long – term processes regarding the economic growth and

economic efficiency, in investigating the new management tendencies.

The importance of providing information regarding production costs results in the role which this subsystem has in the establishment and follow up of the provided objectives, in sensing the negative phenomena and in furnishing the necessary data for an effective adoption of operational solutions in the development of the unit activity.

Starting from the idea that an essential point in improving the activities in all the economic domains is the establishment of an effective informational system, in many business units there have been made and implemented improving programmes for the informational system especially by providing them with advanced technology.

The personal measures initiated to improve the economic informational system impose the intensification of preoccupations and efforts in order to apply the new advanced methods able to assure an efficient follow of production costs and to raise on a superior level the calculation role as main informational source in the decisional process, by a permanent relation of cost information, between the suppliers of information and the decisional factors.

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Accounting Considerations of Companies Distressed. Specific Theory and Practices

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Abstract

At some point in their history, most successful companies suffer a decline or stagnation of their performance. This causes anxiety at the organizational level, through continuous development of new companies in an environment with limited resources implies a slower growth or even stagnation and disappearance of the old company. Especially, must not overlook the fact that Romania's economy has been for over 20 years in a stage of continuous adaptation, determined to replace the centralized economy to market economy mechanisms. If until modern times the aim of bankruptcy procedure was to pay debtor's liabilities due to the liquidation of available assets, at present, in Europe, legislation is no longer limited to measures to regulate the treatment of insolvency, but establishes procedures applicable to the debtor not insolvent yet.

Key words: Companies in difficulty, Insolvency, Judicial reorganization, Reorganization strategies, Liquidation.

J.E.L. Classification: M41

1. Introduction

It is undeniable that any economic activity takes place within the existing legal framework at a moment, in a certain country. Therefore, the economist must adjust the judicial norms, reason for which the real economy is conditioned largely by judicial regulations.

But equally, the right must be appropriate to economic and social realities existing at a certain period of time, as the characteristics of population for which were enacted the laws.

Insolvency law is not used any more to define it as "cessation of payments" because,

even if they describe the same phenomenon, surprise different perspectives. If insolvency, defined as lack of funds to pay eligible debts, refers to debtor's subjective characterization of its economic status, cessation of payments is the objective expression of insolvency, being at the same time the external manifestation of preexisting inability of payment [3].

According to the Law no.85/2006 as it was modified by the Law no.169/2010, insolvency may appear in two forms: insolvency presumed as valid: "when the debtor after 95 days of maturity, didn't pay the debt to the creditor" and impending insolvency – when proves that debtor can not pay at maturity "outstanding liabilities incurred, with available cash funds".

Also insolvency differs from insolvability that is characterized by superiority of passive elements of the debtor to those of its assets. Along with the appearance of the Law no.381/2009 regarding introduction of arrangement and ad hoc mandate came a new conception of "difficulty status" which must be different from "insolvency status". Difficulty status is different from insolvency status by the fact that the owner of the company in difficulty is able to face with outstanding liabilities. From the explanation of this concept offered by European Community Law on state help, appears that the difficulty status is mainly characterized by losses, decreasing turnover, excessive inventory or overproduction, high debt and decreasing net asset. Moreover, according to the law regarding state help, the company in difficulty must be unable to recover with its own resources or funds provided by owners/shareholders and short or medium term being in danger of getting out from economic cycle [5]. This extra condition is not available in our law, the owner of the company is encouraged to call the procedure as soon as possible after he realize and accept

the existence of difficulties because it is possible that the source of problems to be the poor management. Insolvency balanced on one hand available cash funds and reliable, liquid and outstanding debts on the other hand.

If by modern era the goal of bankruptcy was to pay debt's liabilities as a result of liquidation of available assets, at present, at European level, the law is no longer limited to regulate treatment measures of insolvency, but establishes procedures applicable to the debtor that is not insolvent yet. Due to anticipation of insolvency, debtor may benefit from early intervention of justice that will prevent its appearance. The company's possibility to have justice protection before being in cessation of payments is taken from U.S. Law and can be a real instrument of economic recovery [2].

Saving enterprises depends largely on early recognizing and accepting the existence of difficulties. Enterprises' difficulties are not necessary financial, although regardless of origin, finally they acquire a financial expression. Usually, performances decreasing partial arises from financial problems, it is the translation of some economic, technical, commercial or human imbalances within the organization or of the tightening of economic, judicial, social, competitive conditions in the environment where it evolves. All these factors reflect the normal continuing of enterprise's activity.

Examining the literature devoted to the decline of enterprises, but also from real economy data, identifies a series of causal factors which frequently have a negative impact on enterprises' performances. Generally, the causes of enterprises' difficulties may come from certain characteristics of environment where it act or from certain errors and internal and organizational difficulties [4].

Enterprises operate in an environment with quickly and complex evolution that influences its possibilities of existence and action. So, the nature and changes of an environment where operates the society require an increased flexibility, a permanent adaptation but they can have a negative influence on its performances. In the actual context, the environment is usually changing thanks to a combination of factors, including technical progress, so it is vital to correctly

identify the magnitude and rhythm of response from the organization. In literature was underlining correctly that the majority of companies ignore the crisis and changes appeared suddenly, unexpectedly, in the external environment of company, because they see its as being temporary, with low intensity and with no relevance to its performances, tended to focus more on internal aspects. For this reason, the company doesn't respond adequately and quickly enough to environmental changes, which can lead to difficulties.

Difficulties generating causes for enterprises can take many forms,, especially reducing the demand for products and services and increased competition, law changes, technological development that makes actual products and services to become old, or reducing availabilities and accessibility of environmental resources. Competitiveness intensification, both the level of prices and products, is viewed as a common cause of company's difficulties. Thus, competitors may manufacture at lower prices, benefiting from scale economy effects, or they can launch new products and services that better satisfied needs and preferences of clients. Competitors' actions endanger the competitive position of organization which, to maintain a competitive advantage, must respond with counteract actions. Also, a strong competitiveness of prices proved to be a common cause that generates difficulties for many Western European companies [3].

Changing legislation and enforcement by the stat of technical, social, consumer protection or environment constrains may have a negative impact on companies' performances, being another external cause that generates difficulties. Certain enterprises may be in disadvantage due to tightening legislation or due to adaptation of certain governmental policies such as: subsidies, differentiated taxes, environment protection, and social policies.

Given the rhythm of changes that occurred in the last years, it is clear that technology plays an important role in crating some durable competitive advantages. Equally, technological development may be also a negative factor on enterprise's performances, given that it cannot be protected from technical and technological

advance of competitors. Low accessibility of resources is another causal factor for enterprises' difficulties. This may be due to some negative movements in raw materials prices, a natural reduction of resources level or due to the fact that property or control of raw materials are held by competitors.

Companies internal difficulties generally come from failures or errors on organizational level which, if are correctly identified, may suggest good solutions to facilitate recovery. Personal characteristics and key leaders' behavior play a major role in company's difficulties, without just incompetence [1]. Managers may become very tied to the strategies that they created and practiced, so that the organization applies very rigid and conservative strategies based more on tradition and concepts, sometimes outdated, and not on a rational analysis, that causes a decrease of enterprise's performances. Managers' indecision and too long terms for making important strategically decisions also lead to a decrease of performances and difficulties because opportunities are changing quickly and the company will be in a disadvantageous position compared with competitors [3].

High specialized companies, that are concentrated only on a product, are very dependent on fluctuations in demand regarding clients' needs, changing their preferences, buying possibility, so that they become very vulnerable.

An inadequate financial structure contribute to increased vulnerability of company and its dependence toward those who borrow funds, generally banks, if this do not have enough proper resources to finance the activity. A high debt rate will result, sooner or later, into a decreasing of performances, because a company with moderate debt rate is considerate more prepared to respond opportunities. High debt rate and insufficient resources lead to decreasing financial autonomy, making it very sensible to a series of another conjuncture factors such as not paying bills on time by clients, bankruptcy of an important client or its activity's fluctuations. Also, a conservatory financial policy, characterized by lack of reinvestment of profit, a high rate of dividends paid to shareholders and an increased liquidity, to the detriment of some investment programs

to obtain long-term profitability will inevitably lead to difficulties and even to company's bankruptcy.

Companies that have a costs structure significantly higher than the main competitors, usually suffer an important competitive disadvantage. High costs can be determined by many factors, such as: insufficient focuses on efficient production increasing in order to benefit from the scale economies' effects; unreasonably high expenses on labor; excessive dependence on a few number of suppliers; unfavorable location towards suppliers and clients; operational inefficiency, which is usually the result of a poor management, etc. [4].

Maintaining business continuity and recovery requires an efficient supervision, especially at management level, in order to avoid premature founding of difficulties which threaten the functionality of the company. Thus, it is necessary that legal regulation offer the adequate mechanisms in order to detect and prevent both company's difficulties and their amplification up to a level where the survival of the company is questionable (bankruptcy, goods liquidation). Especially because the company's disappear involve consequences extremely serious on economic and social level, resulting among others, in a propagation of difficulties towards other organizations, due to the impossibility of asset recovery, suppression of some jobs or the loss of certain fiscal revenues. As such, the question is protecting not only some private interests, and especially of the company that faced with difficulties, but also some general interests, especially of society as a whole, reason for which detecting, preventing and treatment mechanisms of companies' difficulties must exceed the scope of managerial and organizational actions, needing the intervention of legislature [2].

French legislation contains a legal coherent rule to prevent and treat the companies' difficulties before cessation of payments and which has been greatly improved by adaptation of Law no. 2005-845 of 26th July 2005 regarding saving companies. It's several steps, as follows:

- Order companies exceeding certain size to hold provisional accountancy, preparing a series of documents (the situation of achievable and available

assets and liabilities, provisional outturn account, provisional financing plan), that must be presented to the Commissioner of Accounts (the equivalent of internal auditor in Romanian law) and to the works council [2]. Unlike the normal accounting documents that allow the knowing of passed situation of company, provisional documents identify means that will be available for it in the future, in order to adapt them to the established objectives.

- Establish an alert procedure in case of circumstances which will affect the economic situation of company and continuity of its activity [3]. The procedure may start at the initiative of the Commissioner of Accounts, works council, shareholders, or, in certain conditions, even the chairman of the trade, and the alert addressed to company's leaders or the General Assembly. This procedure is aimed to prevent the leaders of the company regarding the appearance of difficulties and inciting them to make adequate recovery measures.
- The possibility of debtor that faced with difficulties, not being in cessation of payments, to request the court to appoint a professional ad hoc representative to assist the leaders of the company in negotiations regarding conclude an accord with their mainly creditors and partners, in order to obtain grace period to pay claims, a rescheduling of them, remitted their debt, new funds, etc.
- Establish a conciliation procedure that can be open at the request of debtor, even if he is in cession of payments, with the condition that this situation did not exceed 45 days. The conciliation procedure can take up to 5 months, in order to facilitate with the help of a professional conciliator, concluding an amicable accord between debtor and his mainly creditors and partners, or even with new partners, to finish the difficulties of the company and to ensure his survival, continuing the activity and maintaining jobs. The accord

between debtor and creditors is approved by the court.

2. Conclusion

Avoid at all insolvency and postpone final outcome are not really ends. If the difficulties that debtor faced with are severe, the debtor should ask for opening the insolvency procedure. To the extent that the company is unviable, quickly liquidation is necessary before any attempt to recovery. The debtor should know that the survival of the company is not always desirable. In certain circumstances, company's liquidation is the best option, because nothing justifies sacrificing creditor's rights, if the debtor cannot be solved. Continuing a ruinous business may engage even penal responsibility of those who are guilty for the appearance of insolvency or for deliberately deteriorated. Such an attitude can cause chain insolvency of counterparts' partners of debtor or the whole group of debtor, and such a result must be avoided.

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International Regulations on Financial Hedging

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Abstract

The article presents a study which aims to analyze the role of Basel regulatory in the context of changing the behaviour of financial markets actors.

The main focus of the Basel Committee is regulatory relating to the activities of international banks. As discussed of the industry and almost all major banking organisations are own international enterprises.

Key word: Basle Capital Accord, risk management, credit risk, banking industry

Classification J.E.L.: G21, G28

1. Introduction

More than a decade since the collapse of the Bretton Woods, fall that caused severe disruptions in international financial markets, the Basel Committee on Banking Supervision introduced the so called Basel Accords a mixed approach containing institutional and practical issues of hedging and banking risk management, in the context of changing the behaviour of financial markets actors.

In this framework, the first step was the Agreement known as the Basel I, introduced in 1988 fully implemented in 1993, recognized in more than 100 countries, including the CEE-10 countries, implementing it in national banking systems.

Based on the assumptions focus on aggregate capital of financial institutions, vital in reducing the risk of default and potential cost of potential bankruptcy compensations and losing the depositor trust, the Basel Committee stressed on the effective collaboration need with supervisors to properly implement the principles set out in the Agreement.

The second step was the Basel II, initially published in June 2004 and finally implemented in 2006, intended to create an international standard for banking regulators to control how much capital banks need to fight against the types of financial and operational banking risks a negative externality to the whole economy.

2. Basel II

One focus was to maintain sufficient consistency of regulations so that this does not become a source of competitive inequality amongst internationally active banks.

Advocates of Basel II believed that such an international standard could help protect the international financial system from the types of problems that might arise should a major bank or a series of banks collapse.

The main objectives of the Agreement, reached in fact, were:

1. Increase the total volume of international capital in the banking system at a favourable economic growth;

2. Directing financial institutions to business areas compatible with its own size as well as the need more flexibility and risk sensitivity reasoning behind the drafting of a new agreement.

Comparisons between Basel I and Basel II:

Currently Agreement:

- a) It focuses on one single way to measure risk.

- b) Presents an unique dimensional approach based on a general structure ensemble

New agreement proposal:

- a) Emphasizes the role of internal ratings of financial institutions, monitoring reports and market discipline.

b) It is a flexible, multidimensional approach which stimulates the improving of risk management and a greater sensitivity to risk.

Proposals for new Agreement call for more flexibility and less correction.

The new framework intends to increase the safety and robustness of the financial system by applying detailed recommendations in the three pillars that form the structure of Agreement

1. Minimum capital risk management
2. The supervisory process
3. Market discipline and total transparency.

On one hand, pillar I sets capital requirements for credit financial, and operational risk.

On the other Basel II deals with a larger portfolios of credit risk providing a wide range of options for calculating capital requirements according to specific vulnerabilities exposure.

In this framework, there are three methods used for this purpose: standard approach, the basic approach and advanced approach using IRB.

The standard approach is closest to this risk management framework (Basel I), establishing fixed risk weights depending on the type portfolios (authorities and central banks, credit institutions, companies, and so on).

Differentiating elements are:

- promoting a greater sensitivity to risk (by refining these categories)

- the use of external ratings, the supervisory authority is responsible for recognizing the external rating agencies on the basis of qualitative

- broadening accepted tools and operations in order credit risk mitigation.

Approaches based on IRB are the largest element of novelty, based on theories of asset valuation.

Capital requirements are calculated according to the following risk parameters:

- Probability of default (PD) - the loss in case of default (loss given default LGD)

- Exposure to the debtor (exposure at default EAD) and exposure-maturity (maturity-M).

Capital requirements are determined by subtracting from the bank's risk exposures (determined for a confidence interval of

99.9% and a 1-year horizon), the expected loss associated (ELA)

The latter is compared with the provisions level and, depending on the outcome are influenced own funds.

Expected loss is determined according to the formula: $EL = PD \times LGD \times EAD$

In the basic approach of internal models, credit institutions determine PD, and supervisory authority sets remaining risk parameters. In the advanced approach, credit institutions calculating their own parameters to determine capital requirements. In the latter case, the difference between economic capital and the governed is minimal.

Capital requirements for operational risk appeared for the first time as distinct.

Risk is defined as the possibility of incurring losses due to inadequate internal processes, human error, cloud systems or external events.

For calculating capital requirements credit institutions may choose one of the following:

- Basic Indicator Method: requires possession of capital equal to 15% of average gross income for the last three years of activity.

- Standardized Method: decompose the bank's operations in eight categories of activities and the capital requirement is determined by multiplying the net revenue for each category of activity with a percentage between 12% and 18%.

- Advanced method: Enables use of internal models for measuring capital requirements for operational risk.

Market risk experienced no substantive changes to the additions to the provisions of Basel I in 1996.

Pillar II addresses qualitative prudential requirements through monitoring process. The supervisory authority receives greater powers to assess banks' internal procedures regarding capital adequacy based on risk profile.

In turn, credit institutions must be able to identify, measure, and report all hazards to which they are exposed and allocate capital accordingly. Risks are not only those captured in Pillar I, but also the liquidity risk, interest rate for the exposures which are not included in the transactions portfolios, risk, residual risk as well as the concentration, reputation and strategic risks.

The supervisory authority may require additional capital if it considers that these risks are covered and/or bank has not implemented appropriate control systems. Finally, the need to build the premises for EADS intervention mechanisms to prevent banks the capital minimum threshold.

Pillar III encourages market discipline by developing a set of detailed reporting requirements to the supervisory authority and to the public. Increasing transparency lowers information asymmetry and risks could be better evaluated. Reporting requirements are both qualitative (e.g. the consolidation level, ownership structure, the bank's strategy for certain exposures etc.) and quantitative (e.g. value capital components, capital requirements for all risks and so on).

3. Impact of international regulations on Romania

Basel II was implemented in the European Union by reconfiguring the specific surveillance directives.

Those regulations incorporate a number of differences to the provisions of the Basel Committee, the result of negotiations between Member States taking into account the national specific conditions.

The first difference was the fact that European settlement in principle has been applied on a consolidated and individual level to all credit institutions and investment services companies, regardless of the complexity of their work, while Basel II was designed especially to international active banks.

Secondly, it gives greater role cooperation between supervisory authorities, promoting the growth of financial integration in the EU. European approach intent to provide uniform conditions of work for all credit institutions.

In the case of Romania, the implementation of Basel II involved a series of challenges for both institutions (adjusting risk management and information systems, staff training, and procurement databases and so on) and National Bank of Romania (adaptation of surveillance, developing new regulatory framework, staff training, etc.).

The central bank has established a four-step strategy for implementation of Basel II in Romania:

Step 1: Initiate dialogue and exchange of information with both national (Romanian Banking Association, Ministry of Finance, National Securities Commission) and international entities (other supervisory authorities) involved in Basel II.

Step 2: Development of banking tools mechanisms for achieving the standards imposed by Basel II, in particular by:

- transposition into national law of Directives and adapting prudential reporting system;

- develop guidelines for the validation of internal models;

- Performance assessment tasks of implementing the Basel II at the credit institutions.

Step 3: Validation of internal models of credit rating regarding the credit institutions

Step 4: Checking applying the provisions of Basel II credit institutions.

The regulatory framework will be substantially reconfigured. Laws on banking, credit cooperatives, savings banks and mortgage banks, the popular savings industry all will be reviewed. In turn, secondary legislation will be amended to meet the requirements under the three pillars of Basel II.

For the implementation of the European Directive at the Steering Committee was adopted the framework of national options

These options are circumscribed particularly to the issues of credit, operational and market risks, as well as to individual and consolidated supervision on banking assets. In formulating the position against national options was adopted a prudential policy.

Table 1 shows the main changes in risk weights resulting from the exercise of national options for the standard approach. The biggest impact will be located to the retail exposures (people and SMEs treated as retailers) and at the exposures secured by residential properties.

A simplified estimate indicates a 16% reduction of risk-weighted balance sheet exposures for corporate loans and retail segments, which will further increase the solvency of credit institutions.

The last but not the least, regional and local government lending could become more expensive since the estimate that the

financing needs of these entities will increase considerably in the context of integration.

The impact of transposing the Basel II regulatory on credit institutions and financing economy needs a complex hardly estimation. Difficult reported by banks to restructure databases on exposure classes specified in Basel II, was the main problem encountered.

Table 1. Specific credit risk weights in the standardized approach of Basel II compared with Basel I.

Type of exposure	Risk exposure Basel II	Risk exposure Basel I
Governments and central banks, financial institutions similar (for exposures other than those denominated and funded in domestic currency)	0	50
Credit institutions (exposures longer than 3 months)	20	50
Regional and local governments	20	100
Retail exposures (including households and SMEs treated as retail)	10	75
Exposures secured by residential property owners	50	35
High-risk exposures	100	150

Source: NBR, Financial Stability Report 2006

Since 2007, few banks in Romania have adopted the internal models based approach for the following reasons:

- Capital of banks is significantly higher than the regulatory minimum (12%) and thus has no incentive to conserve their funds by using advanced methodologies;

- Romanian banking market could be considered too small to justify the costs of implementing the advanced approaches of Basel II, banks are currently facing the propensity to increase market share;

- Quality of statistical data for interesting patterns could be unsatisfactory;

- Some banks have not internalized the Basel II project in the spirit of modern risk management; most banks choose

standardized approach for credit risk and basic indicator for operational risk.

Table 2. The approach stated by credit institutions in Romania in 2007 used to calculate capital requirements for credit risk and operational

Approach	Number of credit institutions.		
	07/2005	11/2005	05/2006
Credit risk			
The standard approach (standard or simplified)	13	30	31*
IRB - based approach	3	2	2
IRB - Advanced approach	1	0	0
Credit institutions undecided	17	2	0
Operational Risk			
Basic indicator	11	17	20
The standard approach	10	13	13
Advanced internal models	4	2	0
Credit institutions undecided	9	2	0

*included and banks said they would use Basel I approach in 2007

Source: NBR, Financial Stability Report 2006

Validation of internal models by the supervisory authority is the basis for a credit institution to use other approach than the standard one in determining capital requirements.

That is the reason for BNR to develop guidelines for validation for each type of risk under Pillar I (risk, credit risk, market risk and operational risk).

Principles that will underpin the validation process are:

- Primary responsibility belongs in the validation process of credit institutions, the supervisory authority only assessing how the bank has made itself validation;

- Validation represents briefly, the predictive assessment capacity of a bank's risk and;

- Validation is an iterative process, based on both quantitative factors and qualitative.

Implementation of Romanian banking validation sector could be more difficult, both in terms of the rating process and rating of the related system.

Three important aspects to consider the validation.

Firstly, even if the model is built by the parent bank and validated by the supervisory authority of the country of origin, national local management must be able to demonstrate that the model used capture adequately the Romanian banking market risks characteristics.

The model could be very performing, at the first sight but can not capture some minor risks at the aggregate level, but important for Romania.

Secondly, we believe that national local management should not be a simple manipulated actor to use internal models as black boxes, but must have a satisfactory knowledge management of using the specific models.

In fact, the top managers must be fully awarded to the exposure risks that affect the financial and banking entity.

Finally, feeding patterns database is a challenge. Currently there is a long history for statistical databases that must be used to quantify capital requirements. Importing such bases must demonstrate that they can capture the structure and dynamics of the banking market in Romania risks.

4. Proposal for Basel III

Announcing the revised proposal for Basel III, contains much important information's that, as far as it would seem, remained so far unnoticed. At first glance, the document containing only rules that in general became less strict. Obviously, this provides a very optimistic perspective of banks, particularly those in Australia and

Japan, but in short term it could be expected a Revision of this behaviour. There are also other issues not clear in the document, which are very interesting.

Especially during direct allocation on 8 years - less likely chosen based on a random factor, but rather considering the massive action to repair the banking balance sheets. And with the new set of rules that are only marginally stricter than Basel II regulations, this clearly shows that central bankers are worried - both on the global economy and financial system of situations.

Since last year, some European nations like France and Germany lobbied the proposed Basel III regulations to be less severe and the BCBS (Basel Committee on Banking Supervision) responded by reducing the number of exclusions and establishing a satisfactory transition period. [4]

New consultative document is based on an analysis of the results of the Quantitative Impact Study (QIS) and serve as a draft for discussion that will be conducted CHOS meeting.

5. Main changes:

Tier capital ratio less severe exclusion rules. Two points were removed from the list of mandatory exclusions from this core capital ratio announced in December last year. Intangible assets (software largely in terms of value) and deferred tax assets (net DTA). Other points are now partially returned to core capital ratio after initially were removed: Deferred tax assets (net) and investments in common stocks of financial institutions be allowed, however, for both, the limit set is 10 % of the component of the bank's common shares. [1]

- Definition leverage ratio. Minimum leverage (core capital/Assets) is 3%. After the effects of leverage will be tracked over the four years starting in January 2013, a final proposal will be announced in July 2017, new regulations will be implemented in January 2018.

- Liquidity coverage ratio (liquidity coverage ratio) reduced. Overall, the requirements were reduced. Regarding the liquidity coverage ratio, the rate of run-off levels were low, while in terms of loan rates on longer maturities (Net Stable Funding Ratio), the available maturity term was

extended for financing. The proposal also includes a response to country risk that market worried lately is included a reduction of 15% in certain bonds. [6]

-Gradual introduction period - about 8 years Application of new rules on liquidity coverage and leverage ratio will begin in January 2018. Period of gradual introduction of new regulations on the capital adequacy of capital is not clearly specified, but it is anticipated that a reasonable period of gradual introduction will be allowed.

And long relaxation "phase-in" should cause a concern. Beyond the obvious, namely that financial institutions will trade above as a result of this relaxation - their earnings will be revised upwards simply because, in fact, they will have to save less capital reserves - and long relaxation "phase-in" should cause concern. That relaxation is more significant compared to the original version of December 2009 document, should generate long-term concern in the financial sector, particularly in Europe and the U.S. [3] Currently, a repair action unfolds balance in these regions, but this process can be revived simply by considering a higher level of risk, and, given the regime of very low interest rates would be really tempting. In the short term, this will obviously have a major effect on the unique institution both in terms of earnings, and in the balance sheets „clearing". In the long run, it entails serious risks for a new crisis in the financial sector caused by excessive risk taking and, unlike the first crisis, European governments and the U.S. is so indebted that it will be extremely difficult to help everyone else. [2]

6. Conclusions

Revised proposal provides that new regulations on leverage and liquidity coverage ratio will come into force in January 2018. This transition period (longer than the approximately six years stipulated in Basel II) appears to be caused by:

-lack of evidence of a real recovery in the global economy;

-the current situation in various countries. While during the "phase-in" for new regulations on the capital adequacy of capital (Capital Adequacy Ratio) was not specified, we anticipate that it will be allowed a reasonable transition period.

From our point of view, this should generate a different concern, namely that the financial sector is less solvent and likely will remain so for many years, despite the recent stress test results. If this hypothesis is true, a further slowdown in global recovery curve could put the financial sector in the U.S. and Europe under huge pressure.

Romania must make a concerted effort to improve the sovereign country rating, getting a good rating as required by the entry into force of the Basel III treaty because Romanian banks will take into account in the lending activities the country rating.

In addition to higher interest rates and higher costs because interest will be imposed depending on the quality (the rating) the borrower, a significant impact on banks will have the Basel III regulations for capital requirements. [5]

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Fiscal Management between Fiscality and Accounting

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Abstract

The existence and functioning of economic entities take place in an environment where the state through its fiscal institutions, makes its presence felt strongly and continuously through a number of laws, decrees, regulations, orders, circulars issued, published, repealed wholly or partially, republished, added, revised, refined or suspended. So, we can say with certainty that taxes influence economic decisions taken on every day base. Therefore in the management of a company has its defined place the fiscal management, that involves managing the fiscal side of the activities within the entity.

Through this study we try to present the concept of fiscal management, concept insufficiently discussed in the literature, concept that is at the convergence between fiscality and accounting.

Key words: fiscality, accounting, business management, fiscal management.

J.E.L. classification: H20, H32.

1. Introduction

The existence and functioning of economic entities take place in an environment where the state through its fiscal institutions, makes its presence felt strongly and continuously through a number of laws, decrees, regulations, orders, circulars issued, published, repealed wholly or partially, republished, added, revised, refined or suspended. Fiscal and accounting regulations come to directly or indirectly influence the activity of an economic entity which acts as a taxpayer.

Since in Romania both fiscality and accounting rules are developed by the Ministry of Finance, the interdependence between accounting and taxation is very

tight, which causes the tax influences on accounting to seem even more obvious. Between accounting and fiscality is a complex relationship because accounting is a prime source of information for tax authorities and most tax liabilities are based on accounting data.

However in the relationship between accounting and taxation there is an important issue that refers to the fact that principles, rules, laws and regulations of both components are not similar in all cases. In a regulated accounting, accounting information consists of its principles and rules. Instead, tax information serves as a basis for taxation according to taxation principles, rules and standards defined by tax law.

2. The interdependence between fiscality and accounting

Regarding fiscality and accounting there is an attempt to clarify the influence of one over the other. We can identify among the different stands of Romanian and foreign authors, the following possibilities [5]:

- accounting is influenced by fiscality;
- accounting depends on fiscality;
- accounting influences fiscality.

In the literature we find a generally accepted opinion that is about the existence of interdependencies between fiscality and accounting. Moreover, the two disciplines are often dependent of each other because we can define companies or state institutions as a set of accounting and tax documents to be analyzed as a whole and not independently of each other.

Accounting responds from an informational and decisional point of view to the issue of separate economic values management. Economic entities were and are the space for accounting representation and action. Accounting should provide information for all information users such as

equity investors, taxation as state representative, bankers, customers, suppliers - as business partners of companies, government institutions and employees.

One of the informational interests to which accounting must respond, considered by some authors to be the main one, is the fiscal interest. Accounting has always had issues regarding its reconciliation with fiscality. The cause for such situation was generated by the fact that not in all cases accounting principles for evaluation and economic calculations converged with the fiscal ones, which does not subordinate the presentation of a true image of operations taking place in the economic entity as fiscal principles aim the stimulation or inhibition of some activities.

Also, the fiscal regulations aim to directly or indirectly influence the activity of an entity that acts as a taxpayer. So, we can say that the objectives of taxation consist in calculating, charging, placing, tracking payment of taxes and contributions owed by economic units to state. Therefore the foundation and motivation of fiscality are represented by taxes. The taxes system must fulfill the following functions [11]:

- a) to finance public spending, pursuing the objective of budgetary performance;
- b) income redistribution according to equity principle;
- c) to stabilize business or imbalances for economic efficiency.

In a market economy fiscality has a double face for any company. On the one hand, it is reflected in the state compulsory levies, influencing the company treasury. This gives content to the notion of tax burden. On the other hand, the company may use for its interest the fiscal principles and methods. Thus, the operating or investment activities of the company can use methods and techniques whose tax incidence gives advantages that result in a positive treasury [10].

In Romania, the links between accounting and taxation are characterized by the fact that the taxation authority borrows many rules from accounting. Accounting influence on tax law is explained by the fact that, for measuring taxable matter, the taxation authority had to find rules for evaluation, time separation, depreciation and so on. It would have been unnecessary to create their

own rules, while the accounting had already consecrated procedures [10].

Since in Romania both tax and accounting rules are developed by the Ministry of Finance, the interdependence between accounting and taxation is very tight, making the tax influences on accounting seem even more obvious. Between fiscality and accounting appears a divergence that can be explained by the difference of purpose between the two disciplines [12]: while accounting has as an objective to determine the bases for taxes, taxation task is to establish rules than can adapt as better as possible to accounting functions.

The objectives of the tax system in the national economy are materialized by providing the necessary resources to carry out state functions and tasks through tax levies, as well as providing the necessary means to exercise the public authority intervention in the economy, to correct market failures, to limit the effects of the economic crises or to prevent them. In the market economy conditions, the state can't make an intervention in the private sector through administrative methods but can use leverages provided by the tax system to achieve certain directions of the economic and social policy [4].

Any operation at the microeconomic level is subject to tax regulations in force, so we can safely assume that the activity at the micro level is influenced both by direct taxation and indirect taxation as well. In this sense fiscal influences on economic entities are divided into the following categories:

- taxation influences acting on all economic entities, regardless of how they treat taxation in business management (are influences that occur due to changes that arise from time to time in the tax law). The purpose to quantify these influences is to analyze and predict business performance scenarios depending on changing tax legislation.
- taxation influences acting only on companies which use taxation as an active tool in managing the company. In this context it appears the notion of fiscal management.

Fiscality is a reality of the everyday economic life, being a very important factor in the management of a company's revenues and expenses where it appearing under the

form of taxes, fees and contributions paid by a company to public budgets. In this context all owners and managers are interested in managing their tax flows and tax accounting so that the costs required thereby are minimal and tax law is not violated. Also, fiscality represents a major decision factor for investment because it represents an important cost for every business transaction, as it is showed by a study conducted in 2005 by the World's Bank. This study reveals 14 main worries of the business community when taking investment related decisions. Among them, the tax level comes in third, and the tax regulation and administration comes in seventh.

Regarding Romania there is a study published in 2009 and conducted by the financial consulting firm Deloitte, entitled "Romanian fiscality – The radiography of an incomplete reform", that reveals that there is a need of the Romanian business environment for authorities to pursue a medium and long term financial strategy and to focus their efforts to reduce the frequency of legislative changes. So, according to the study, 34% of the surveyed persons considered that the premise for a financial environment proper for business development is the stability of law and 22% of them expressed their desire for the introduction of clear procedures in the tax administration [13].

The relationship fiscality - accounting is a subject that can be analyzed in the context of optimizing company's fiscal management. According to some authors we must not let the fiscal policies influence us when choosing the accounting policies even though this would mean less work [2].

3. What is fiscal management?

At the level of an entity it is delimited and operates under effectiveness conditions the so called fiscal management at the same time with commercial or financial management. "The existence of the enterprise fiscality generates the need for an information system to manage the numerous fiscal rules on the subject of taxation, base of taxation, tax rate, term of payment, facilities and fiscal penalties. Such a system must have a preventive and assuring character regarding

the fiscal rights, obligations and penalties for irregularities "[7].

Through the Fourth Directive of C.E.E. it was established the interactivity between the accounting law and tax law. This is achieved by a company's fiscal management. The fiscal management is the art and science of applying methods, techniques and procedures in order to substantiate programs, to organize and coordinate the processes of collecting the fiscal incomes, in order to use efficiently the public money and to satisfy the society's needs.

The subject of study of fiscal management is the analysis of distortions or deviations by incompatibility between the fiscal and accounting rules, convergences between them and determining, based on their analysis, the strategy, fiscal risk and fiscal efficiency of an entity. [7]

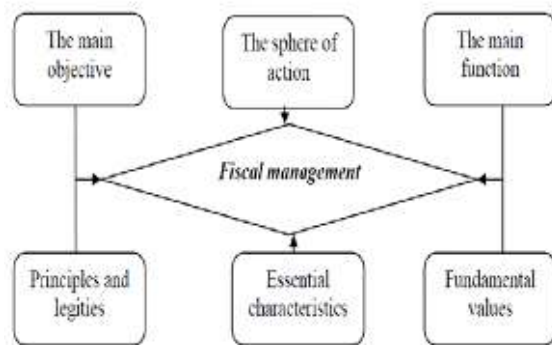
If we talk about fiscal management first we must explain the concepts of fiscal security and fiscal efficiency, two essential components which define fiscal management. Fiscal security must constantly be among the current objectives of each economic entity because it represents one of the classical aspects that describe the relationship between the company and fiscality. Any economic entity must comply with the basic rules and deadlines imposed by tax law because it is always at risk of fiscal control, control likely to reveal irregularities. So, in view of these mentioned, the economic entity can thus minimize fiscal risk, promoting efficient management of financial resources and avoiding losses due to penalties or sanctions.

To manage in an efficient way the company's financial and economic resources means taking into account the fiscal size of the business. Based on the financial analysis of synthesis documents from accounting it can be establish past performance and it can be estimated the fiscal risk and efficiency. The last mentioned is the second essential component that defines fiscal management. The company has to define an autonomous fiscal policy, detached from the rest of the company, with a single and independent objective: research of the less taxable legal ways. When we refer to a company's efficiency we mean the extent to which it succeeds to achieve its objectives. So, fiscal management as well as commercial management and production management is

integrated in business management and therefore it should be defined in terms of the objectives of general policy of the company or in relation to the strategy adopted.

The existence of fiscal management determines the delimitation of the essential coordinates of it [3]:

Figure no 1. The essential coordinates of fiscal management



Source: Comaniciu, 2007:4.

The fundamental objective of fiscal management is represented by the understanding and enhancing of the role of the taxes in the social economical life of a nation, considering to determine a real partnership between the state and tax payers in order to form and use the public financial resources.

Fiscal management objectives take into consideration to ensure fiscal security and efficiency through research of form and substance prescriptions, delays, deferrals, exemptions imposed by tax law. In this way the entity is avoiding tax penalties and proceeds to a better allocation of its financial resources. Entities need to optimize their relationship with fiscality on a financial and economic plan.

The action sphere of fiscal management must take into consideration the processes and management relations identified both at national and international organism's level with attributions in the fiscal domain and also at tax payer's level.

According to Comaniciu the process of management were first identified by Henry Fayol, who identified the main functions of management on the basis of an analysis, namely: prevision, organizing, command, coordination and control. Also many other famous specialists such H.Koontz,

C.O'Donnel, W.J.Duncan, H.Churg, H.B. Maynard, proposed the following management functions: prevision, planning, evidence, operating, executing, control, etc.[8].

Starting from here we can identify the main functions of fiscal management as beeing the prevision function, the organizing function, the coordination function, training function and the control and evaluation function.

The fundamental values which must be taken into consideration in determining the processes and the relations of fiscal management have on the basis [3]:

- assuring a coherent functionality of the managerial process and the structures of the entities with attributions in the fiscal field;
- the analyses of the endogenous and exogenous factors which influence the relations of the fiscal institutions with the economical, social and political medium;
- identifying the best modalities of using the resources in the sense of maximizing the fundamental objective of the fiscal management;
- elaborating a realistic fiscal politics based on efficiency and efficacy.

According to authors like Androniceanu the fundamental values are structures according to their belonging (internal and external values), being recognized values as ethics, moral and democracy [1].

The identification of fiscal management characteristics has on the basis: the specificity of fiscal obligations; the general principles of taxation; the specific of fiscal and budgetary activities; the tasks and functions which belong to taxes, the rights and obligations of tax payer's individual and juridical persons [3]. So, the fiscal management is a type of management oriented to the participative dimension, being based on a coherent system of performance indicators.

Regarding the general principles of fiscal management we take into consideration the following: the principle of defining and applying the unitary management according to the influence of the medium; the principle of legality; the principle of motivating all the factors involved in the fiscal activity and the principle of efficiency.

Even if the law is the same for everybody, not everybody understands the idea the same way, and this leads to a situation in which not all companies may benefit of certain facilities provided by law because facilities aren't always easily noticeable or, in connection with other economic and financial aspects of a company, facilities may result in different effects.

Even though, theoretically, the tax system acts upon all companies, so that the influence on economic and financial performances is obvious in all companies, latter doesn't operate identically in the decisions regarding the performance of economic activity, which is why differences may arise in the actions of taxes on a company's expenses [6]. It should be also noted that managing taxes and fees, for the purposes of optimizing their level, it doesn't mean breaking the law.

4. Conclusions

Fiscal management addresses all economic entities aimed at obtaining profit. This determines the need to respect the main mechanisms of fiscality, without the deviation of the professional accountant from the fundamental objective of accounting namely to obtain a clear, complete and real image of the entity's patrimony, financial position and results.

Fiscal management is at the intersection of accounting with fiscality but also should take into account the macroeconomic evolutions and economic context in which that entity operates. There for, in the context of the current global economic and financial crisis, where the need to capitalize is increasing, the need of fiscal costs' optimization is stringent. Fiscality imposes certain rules and procedures but also provides the potentiality to choose among several variants, so the economic entities can use this option system according to the goals they have at certain moment in time because it is the legitimate right of taxpayers to optimize their fiscal costs always in accordance with fiscal laws.

Optimizing fiscal management involves managing the fiscal aspects of economic entities in such a way as to ensure compliance with the relevant legal provisions, to minimize fiscal risk and to ensure in the same time the lowest level of tax burden.

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General Aspects Regarding the Influence of Fiscal Reglementation on the Performance of a Company

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Abstract

Taxation, by its nature, is closely linked to the economy and economic system. Everyday the economic entities experience the influences of fiscality and state over the course of their current activities through fiscal regulations because they can not ignore their role of contributor to the society in which they operate. This is precisely why businesses should conduct an analysis of the fiscal parameter that influence on their activity. Thus, a sound and efficient fiscal management is a critical variable in the economic entity's financial strategy.

Any operation conducted at the microeconomic level is subject to tax regulations in force, so we can safely assume that the activity at the microeconomic level is influenced both by direct taxation and indirect taxation as well. In this study, we tried to highlight how fiscal rules affect the functioning of economic entities and also their profitability.

Key words: fiscality, fiscal reglementation, fiscal system, fiscal management.

J.E.L. classification: H20, H32.

1. Introduction

Fiscality is a reality of the everyday economic life, being a very important factor in the management of a company's revenues and expenses where it appearing under the form of taxes, fees and contributions paid by a company to public budgets.

Any operation conducted at the microeconomic level is subject to tax regulations in force, so we can safely assume that the activity at the microeconomic level is influenced both by direct taxation and indirect taxation as well. In this sense we can

divid the influences of fiscality on economic entities into the following categories:

- taxation influences acting on all economic entities, regardless of how they treat taxation in business management (are influences that occur due to changes that arise from time to time in the tax law). The purpose to quantify these influences is to analyze and predict business performance scenarios depending on changing tax legislation.
- taxation influences acting only on companies which use taxation as an active tool in managing the company. In this context it appears the notion of fiscal management.

The objectives of the tax system in the national economy are materialized by providing the necessary resources to carry out state functions and tasks through tax levies, as well as providing the necessary means to exercise the public authority intervention in the economy, to correct market failures, to limit the effects of the economic crises or to prevent them. In the market economy conditions, the state can't make an intervention in the private sector through administrative methods but can use leverages provided by the tax system to achieve certain directions of the economic and social policy [5].

2. Aspects regarding fiscality

So far there are at least two approaches to the concept of fiscality, namely:

- a) Taxation is seen as all taxes and fees in a state.
- b) The second approach focuses on defining elements of the tax system in general and it defines it in terms of relations between the elements that form the system.

The first approach enjoys brevity and expressiveness, allowing an easier and more

efficient pragmatic analysis of the way in which fiscality is built and it is working within a country. So, according to this approach fiscality represents all taxes collected from individuals and businesses that supply public budgets [3].

By entering the second line approach, some authors believe that the tax system "comprises a set of concepts, principles, methods, processes on a lot of elements (like taxable matter, tax subjects) between which manifests relations arising from design, regulation, settlement and collection of taxes and that are managed under tax law in order to reach the system objectives" [13].

The tax system represents all taxes achieved through a mechanism based on the techniques, methods and tools specific for tracking and control the economic activity. The basic law of the state confirms the obligation of all citizens to contribute through taxes to public expenditure [9].

The approach regarding fiscality on international level has seen two major directions [1]:

- European continental approach, according to which the tax levies consist of taxes and contributions and there are conceptual differences in terms of content;
- Anglo-Saxon approach, according to which levies shall comprise all elements of a fiscal nature called "taxes" and their role is to provide the majority of the public revenue. There is no conceptual difference in the content.

The fiscal systems represent a key factor to influence the efficiency of the economy [6]. Gradually, with the development of society, the state diversified its role, reaching now to be a major player in the economic and social life. An increasing role of the state in economic life it is manifested through the following [12]:

- state intervention in economic life, either through regular behavior of an economic entity or by exercising its attributes of market regulator. In the first case the state can be the producer, consumer or intermediate and, in the second case, acts as the authority on monetary, financial and fiscal domains.
- state involvement in the economy at both the microeconomic and macroeconomic level. State involvement at the microeconomic level involves establishing

measures such as setting minimum or maximum prices, setting minimum wage limits etc. Involvement at macroeconomic level seeks to eliminate imbalances in the economy (inflation, unemployment and so on). This state involvement is achieved through monetary and fiscal policy.

Regardless of the approach, in all countries the taxes and social contributions have a major importance. According to the Romanian Constitution, Article 56 "All citizens have the obligation to contribute to public expenditure through taxes". Extrapolating this statement not only individuals but also economic entities are required to contribute with taxes to the income of the state. Thus, a "tax is a form of sampling a portion of the income and / or wealth of individuals and companies available to cover the costs of state government. This sampling is mandatory, grant and without a direct compensation of the state " [11].

3. Fiscal policies

Tax law was created and is corresponding to texts of different origin. For reasons of legitimacy and consent to tax, the law has long been privileged by creating the tax law, strengthening the rule of law in regulating sources.

The main sources of tax law are [9]:

- a) legal sources;
 - b) conventional sources;
 - c) regulatory sources;
 - d) jurisprudential sources.
- a) legislative sources are the main source of tax law. The law represents the act which has the main authority in fiscal matters. Certain tax provisions may be made by government ordinances, if the Parliament empowers the government to issue them.
- b) conventional sources are established through agreements, treaties and conventions. It stands out: the international conventions and the community provisions.
- c) regulatory sources are the administrative doctrine by which laws are filled to their implementation through decrees and ministerial orders at lower hierarchical level to laws. This regulatory power execution of tax laws is autonomous. Rules, instructions and circulars regarding enforcement rest with the Ministry of Finance.

d) jurisprudential sources are reasonings of fiscal nature by jurisdictions disputes and they often refer to taxpayers' appeals regarding interpretation of laws by the fiscal authorities (rules, instructions and circulars of the Ministry of Finance). Jurisprudence comes to correctly interpret the law and its implementing rules and to complete notions that the law has not defined precisely.

However taking into account the aspects mentioned above, any economic entity must define its fiscal policies. Fiscal policies represent a set of decisions, choices and actions at company level with the objective to achieve an optimal fiscal cost to match the company's aspirations or in other words they represent the concrete manner in which specific instruments and techniques are used to achieve the objectives of fiscal management.

Practically, fiscal policies have the following objectives [2]:

- "to ensure the fiscal security of the company, namely the compliance with the fiscal regulation of its field of activity;
- fiscal efficiency, namely paying and discounting of some taxable amounts as small in relation to the freedom of manoeuvre provided by fiscal regulations;
- to organize a fiscal management based on minimizing fiscal costs made according to the following structure:
 - the management cost for developing the information system and its operation for fiscal interest;
 - the actual financial cost consisting of the sum of fiscal expenditure regarding taxes, including income tax expenses;
 - the liquidity costs determined by the taxes settlement, costs of tax debts and costs on certain fixed terms of payment of taxes".

At the level of an entity it is delimited and operates under effectiveness conditions a so called fiscal management at the same time with a commercial or financial management. "The existence of the enterprise fiscality generates the need for an information system to manage the numerous fiscal rules on the subject of taxation, base of taxation, tax rate, term of payment, facilities and fiscal penalties. Such a system must have a preventive and assuring character regarding

the fiscal rights, obligations and penalties for irregularities "[8].

The fiscal management is the art and science of applying methods, techniques and procedures in order to substantiate programs, to organize and coordinate the processes of collecting the fiscal incomes, in order to use efficiently the public money and to satisfy the society's needs.

The company has to define an autonomous fiscal policy, detached from the rest of the company, with a single and independent objective: research of the less taxable legal ways. When we refer to a company's efficiency we mean the extent to which it succeeds to achieve its objectives. So, fiscal management as well as commercial management and production management is integrated in business management and therefore it should be defined in terms of the objectives of general policy of the company or in relation to the strategy adopted.

4. The influences of the fiscal reglementations on the performances of a company

Through taxes, the state wants to collect financial resources for the public budget. When it comes to businesses, taxes, representing a sampling of their available financial resources available to the state, have the effect of reducing economic and financial performance achieved [10]. And yet one wonders whether the state can use taxes as a determining factor in increasing the performance of an economic entity? The answer to this question is found studying the regulations that have been adopted over time in Romania, namely the use of tax as economic and financial leverage which aimed to influence in a positive manner different sides of the economic activity of firms.

The discounts or exemptions from income taxes have followed a double benefit for both state and businesses, so [10]:

- granting tax exemption for a certain period of time since the establishment of an entity (starting from 1991 until the year 2006) desired, from the state's point of view, the development of the private sector that could develop its business. The tax would be recovered indirectly as a result of taxation of higher future profits.

The benefit to the companies was that they remained with all profits, thus providing additional funding without cost.

- 50% reduction in profit amounts spent to finance investments aimed at making investments in the development and modernization of production technologies or to protect the environment (during 1995-2001) aimed to positively influence the investment behavior of economic entities and the realization by them of investment in environmental protection. The result aimed was to increase competitiveness of economic entities, to increase national investments and to protect the environment.
- income tax reduction for businesses that created jobs for the disabled, represented for the state an economic and financial measure that aimed the integration into the working environment for persons with disabilities (with benefits in terms of reducing the state costs with social protection for them). Following these jobs, businesses benefited from an additional source of funding, and, by reducing income tax to be paid, they obtained an increase in business profitability.
- charging a lower tax rate for profits obtained following the receipt of revenues in foreign currency represented an economic and financial leverage through which the state aimed an increase in the level of exports and the introduction of the foreign currency in the country. Traders who made exports could benefit from this facility through additional funding sources to benefit (difference between regular tax rate and reduced tax rate) or through the possibility of setting lower delivery prices.
- providing tax relief for businesses that invest significant savings aimed at increasing the capital invested in Romania, especially from external sources. The tax would be recovered indirectly from taxes on wages for jobs newly created, the future taxation of developed business, etc.
- providing a reduced tax for agriculture aimed to develop the agricultural sector in Romania, to increase investment in this area so that businesses could benefit from a tax reduction.

Analyzing these tax regulations one can find a common aspect, namely their influence in increasing the capacity of self-financing of economic entities which may cause an increase in their profitability by reducing income taxes payable to the state.

The tax system works on all businesses, therefore, its influence the economic and financial performance is manifested in all economic entities. State intervention through taxes on economic and financial performance of the companies has manifested as a consequence of the adoption of administrative measures. Among administrative measures with incidence on the company's fiscality who acted or acts in Romania can be remembered [10]:

- financial control and sanction tax evasion;
- application of valuation methods established by the state for fixed assets;
- establishing a system of depreciation of fixed assets without taking into account the specific the economic agents;
- granting exemptions, reductions, delays, deferrals of tax payments for certain economic entities;
- subsidies (negative taxes) etc.

The efficiency of the fiscal and financial control causes the creation of a competitive environment in terms of tax, being able to get higher financial – fiscal performances due to evasion removal.

Regarding granting tax exemptions, reductions, rescheduling, postponing for payment of taxes or subsidies only to certain economic entities, such measures have effects on economic entities and adversely affect the business environment.

Starting from the above, we may say that the reduction of the tax cost represents one of the main concerns of any company. This decrease may be done through good information on tax regulations in force, but, especially, by using tax mechanisms, for increasing a company's rate of return [7]. All this because fiscal management objectives take into consideration to ensure fiscal security and efficiency through research of form and substance prescriptions, delays, deferrals, exemptions imposed by tax law. In this way the entity is avoiding tax penalties and proceeds to a better allocation of its financial resources.

In market economy, the state can not make an intervention in the private sector

only through administrative methods but can use leverages provided by the tax system to achieve certain directions regarding the economic and social policy [5].

5. Conclusions

The organization, design and operation of fiscal policy lead to changes in social, economic and political environment. Therefore, fiscal policy must be assessed not only from a static perspective, but also from a dynamic one. Through its use as an instrument of political decisions, taxation is both generator and fruit of fiscal policy. This means that fiscal policy determines the operation of different sampling techniques and mechanisms for taxes for political, economic and / or social purposes.

Taking into consideration the fiscal policy is important and necessary because, from the way it is built and operates, conclusions can be drawn on the tax burden, fiscal policy and efficiency of the public authority involvement in economic and social life of a society. Taxation pursues the objectives of economic and social policy of the state.

Fiscal policy is developed not only at the macroeconomic level. Businesses, according to the strategy addressed, use tools and techniques that allow them to obtain tax advantages. In this respect, it is required to action towards reducing the tax burden both in absolute and in relative size (by reference to turnover) as well as cost and fiscal risk.

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D

Testing for Sibex Market's Long-Term Memory

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Abstract

Long-term memory or long-term dependencies of financial time series' returns allows testing the efficiency of capital markets. This paper investigates the long-term memory in Sibex market by both static and dynamic approaches. Identifying the long-term memory in futures market can be useful for detecting arbitrage opportunities in this market and thus for managing portfolios of financial assets. For measuring the long-term dependencies we used the Generalized Hurst Exponent because it has the smallest estimation error compared to other methods. The implementation of GHE test on rolling windows allows for robust results concerning the degree of markets' informational efficiency in time.

Keywords: long-term dependencies, futures contracts, Generalized Hurst Exponent, informational efficiency, Sibex.

JEL Classification: G11, G13, G14,

1. Introduction

The crisis that started in 2007 in the U.S. and then spread to almost all regions of the world will have a major impact on economic sciences. Although history has given us many examples of financial crises which would have allowed for a view on the evolution of the current crisis, policy makers suffered from the syndrome "this time is different". Reinhart & Rogoff (2012) define the syndrome "this time is different" very simple: the principle on which is based is the belief that a financial crisis is something that happens to other people, other countries and other times; the crisis can't happen here and now. We make things better, we are smarter, we have learned

from the past mistakes. The old rules of valuation no longer apply. Based on the long history of financial crises of about eight hundred years, Reinhart and Rogoff demonstrate in their book that history tends to repeat and future governments and investors should contemplate before stating "this time is different" as it will almost never be. In this context we aim to identify the long-term memory in the most important futures market in Romania - Sibex. Mandelbrot and Wallis (1968) have called this feature of time series the "Joseph effect" referring to the biblical seven years of plenty that would be followed by seven years of dearth. The long-term memory of financial time series must be analyzed in the context of informational efficiency hypothesis.

The concept of efficiency is discussed in modern financial theory, as Bachelier (1900) intuited in his doctoral thesis by the early twentieth century. He recognizes that the "past, present and even the discounted future events are reflected in market price, but often it doesn't show an apparent connection with price changes." This identification of informational market efficiency determined Bachelier to continue: "if the market fails to predict its fluctuations, we consider it to be more or less likely, and this probability can be calculated mathematically." Bachelier's work was the driving force not only for Albert Einstein's concerns on Einstein-Wiener process of Brownian motion, but also for numerous discoveries in the financial world of the second half of the last century.

Unfortunately, Bachelier's contribution was overlooked for half a century until Samuelson (1965) has focused his research on informational efficiency and demonstrated in his paper "*Proof that properly anticipated prices fluctuate randomly*" that the prices in

the financial markets evolve randomly and are not connected. In essence, this means that prices follow a random walk process, which means that prices cannot be predicted. Subsequently, based on microeconomic approach of Samuelson, Fama developed the concept of informational efficiency. Fama, who is recognized as the father of efficient market hypothesis considers that the market is efficient in terms of information if the *prices always fully reflect all available information*, under the supposition that transaction costs and taxation are ignored and the information quickly penetrate the market and is freely available to all market participants.

Fama's definition (1965) of an efficient market is: *"An efficient market is defined as a market where there are large numbers of rational, profit-maximizers actively competing, with each trying to predict future market values of individual securities, and where important current information is almost freely available to all participants. In an efficient market, competition among the many intelligent participants leads to a situation where, at any point in time, actual prices of individual securities already reflect the effects of information based both on events that have already occurred and on events which, as of now, the market expects to take place in the future. In other words, in an efficient market at any point in time the actual price of a security will be a good estimate of its intrinsic value."*

On an efficient market, prices fluctuate randomly and investors may not obtain consistent gains to compensate for the risk they have assumed. In such a market, the trading price reflects the *true theoretical value* of that title. If we could determine this real value, we will probably be able to obtain a higher profit by buying the asset when the price is too low and selling it when the price is too high.

2. Long-term dependencies

The main criticism of classical studies on informational efficiency is that statistical tests are focused on the analysis of the absolute informational efficiency. In other words, the results of these tests lead to the conclusion that the market is or is not weak-form efficient, but

provide no information on the degree of efficiency or inefficiency. This inconvenience has not allowed researchers to observe if there have been improvements in market efficiency over time or to make a quantitative comparison of the degree of efficiency between different markets. Yet, modern financial literature tries to identify possible factors (financial liberalization, market capitalization, market liquidity, setting price limits, institutional and technical changes, the impact of financial crises) that could determine a market to be efficient or inefficient.

In a study which critically approaches the traditional statistical tools used for testing the validity of the weak-form efficiency hypothesis, Saadi *et al.* (2006) recommend the use of empirical tests which are able to identify both linear and nonlinear financial time series dependencies.

In a similar study Lim *et al.* (2006) present relevant arguments in favor of nonlinear dependencies identified between international markets with different operating mechanisms. As the presence of nonlinearity contradicts the weak-form efficiency hypothesis, the empirical results concluded that all markets under analysis were inefficient.

There is no doubt that the concept of perfect efficiency is utopian, but it would be unfair to classify all markets as inefficient, regardless of their development stage. In this context it is expected that developed markets have higher efficiency degree than the emergent ones. This could be explained by the fact that a more detailed analysis realized by traders on higher liquidity markets should ensure a rapid elimination of arbitrage opportunities generated by either linear or nonlinear dependencies. That's why the new concept of *relative efficiency* referring to markets ranking according to their efficiency degree has been introduced in financial literature.

Campbell *et al.* (1997) noted that the market cannot be absolutely informational efficient because this is a benchmark intangible in practice. Campbell introduces the concept of *relative efficiency* which involves the establishment of the market efficiency degree rather than analyzing absolute efficiency which

ultimately reduces to choosing between efficiency and inefficiency.

In the financial literature, most studies are based on the idea that any deviation from a random walk process is a deviation from the hypothesis of informational efficiency. These deviations are caused by the presence of short and long memory. Even if most time series satisfy the stationarity assumptions they could present long-term dependencies which may be low in intensity but worthy of consideration.

Long-term memory or long-term dependencies can be tested using Hurst exponent. There are several methods for estimating the Hurst exponent: analysis of R/S Hurst proposed in 1951 and introduced in economics by Mandelbrot and Wallis in 1969, Geweke & Porter-Hudake method (1983), analysis of modified or generalized R/S (Lo A.W., 1991), fluctuations' analysis after removing trend (Peng *et al.*, 1994), the moving average method after eliminating trend (Alessio *et al.*, 2002), fluctuations' analysis after eliminating multifractal trend (Kantelhardt *et al.*, 2002) and generalized Hurst exponent (Di Matteo *et al.*, 2005). All these methods have both advantages and disadvantages, but for more accurate results we will use GHE test because it has the smallest estimation error compared to other methods. The implementation of GHE test on rolling windows allows for robust results concerning the markets' degree of informational efficiency over time.

3. Generalized Hurst Exponent

Generalized Hurst exponent was first proposed by Barabasi & Vicsek (1991) and resumed by Di Matteo *et al.* (2005) for financial time series. The Hurst exponent, which we simply denote H , is used as a measure of long-term memory of time series and his values can range between 0 and 1. Depending on the values taken by the Hurst exponent, financial time series are:

- *independent time series* if $H = 0,5$ or close to 0,5, the series follows a random walk process. In other words, the present has no impact on the future.

- *anti-persistent time series* if $0 < H < 0,5$, i.e. events are negatively correlated over time. Thus, if the price increased / decreased in the past, most likely it will decrease / increase in the future. Anti-persistent behavior depends on the intensity of H near 0;
- *persistent time series* if $0,5 < H < 1$. In a persistent time series an increase in value will most likely be followed by another increase while a decrease in value will most likely be followed by another decrease. Persistent behavior depends on the intensity of H near 1.

In a weak form informational efficient market, it will be impossible for an investor to predict the market price and gain systematic profits because the best prediction based on the historical data is the actual price and price variations are independent and identically distributed (i.i.d.). This implies the absence of serial correlation or in other words the absence of memory in stock prices, no information at time t or before this time being able to improve forecasting prices and returns. Consequently, a weak form informational efficient market is in a restrictive approach, a random walk process with a Hurst exponent equal to 0.5. If $H \in (0, 0,5)$ or $(0,5, 1)$, the market is not efficient because the time series' prices are strongly autocorrelated on long term, they contain useful information for determining the series future prices and they permit modeling the different lengths cycles in order for long term predictions to be relevant, as such allowing investors to "beat" the market.

Suppose that $X(t)$ is the logarithmic price of a futures contract at time t , where $t = \nu, 2\nu, \dots, k\nu, \dots, T$ with the observed period T and the fraction of time ν .

The detection of long-term dependencies and generalized Hurst exponent's estimation is based on the q order moment of the process's increases $X(t)$, $X(t) \equiv \ln(C_t)$:

$$K_q(\tau) = \left\langle |X(t+\tau) - X(t)|^q \right\rangle / \left\langle |X(t)|^q \right\rangle$$

following the law $K_q(\tau) \approx (\tau/\nu)^{qH(q)}$ where the time τ can vary between $\nu = 1$ day and τ_{\max} days. For $q=2$, $K_q(\tau)$ is proportional to the autocorrelation function $a(\tau) = \langle X(t+\tau)X(t) \rangle$. Following the model proposed by Di Matteo *et al.* (2005) we established $\tau_{\max} = 19$ and $q = 1$ for valuing $K_q(\tau)$. $H(1)$ describes the scale behavior of the absolute values of increases and it is expected for its value to be very close to the classic Hurst exponent. After obtaining several values of $K_1(\tau)$ for different τ , $H(1)$ can be estimated by running the following regression by the method of ordinary least squares: $\ln[K_1(\tau)] = a + H(1) \cdot \ln(\tau/\nu) + \eta$ where a is a constant, and η is a stochastic component.

Wald statistic, which follows a Chi-square law with one degree of freedom, is used to test the null hypothesis $H(1) = 0,5$ (the absence of long memory). The statistic is calculated according to the formula $W = \frac{(H(1) - 0,5)^2}{(SE)^2}$, SE is the standard error of the generalized Hurst exponent.

4. Data and empirical results

In our study, for empirically testing the efficiency of futures market we have used futures contracts on SIF5 as underlying asset (common stocks issued by SIF Oltenia S.A.), these being the most liquid futures contracts on Sibex. We have grouped the DESIF5 futures by maturity into four categories: 3 months, 6 months, 9 months and 12 months. The period under analyses is January 2005 - August 2011, resulting in a volume of 1541 observations for the futures contract with a maturity of 3 months, 1331 observations for the contract with a maturity of 6 months, 1,057 observations for the contract with a maturity of 9 months and 798 observations for the futures contract with a maturity of 12 months.

For testing the long range dependencies on DESIF5 futures market, we applied GHE test

both static and dynamic on rolling windows of 512 observations each, in order to observe the evolution over time of the prices' long term memory and implicitly the evolution of the weak-form futures market' efficiency degree. The results of GHE test are presented in the next table.

Table 1. Results of static GHE test

		H(1)	SE	W
DESIF5	3	0,563	0,0193	10,92765**
DESIF5	6	0,598	0,0121	65,59661**
DESIF5	9	0,58	0,0111	51,94384**
DESIF5	12	0,623	0,0184	44,68632**

Source: Authors' processing

Note: *** denotes significance at 1% level

** denotes significance at 5% level

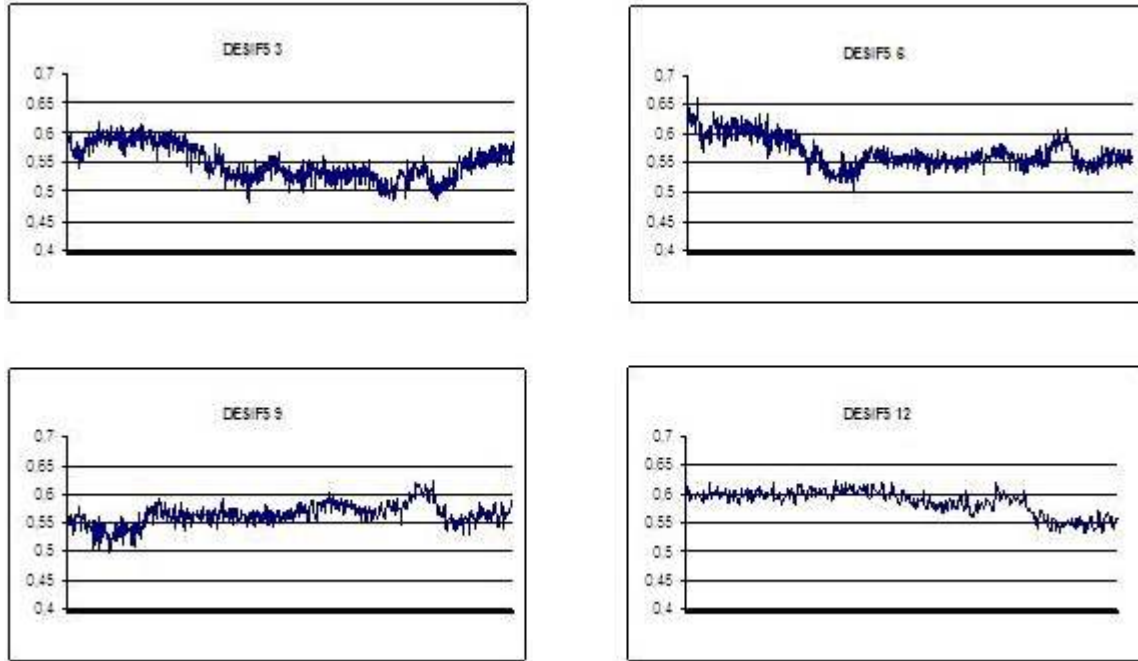
It is noted that for all four contracts reviewed, the market has a persistent behavior, long-term dependencies being indentified. The null hypothesis of the Wald test is being rejected at a significance level of 1% in all cases (Wald test critical values are: 6.6 (1%) and 3.8 (5%)). Generalized Hurst exponent takes values between 0.5638 for DESIF5 contract with a maturity of 3 months and 0.623 for the one with a maturity of 12 months. The values of Hurst exponent indicate an increase of efficiency for DESIF5 futures contract with a maturity of 3months and a decrease of efficiency for the contract with a maturity of 12 months. The explanation could be that the liquidity of the contract with a maturity of 3 months is much higher than the one of the contract with a maturity of 12 month.

The implementation of GHE test on rolling windows allows for robust results concerning the degree of markets' informational efficiency in time. The length of a window is 512 observations because this is the number of observations established by the financial literature. The values of Generalized Hurst exponent were initially estimated using the first 512 observations and then removed the first one and added the following maintaining the window's length unchanged. The procedure

was repeated until the last observation was used. The values obtained are represented in figure 1. It is noted that long memory is present in all DESIF5 contracts, *i.e.* temporal variation

of the generalized Hurst exponent shows a stable behavior reflected by episodes of persistence.

Figure 1. The time evolution of $H(1)$ of GHE test on rolling windows



Source: Authors' processing

The GHE test' results applied over the entire period, as well as over rolling windows, reflect the acceptance of long memory hypothesis for all four contracts over all the analyzed period. The results of this study show that the efficiency of the market is not a static concept and that its intensity can vary over time.

5. Conclusions

The investors on futures market may be interested in determining the degree of market efficiency because it can provide useful information in order to adopt hedging or arbitrage strategies, to minimize their risk and to maximize their gain.

After applying the GHE test both static and dynamic for testing the Sibex market's long-term memory, we found that the market presents a persistent behavior, so it has a long memory for all four groups of contracts.

The identification of long-term dependencies in the Sibex market's series of futures prices reflects the fact that this market has a certain degree of predictability which investors could exploit.

Futures market in Romania has grown considerably in recent years offering investment opportunities, portfolio diversification and hedging for investors that operate both nationally and globally and we hope to continue on the same line in the future.

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The Importance Of Financial Audit and Reporting On The Predictions Of Companies' Performance On The Bucharest Stock Exchange

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Abstract

The problem regarding the financial performance of the companies is related not only with the critical examination of them, but also with the evaluation realized by the audit team regarding company's financial statements. As a fact, the lower the financial performance is, more importance to audit practices is conferred. This study is going to evaluate the performance of companies by calculating the Z score using the Anghel Function. The sample is used by evaluating the companies from the BSE (Bucharest Stock Exchange). As the model is pointing out the companies that obtained higher or lower performance, the financial audit is also important to the present context.

Key words: key words financial audit, financial performance, accounting principles, discriminant analysis, z score

JEL Classification: M40

1. Introduction

Companies' performance is very important as it can influence both the decisions taken by the managers and the decisions taken by the investors. Moreover, the reason for choosing to evaluate the financial performance of the companies is essential if the macroeconomic environment is considered. From the practical point of view, quantifying financial performance of the companies can be influence by the decision given by financial auditors. As a

fact, there is a strong correlation between the financial performance obtained by companies and the audit as the last one has to realize more valuation models if the performance is getting worst. Not only could the auditors be responsible for unreliable information, but also the managers who can modify the financial elements in order to obtain higher benefits besides their normal remuneration.

Taking these elements into consideration, we considered that the performance of the companies can be both influence by the way the financial data are audited and moreover, the way that each element from the balance sheet and the profit and loss account is reported during a financial period.

2. Literature review

The problem regarding the financial performance evaluation is considered to be one of the main activities through the economic environment. The anticipation regarding the changes that can appear in the economic environment is difficult to establish, and that is way a proper evaluation of the performance obtained by companies is necessary. As there are several problems regarding the definition of financial performance, the decisions taken by the audit are essential as they definitely influence the behaviour of each stakeholder.

The main literature is focusing on point out that the performance is best measured by supervised pattern recognition technique. FitzPatrick, P. J. (1932) [1] is considered to be the first who realised that financial ratio presented important changes with 3 years

before the bankruptcy of the company. Winakor, A. și Smith, R.F. (1935) [2] obtained same conclusion, as financial ratio decrease, in a 10 year, period while the performance got worst. However, Beaver, W. H. (1967) [3] is considered to be the proposer of discriminant analysis technique as he try to identify a way through which could be explain why the company cannot pay its debts and why this fact is followed by bankruptcy. The risk analysed was introduced by measuring the proportion of each financial indicator realized.

An important changed happed in 1968, when Altman, E. I. (1968) [4] emphasis the difference between one varied and multiple varied models of discriminant analysis he is the first one who applies the pattern recognition technique and moreover the person who introduce the scoring method in order to realize a separation between healthy companies and companies that have important problems. After that, several studies had been realized in order to improve the Altman Model or that pointed out other way of calculating the probability of bankruptcy of the companies like Altman, E, Handelman, R, Narayanan, P (1977) [5], Deakin, E.B (1972) [6], Edminster, R.O (1972) [7], Taffler, R.J (1982) [8] , Conan, J, Holder, M (1979) [9].

Not only the foreign literature is emphases the importance of establishing some ratios with which the low performance evolution of the company could be identified. As a fact, the Romanian literature also points out the importance of supervised pattern recognition. Dinu E,Curea S.C (2009) [10] releaed that the classical fundamental analysis and the Technical one perform poorly upon the assessment of the company's performance that the technique made by discriminant analysis as the last one can reflect specific factors that are related with the economic crisis.

One of the most relevant models to Romanian economy was realised by Anghel, I. (2002) [11] who used 276 enterprises from 12 sectors of national economy. The study has one particular situation, as it includes not only the companies that were deployed for bankruptcy, but also firms in default, companies with a critical limit of payments or institutions which have consecutive losses. Moreover, regarding the supervised pattern

recognition, other models have been realised upon the Romanian market, like Manecuta, C, Nicolae, M (1996) model [12], Ivoniciu (1998) [13] , Bailesteanu , G (1998) [14], Statev I. V (2006) [15], Sajin, P (2010) [16].

As the current paper is focusing also on the connection between audit and financial performance, we considered that is it important to illustrate some researches in the field. As a fact, Chin-Fook Yap , B, Gun-Fie Yong, D, Poon, W. C (2010) [17] identified that financial indicators often appear in the auditor reports and moreover, that the ratio analysis and the bankruptcy prediction models are useful for financial auditors as they are required to approve if a company has the ability to continue its existence or not.

Eldridge, S and all (2012)[18] emphasis that the changes in auditor activity can increase financial distress variables as these changes can be percept a way of decreasing the performance of companies' main indicators. Mironciuc, Robu& Robu (2012) [19] point out that financial auditor is important in order to detect financial fraud which could be obtained by manipulating financial indicators that the company report in order to prove that it has realized a better financial performance than that obtain in the previous financial reporting period.

Moreover, Spathis et all. (2007) [20] used the discriminant analysis in order to predict the auditors opinion, while Höglund, H (2007) [21] considers that there are insufficient qualified auditors opinion in order to perform a discriminant analysis for predicting the auditors opinion, while the connection between it and financial performance could not be denied. Several studies have also strengthened the connection between financial performance and auditors reaction, like Dang, L (2004) [22], Al- jabali, MA Abdalmanam, O, Ziadat, K. N (2011) [23].

3. Methodology

As the connection between the performance measured through financial indicators and the auditors cannot be omitted, an analysis was realise in these research upon this problem on the Romanian Market. Due to it, the companies listed on the Bucharest Stock Exchange were analysed by calculating the Z score established by Anghel. The

discriminant function calculated by Anghel was realized in 2002. As several financial problems have been observed through the last years due to the economic crisis, we wanted to point out how the performance quantified using a 10 years performance function is still valid when the Romanian Economic background is considered.

The data used is from the Bucharest Stock of exchange and moreover from the site of each company listed, as some information in order to determine the Z Anghel score could not be identified on sites that provide financial information.

The Anghel Z score is calculated using the formula that is trying to identify the performance of the companies using for financial indicators. As a fact, these indicators are as follow: the ratio between net profit and total revenues as a measure of income profitability rate, the ratio between cash flow and total assets as a measure of covering the company's debt with cash flow, the ratio between total debts and total assets as a measure of debt-asset ratio and the ratio between debts and turnover of the company multiply by 360 as a measure of rate that quantifies the payment of liabilities that the company has. The importance of cash flow is also pointed out by Oancea-Negescu, M.D. and Cismanu, I.D. (2009) [25] as it can offer proper information about the performance that companies on the Romanian market can obtain.

The Anghel function can be summarize in the following form

$$Z = 5,676 + 6,371 * X_1 + 5,393 * X_2 - 5,1427 * X_3 - 0,0105 X_4$$

Where the elements X_1 to X_4 reflect the indicators mention above.

Moreover, as the performance was quantify by using this function, a correlation with the audit standards was realised as there are some important elements that have to be taken into consideration.

The idea of research is based on the fact that there are some accounting principles that have to be analysed and to considere how the company is going to perform its future activity.

The data analyse do not include the companies that are financial institution as their reporting form of financial statement is

different from the companies perspective, as the elements that are considered assets for companies are considered liabilities for bank and also the assets that could be identified in the financial statements of financial institution could be liabilities for companies. Nonetheless, the investment societies were not considered as their financial results are somehow under-evaluated by the market so not a proper evaluation of their performance could be realised.

4. Results obtained and the connection with the auditors' activity

Results obtained are really important as a connection with the auditor activity should be definitely realised. First of all, the international audit standard 570 point out that the principle for the persistent and continuous activity is essential in order to give a proper evaluation of the company's activity. As a fact, all factors that asses the degree of uncertainty associated with the financial results- depending on the event that occur and influence them should be evaluated. As a fact, the auditor has to obtain adequate evidence regarding the efficient use of this principle by the managers when the financial statements are realized. They should obtain conclusion of the existence of a significant uncertainty that may affect the ability of the company to continue its own activity. As a fact, the Z score can be a relevant measure of the performance obtained by the company. The explication that the Anghel Score was used is based on the fact that the analysis of the cash flow obtained by the company is essential in order to give proper information about its performance.

The idea of research was to illustrate the performance for listed companies on the Bucharest stock of Exchange. Actually, from the total number only 54 companies were analysed, as 12 companies do not provide all the financial data needed for calculating the Z score, the investment societies were excluded and also the banks.

Taking these elements into consideration, we considered that a descriptive statistic of the indicators use and of the Z score calculation should be provided in order to illustrate the evolution of the market.

Table no 1. Descriptive statistic for the elements used and for the Z score

Variable	X1	X2	X3	X4	Z
Minimum	-3,587728	-0,554205	0,000012	0,000092	-22,906314
Maximum	0,880134	0,180497	1,251659	7,773837	10,987060
Average	-0,089439	-0,001435	0,394322	1,006631	3,059995

Source: Own calculation

As it can be seen the table presents the lowest and highest values obtained for the ratio analysed and also for the final variable which is the Z score. In order to reveal who obtained these values, we consider necessary to realize another table.

Table no. 2. The highest and lowest values for the indicator analysed and the companies that obtained them

Variable	Highest value	Company	Lowest value	Company
X1	0,880134171	FP	-3,587727687	CGC
X2	0,180496535	VNC	-0,554205093	BVB
X3	1,251659173	MJM	1,18719E-05	BCM
X4	7,773836667	IMP	9,15347E-05	BCM
Z	10,98705991	FP	-22,90631437	CGC

Source: Own calculation

Moreover, in order to evaluate the performance of the company, by calculating the Z score established by Anghel (2002), the results were presented also in a table as it is considered to be the easiest way of reporting.

Table no. 3. Number of companies that have high/low performance

Indicator	High performance	Indecision	Low performance
Number	41	4	9

Source: Own calculation

As it can be seen, the companies listed on the Bucharest Stock of Exchange are generally characterized by high financial performance, while some are dealing with several financial problems as their Z score is under the critical value 0. The companies that are in the indecision area could improve of decrease their financial performance, the

final result depending not only by the decisions taken by their managers, but also by the way they decide to report their financial statements.

Regarding the audit and the performance size of our study, there is another element that has to be taken into consideration. Considering the international audit standard 560, the auditor is not responsible for elements that appear after the auditor's report and he it is not mandatory for him to reevaluate the financial situation of the companies audited. If the indicator that affects the financial situation of the company manifest its influence before the audit report is published, than the audit should discuss the situation with the managers and director of the company, regarding the way the indicator affects the financial situations and moreover if a there is a need of a necessary modification. When the indicator manifest its influence upon the audit report has been published, similar analyse should be realized in order to point out how the new element influence the total performance obtained by the company.

Moreover, in order to give a reliable opinion by the audit team, they have to analyse the credibility of the previous audit and financial situation reports taking into account the accounting policies that were applied, without eliminating the contingencies and commitments existent.

5. Discussion about the result obtained

The problem regarding the Anghel model is that even it has a 95 % probability of identifying the default and the bankruptcy problems is that is not offering a descriptive statistic of discriminant function values and it does not specify the weight of sample tested that is in the area of uncertainty so no comparison with the results obtained by its author could be realised. Other problems regarding this model are related to the fact that only the financial element of the companies were analysed, without considering the other element like social aspects, corporate governance ones could influence the performance of the companies. Moreover, the model does not consider the differences that can appear between different sectors.

Another problem is related with the fact, that even though there are general principles that guide the auditors behaviour, their practical activity still has some ambiguous information as not a truly detailed report about the company's financial performance is presented to the shareholders of the company.

Other problems that appeared and influence the results obtained are the way companies do not report their primary financial data even though they are listed on the Bucharest Stock of exchange, so the level of transparency is lower than it should be. Moreover, there is not a proper way of reporting and the consequence is that the way of collecting the financial data is difficult.

As a fact, further reached is going to be established by realising a discriminant function for the companies listed using both the financial and social elements for the companies, by considering if the influence of industry affects the performance of the companies and moreover, by validating the result with sample from other industries and also with the evolution of the stock price evolution.

5. Conclusions

In the main literature, there is no acceptance referring to the way "performance" can be defined as there could be used not only classical indicators, but also modern concepts that include value added and market valuation. It is however considered that the patterned recognition method offers better evaluation of company's performance as it can surprise the influence of factors during a financial crisis.

The researched made tried to point out how the performance is measured using the Anghel Z Score for the companies that are listed on the Bucharest Stock of Exchange. The conclusion of the performance analysed was that approximately 76% from the companies listed are considered having no problems when the performance concept is evaluated, 7,4% are in the indecision area, while 16.6% from the companies analysed are considered having important financial problems as their performance level is under the critical value. Moreover, the research tried to establish a connection between the performance obtained and the audit practices

and we have concluded that the auditors should evaluate the performance taking the credibility of financial data into account and nonetheless that it could be not their fault if unreliable financial information is provided by the managers of the company [26] As a fact, as long as the auditors applied the international audit standards, the way they evaluate the performance and the credibility of data provided by the company could not be questioned.

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The Financial Action Task Force and Combating Financing of the Terrorism in Romania

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Abstract

After the tragic events of September 11, 2001, at international level, have been taken important decisions to combat terrorist financing. Today, the phenomenon of terrorism has become a global threat due to factors such as globalization of national economies, multinational companies, bank trusts existence, development of information technology and "shorter" distances between different countries. Terrorism tends to have a planetary character given by the highly developed international relations and economic interdependence between countries of the world. To those factors, appeared the ethnic and religious tensions in some parts of the world.

Keywords: combating financing, terrorism, financial action, globalization, economy

J.E.L. Classification: Law and Economics General; K 30

(FATF) is an inter-governmental body established in 1989. The Objectives of the FATF is to set standards and promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system. Money laundering, terrorist financing and the financing of the proliferation of weapons of mass destruction is serious threats to security and the integrity of the financial system [2]. The FATF Special Recommendations are adopted periodically on protection of the integrity of the global financial system. The FATF standards have been periodically revised to strengthen global further safeguards and protect the integrity of the financial system. FATF provide governments with tools to take action against financial crimes. At the same time, these standards set priority areas such as corruption and tax crimes [3].

Introduction

As member of NATO and European Union, Romania has a number of obligations in the area of security in the Black Sea region, and thus has taken important steps to ensure the safety of external borders and took a series of legislative measures to counter terrorism and other additional crimes.

The Financial Action Task Force and terrorism.

In this international context, different countries of the world started to block terrorists' financial resources and limited access to financial systems[1]. In this are an important actor isThe Financial Action Task Force. The Financial Action Task Force

Romania and the fight against financing of terrorism

Following the FATF recommendations Romania established in the last 10-11 years law regulations in this domain. According to the law 535/2004 acts of terrorism can take the form of several offenses covered by the the Romanian Penal Code and other special acts.Romanian law details the specific procedural steps in order to gather information on terrorist acts, and the responsibilities for different law enforcement bodies. The adopted acts also prohibits financial and banking operations in order to finance terrorism on Romanian territories. In Romania, the tools to combat terrorist financing are similar to those used for money laundering: standard methods to "scan"customer, continuous monitoring of

specific transactions (e.g. rapid transfer of money transfers having “unknown” destination) and transfers of money from individuals located in countries with a high risk of terrorism. Under these circumstances, it is necessary that banks and other financial intermediaries to pay special attention on nonprofits and charities organizations or operations related to this organizations. Under the provisions of Law no. 656/2002 on preventing and combating money laundering, the National Office for Preventing and Combating Money Laundering received data and information continuously on persons suspected of financing terrorism. Furthermore, the Office has received from Financial Crimes Enforcement Network - United States, several requests for information on people who are being investigated by the FBI and are suspected to be related to the terrorist attacks on the U.S. in 2001. That list has been sent to the Romanian authorities and competent institutions in fighting and preventing recycling of funds. Office searches in its own database and other database and established that people on the list of Federal Bureau of Investigation have no track on financial activities, or other activities in Romania. Office responded also to different questions coming from other European Union partner about persons suspected on financing terrorist organizations. Investigations undertaken by the Office concluded the lack evidences about criminal financial activities undertaken by terrorists through the Romanian banking system. At the same time, the Office has received reports of suspicious transactions submitted by banks on various strangers on the transfer of funds without commercial justification. Their intention was to transfer funds from countries with high terrorist risk using Canada, U.S. and Romania. After checking performed by the Romanian authorities, the initial issues were not confirmed. After the events from September 11, 2001, when attacking civilian targets in the United States caused thousands of civilian casualties, the conflict approach by the allies in NATO fundamentally changed. Because terrorist organizations are actually armed groups that have a specific organization, weapons and other military equipment, they cannot function without the financial and material resources. Hence, one

of the most effective ways to prevent and combat terrorist threat is to eliminate their financial sources [4].

Security Council of the United Nations after September 11, 2001, drew up a list of 372 individuals and companies suspected of funding some action or terrorist groups. After the United Nations called on Member States, all countries blocked the accounts of these people and also forbidden any financial transaction of these persons and companies.

Romania has issued Law 159/2001 on preventing and combating banking sphere system for financing acts of terrorism, law covered all the recommendations of the United Nation Security Council.

Therefore, a person who collects funds directly or indirectly, knowing that these funds will be used for acts of terrorism, will be punished with imprisonment from 5 to 20 years. In the same way is sanctioned the person who performs acts of terrorism financing funds. Romanian law forbids any operations banking sphere persons mentioned in the United Nation list. The list is periodically renews based on information received from United Nation and other Romanian or foreign institutions involved in combating terrorism.

Conclusions

Romania as a member of the international community has a duty to combat the scourge of terrorism. From this point of view, Romania will always cooperate with other countries but also with international organizations with interests in this area. Cooperation will take place in multiple areas. Perhaps the most important area is to harmonize the future Romanian legislation with the international recommendations and to implement the best practices regarding the financing of terrorism.

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Economic and Financial Crimes in Romania

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Abstract

The present paper aims to highlight the main aspects of tax evasion and the causes of economic and financial crime. The main theme is of interest by its actuality. It seems that the economic and financial crime is "fashionable" as demonstrates the upward trend in various fields in which now is manifested, making difficult to limit the scams and the frauds

Keywords: economic, financial, crime, banking, tax evasion

J.E.L.Classification: K 30

Introduction

Various studies and analyzes made over the time demonstrates that these phenomena exist from the contemporary era, but in Romania occurred preponderant since 1989. Economic and financial crimes, aimed the fields such as construction, petroleum products trading, and trading in tobacco and alcohol, leading even to tourism, so the volume of tax evasion has grown exponentially from that period. For example, a study by the former National Agency for Control shows that in 2004, tax evasion reached a volume of approximately two billion.

Thus the problem of tax evasion gets a major interest in Romania, primarily due to the existence of the economies severe lack of capital, which led to the creation of legal tax avoidance, or rather to tolerate it.

A concrete example in this regard is imposing the income of certain categories of individuals on the basis of average normal

income tax, that creates conditions for taxpayers with incomes higher than the average, not to pay the tax difference.

Another example is the businesses in certain sectors of the economy, the establishment or during the development activities, in the form of exemptions from VAT for the activities of export tax, excise, etc. or tax cuts.

Regarding illegal tax evasion, among the most frequent cases are falsifying the balance sheet as a means to defraud the IRS, which requires an agreement between the owner and chief accountant. Therefore they are held jointly and severally liable for the offense committed. Reduce taxable matter results of reducing turnover by registering in unit costs of personal expenses of the employers. Another example of illegal tax evasion is recording the common outstanding expenses, or execution of a double register of real and one dummy copy, or even shift in personal accounts of parts of the benefit, the composition of false accounting register, and so on.

It should be noted that although the theoretical approaches tax evasion is linked to money laundering process, the two are distinct phenomena: tax evasion involves stealing by any means, in whole or in part by the payment of taxes and other amounts owed to the state budget, local budgets and state social insurance budget and extra-budgetary special funds, by natural and legal persons, Romanian or foreign, instead that the money laundering is an financial economic process which ranks opposite position, namely profit obtained illegally, apparently wants to receive legal income. Therefore, from this perspective, individuals involved in tax evasion offenses reveals

much higher incomes in accounting than they actually achieved, while operators involved in economic financial activity such as money laundering, reports regularly returns much higher than the real ones.

The current system analysis highlighted, that widespread manifestation of tax offenses is determined and made by a number of factors, among which we have: size of the tax levy, tax sanctions policy, and the preparation and organization of the fiscal. Regarding the size of a tax levy, this is about taxes whose rates are too high in relation to the taxes. For these reasons taxpayers, people are required to pay these taxes State are tempted to not honor its payments to the state budget, to the social security budget and health assurance. In terms of sanctions, they are in the form of fines and penalties. The State raises income levels of the budget by collecting fines and penalties, the raised number and the high level of penalties and fines may result in a financial jam and finally to the closure of several economic units. The preparation and organization of the fiscal system also influences specifically the manifestation of these criminal phenomena.

As a specific and new phenomenon, with the multiplication of bank units and the demand for services from people to these institutions we have a picture of the financial banking crimes. The particular interest to this kind of crime is aroused by the fact that this sector should be the greatest transparency, but the reality is totally opposite. To better analyze this type of crime, it will be analyzed in terms of legal criminal issues. In December 1989, the 58th Interpol General Assembly session was centered on the analysis of the illegal international financial transaction systems. Such "underground" banking systems dates back a long time, probably before the advent of banking systems in current acceptance and apparently originated in the Orient.

Underground banking system involves transferring without traces, in various banking areas, large sums of money bypassing legal procedures, especially in those countries that have no regulations on foreign exchange control. The reasons for using this system are different from sending small amounts of money to relatives in poor countries, tax evasion and financing major crime - political or religious terrorism, arms

and drug trafficking. Name under which it is known this system varies from one area to another: "chop shop" in Chinese, "Hund" or "Hawalli" the Indian sub-continent and "stash house" in Latin America. The term "chop" is the name given to a document so important that could replace the receipt and "Hawalli" is one word in dialect "Urdu" which means "reference recommendation" and not least "hund" which means "trust" in Hindi.

We can say that by the organization and operation statutes each banking company sets their own ways of working in the field, but you must follow certain mandatory rules which generally apply to all companies with this profile. From this perspective, we will keep under review the compliance of the main legal norms governing banking business and the banking companies in Romania - Law no. 58/1989 [1]. Legislature has not provided for in the Law on banking activity, excepting the banking discipline violations, distinct crimes may be committed in this area, which can occur in practice due to the large amounts they operate, especially as forgery and use of forgery as well as deception.

A widespread phenomenon faced by banking companies is the issue, to limit the amount of checks without cover, by some economic agents. In January 1992 the General Accounting Directorate and statements of the National Bank issued a regulation on interbank settlements, completed in June 1992 and the end of 1993. The current regulation is provided by the interbank rules settlement no. 1 from 24 January 2000 [2] on the procedure for the declaration of interbank operations of banks in special settlement regime. This Regulation provides for deadlines and concrete ways in which banks can settle units, regulating the financial relations between economic agents.

Another interesting aspect to note is that the actual national legislation [3], regulating financial activities that can be undertaken by banks, some of these activities as well as some accepting deposits from the public funds, loans, transfers of accounts payments and reimbursements, and even their own transactions on behalf of clients or negotiable monetary instruments, checks, promissory notes, certificates of deposit [4] etc. This poor bank management encourages corruption among officials of the

departments of verification, forecast and control [5]. Also faulty management of bank assets has led to the possibility of laundering large sums of money [6].

In connection with the prevention and sanctioning of money laundering activities, they came under Law no. 21/1991, repealed by Act No. 656/2002 published M, Oh. No. 904 of 12 December 2002. With this law was founded National Office for Prevention and Control of Money Laundering.

Rules provided by Law no. 21/1991 are supplemented with the Law No 78/2000 on preventing, discovering and sanctioning corruption. According to Law no.21/1991 the meaning of money laundering is mentioned in art. 23 - some of these provisions are: concealment or disguise of the true nature of origin, location, disposition, movement or ownership or rights over their property, knowing that the goods come from committing crimes or other acts described in this article is the acquisition, possession or use of property, knowing that they come from committing crimes - or by legal or natural persons referred to in Article 8, including: real estate agents, casinos, credit institutions and branches of credit institutions in Romania foreign private pension fund managers, individuals involved in the privatization process, other natural or legal persons trading in goods and / or services [7].

Knowing all legal requirements is essential, even more as the business world is constantly pursuing delinquent act closer to the edge of the law, to cover his actions as much as possible, through a pseudo-legality to inspire confidence and research evade judicial bodies.

Conclusions

The economic and financial crime can be avoided only by perfecting and improving the content of the law that made it possible [8]. In the absence of an appropriate legislative framework to the socio-economic reality, these crimes will continue. The main factors that led to the enhancing of the phenomena should be close observed and permanently taken the legal, administrative and financial measures.

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Features of Budget Execution in Public Institutions' Budgets Entirely Funded by Public and Local Budgets; Case Study in an Educational Institution

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Abstract

Budgeting, a set of steps taken by state competent bodies in order to materialize the financial policy applied by governmental authority, takes place in the following stages: setting out the budget statement, approving the budget, budget execution, budget execution completion, controlling and approving budget execution completion.

Budget execution is described in specialized literature especially as a stage in the budgeting process in the components of the national public budget (public budget, social insurance budget, budgets of territorial administrative units).

The present paper aims at highlighting several features of how budget execution takes place in the budgets of public institutions which are entirely funded by the public budget and local budgets.

Key words: budget, budgeting process, budget execution, revenues, expenses.

J.E.L. classification: H61, I22

1. Introduction

Law 500/2002 of Public Finance defines the **general consolidated budget** as all budgets that are part of the budget system, aggregate and consolidated to make up a whole". The components of the public budget are also highlighted by the law: public budget; state social insurance budget; special fund budgets; state treasury budget; budgets of public autonomous institutions; budgets of public institutions funded totally or partially by the public budget; public institutions' budgets entirely funded by own revenues; fund budget from foreign loans contracted or guaranteed by the state, and whose refunding, interests and other costs are provided by

public funds; budget of non-reimbursable foreign funds.

The totality of consecutive stages for the preparation, approval, execution, control and reporting of the budget ending with the approval of the general budget execution account is called a budgeting process.

The present paper seeks to emphasize several features of the budget execution stage in one of the budget components mentioned above: public institutions' budgets totally or partially funded by the public budget, state social insurance budget and special fund budgets.

2. Features of the budget execution in educational institutions

The budgeting process, namely all the steps taken by the state's competent bodies in order to implement the financial policy of the governmental authority, takes place in the stages below: preparing the budget statement, approving the budget, budget execution, budget execution completion, controlling and approving the completion of budget execution.

Budget execution is that stage of the budgeting process including the collection of budget revenues and the payment for the expenses approved by the budget.

In educational institutions that act as legal entities, the budget execution has several features.

A. Execution of budget revenues

As far as the revenues of educational institutions acting as legal entities are concerned, Law 1/2011 of National Education sets out that the financing of preuniversity educational institutions comprises basic financing, complementary financing and additional financing.

Basic financing comes from the public

budget, more precisely from amounts broken down from VAT and other public budget revenues based on an indicator, the standard cost per pupil/preschooler, calculated in compliance with the methodology laid down by the Ministry of Education, Research, Youth, and Sports and ensures the good development of education practices. Basic financing covers the running expenses of educational establishments.

Complementary financing provides capital expenditure, social expenses and others related to public preuniversity education practices. The law of education states this type of financing comes from the local budgets of territorial and administrative divisions the preuniversity educational institutions belong to, and from amounts broken down from the VAT. As to these aspects, the author believes that ensuring the necessary funds for capital expenditure (investment, major repairing etc.), for social expenses (teachers' commuting costs, social aids, pupils' transportation, pupils' assessment etc.) and for other types of costs related to educational practices is difficult enough. On one hand, one considers the current development of budget indicators in Romania with a significant difference between revenues and expenses which limits the value of public budget transfers, and on the other hand, one takes account of the lack of legal provisions designed to force the budgets of territorial and administrative divisions to be part of educational establishments' funds. Specifically, the public budget over the last years has only ensured the financing of running expenses in educational institutions whereas local budgets do not have the legal but the moral duty to help finance the educational establishments within the town/village jurisdiction.

The third type, additional financing, is provided as a fixed lump sum of money by the budget of the Ministry of Education, Research, Youth, and Sports meant to reward public preuniversity educational establishments which have had the best outcomes in terms of mainstreaming or school performance.

B. Execution of budget expenditure

The expenses incurred from the budgets

of preuniversity education institutions in Romania have lately envisaged the following destinations: personnel expenses, material expenses, scholarship expenses, and capital expenditure.

Each expense category involves the observation of specific stages set out by operational procedures prepared by authorized people in the educational institutions.

Thus, personnel expenses are funded by the public budget by means of local budgets and they are calculated based on certain softwares for education personnel's salaries. At present, the function is performed by Edusal Programme conceived for the computer-assisted records of education institution personnel as it includes all the necessary features to calculate personnel salaries.

Material expenses are funded by the public budget from shares broken down from the VAT by means of the local budget (basic financing) and also from the revenues of territorial and administrative divisions.

The main classes of material expenses are shown in the table below:

*Table 1:
Classes of expenses in the budgets of
educational institutions having legal
liabilities*

Number	Indicator code*	Indicator
1	2001	Goods and services
2	200101	Office furniture/equipment
3	200102	Cleaning materials
4	200103	Central heating, lighting, movement
5	200104	Water and sanitation
6	200108	Postage, telecommunications, radio,TV, Internet
7	2002	Current repair works
8	2005	Goods in the form of small inventory
9	2006	Movements, relocations, transfers
10	2011	Books, papers, documentary materials
11	2014	Employee safety
	2030	Other expenses

Source: Made by the author

* - Indicator codes are detailed in accordance with the Classification of Public Finance in force for the year 2012, approved by Order no.1954/16.12.2005 including subsequent amendments and additions.

The expenses incurred in public institutions are subject to specific procedures according to the way they have been contracted. Thus, for expenses related to utilities, the contract concluded between the parties (contracting authority and goods supplier/service provider) and the invoice are the legal basis of the operations associated with expenses (commitment, liquidation, payment instruction and payment). The other classes of expenses must be carried out by acquisition procedures set out in Emergency Ordinance 34/2006 regarding the allocation of public acquisition contracts: public auction, restricted auction, negotiation, competitive interaction, inquiry, offer contest, direct acquisition. Irrespective of the procedure underlying public acquisitions, it must be justified by special documents: purchase requisition, purchase explanatory note, order note, receipt and difference finding note, consumption voucher, individual delivery-receipt protocol etc.

The payment of bills for the purchased goods, rendered services or works is made by public institutions during the 24th-the 31st day of each month. In compliance with the provisions in Order of the Ministry of Public Finance no.2281/ 2009, liability for the payment of bills representing goods purchased, services rendered or works performed outside the previously stated period is held by the budget manager.

3. Conclusions

The actions taken to finance preuniversity public education have been oriented towards the preparation of a unified, coherent system for making up financing sources and transparently allocating the funds needed in every educational establishment, in order to ensure the proper conditions for the high quality of the entire educational process.

Based on the principle of decentralization, the reforms in school management and education financing have resulted in a new method for preuniversity education financing.

The financing of preuniversity public

education has been regarded in a reticent manner by the people involved (especially teachers). Their main fears were that the funds originally allocated to their salaries might have had other directions, that mayors would roughly interfere with school activities and personnel policies, and that local budgets would not be able to ensure resources for schools' material and development expenses.

Fortunately, their fears have not become reality: salary funds have retained their legal direction and school managers who used to have few rights and obligations as school financial managers and directors have become concerned with their own development and have attended educational management classes paid for by themselves.

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Financial Accounting Management and the Financing of Health Systems

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Abstract

In recent years there is a growing trend of increasing costs in the healthcare system. Funding is thus a key factor for the management health system. There are multiple modalities of financing, namely either by budget or by different types of insurance. Also in fundraising there are involved various situational factors. There is the problem of informal payments which lies outside official channels of payment, and that disadvantage low-income people.

Key words: financial accounting, budget, fundraising, insurance

JEL Classification:

Introduction

Health care represents all that is necessary to make possible the definition given to medical services, by OMS: «Health is a complete welfare state from the physical, psychological and social point of view, and not only the lack of disease or invalidity».

Health system has a share of only 10 % among the determining factors of health state, but it consumes up to 90 % of the budget assigned for health. The occurrence of the modern concept of health care, assumes the development of medical sciences, with impact on health care, but industrialization underlines the need of better work conditions and a more performant health care.

Thereby health insurance systems start to develop: for example, Bismarck was the first who initiated in 1884 the introduction of compulsory accident and disease insurance (disease funds), then mining and other isolated projects in the industrial field brought new solutions: for example, health maintenance organizations (HMO) were initially developed in such situations (a supplier was paid by a proprietor to offer care services to all his employees), and mass

medicine has a primordial role in the exposure to epidemics and in organized nursing.

The occurrence of the modern concept of health care assumes the generalization of health insurance and compulsory cover, which started at the end of the 19th century, and especially after World War I in most of western countries. Two main patterns are pointed out: the «Beveridgian» pattern (after Lord Beveridge, who established the national health system in GB - NHS), this being a state system financed through charges (GB, Denmark, Sweden) and the «Bismarckian» one: (after Bismarck, the German chancellor), provided through disease funds (Germany, Switzerland, France, etc) financed through contributions as a percentage from the salaries (employee/employer), excepting Switzerland (taxation per capita).

After World War II a spectacular development in the medical world is observed se by the emergence of diagnostic instruments: Rx, scanners, RMN, etc, by technological processes in surgery: gastroscopy, assisted respiration devices, or by progress in medical sciences and pharmacy, thus developing a new medical branch called alternative medicine (acupuncture, homeopathy, etc).

The increase of costs takes place due to: new expectations (consumers society) and new challenges (AIDS, etc), the discovery of better, yet more expensive treatments, rate of population's aging, which leads to the increase of care needs, or new discoveries in technology along with the occurrence of new expensive medicines, etc.

The reduction of the share of state-allotted resources, due to the recession of the '90s in Western Europe and to the changes in Eastern Europe generates a pressure for privatization, liberalization and introduction of market mechanisms in public services, a pressure for quality from the consumers, and the decrease of costs and information led to

major efforts for restructuring health care services.

The trends regarding health care know new approaches, namely a competition appears between insurers and suppliers, contracting between payers and suppliers is realized, financing of activities, not of the institutions is introduced and needs are harmonized (care required) to the supplied services (care offered).

Care management supposes case management, cost management, integration of care; also an important role is played by risk management and quality management.

Market mechanisms that lead to the improvement of performance are developed and thus the competition among suppliers undertakes that insurers sign contracts with suppliers optionally, the contracts containing a number of conditions for both parties (Examples: discounts in common interest: rebate for immediate direct payments, quality criteria: the supplier agrees to participate in quality assessment programs, educational criteria: the supplier agrees to participate in training programs, cost criteria: the supplier agrees to prescribe generic medicines, criteria regarding data: the insurers will provide data for the assessment).

Unlike the financing of institutions (hospitals paid by monthly stipulated budget or fixed rates per day without considering the acuteness of the cases treated), financing of activities means that the hospital is paid for what it does for the patient.

Activities are obtained from the encoded medical information about each patient, which describe what illness he/she had (diagnostic) and what was done (procedures). A classification program (software) assigns codes to various groups, which are clinically significant and with similar costs. Financing needs periodical adjustments, because it is never sufficient in the USA: financing problems (14% of PIB, 5000\$/person/per year) or Switzerland: financing problems (12% of PIB, 3600\$/person/per year), or never satisfactory in Germany '97: unadjusted financing maintained the hospitalization duration of 5 days for meniscetomy. Financing is a key factor for health system management, thus the promotion of alternative services being fulfilled prom in Bulgaria: 85% of the Insurance Fund finances the doctors in

primary care sector, and in Switzerland: the pressures imposed by the budget on hospitalization led to the increase of ambulatory care sector and the support of consumers' satisfaction, insurances pay for balneal treatments.

The objectives of health systems are the universal access for all the citizens, rendition of high-quality services, which respond to patients' care needs, the efficient use of resources, and the functions are in relation to the financing of health services, collection of funds; the pooling of collected funds (fund pooling), allotment of incomes; use of funds – purchase of services and supply of health services.

The financing modalities have multiple possibilities: financing from the state budget, financing by health social insurances, financing by private (voluntary) health insurances, financing by direct payments, financing by savings accounts for medical services, or community financing. Situational (transition) factors intervene in the collection of funds, factors that are represented by revolutions, change of the governing parties, structural factors - economic increase rate; dimension of informal sector; stability of political institutions; the ability of national/local administrative structures; levels of corruption, etc., demographic factors - proportion of elderly population; dependence ratio: population ≥ 65 years + population ≤ 14 years population 15 – 64 years, the structure of husbandries and cultural factors - trust in the government; status of professionals; population's preferences; perception upon informal payments and "presents", etc.

The financing from the state budget is realized by general taxes and charges (collected to the state budget and then allotted to health and other sectors), by special charges (taxes or charges with special destination for health), indirect charges (on income/profit/property), indirect progressive charges (on transactions/merchandise: charges on sales, VAT, excise taxes, import/export charges), local national regressive charges or territorial inequities and by external loans/donations/grants, the burden on the next generations who are often submitted to the creditor's strict conditions and options.

The National Health Systems (Beveridge pattern), implemented in Great Britain, Ireland, Scandinavian Countries, Spain, Portugal, Italy, Poland, Latvia, Albania are characterized by the fact that the main financing source are the taxes, they have a general coverage of the population, represent the most progressive type of health system, have reduced administrative costs and present control of funds.

The financing by social health insurances is realized by compulsory contributions of the employees and employers, where freelancers, agricultural workers can be considered eligible, particular situations also existing: unemployed, pensioners, persons with handicap or groups with reduced incomes financed by national/local budget.

The contributions of eligible persons are collected by independent agencies, thus ASS unique funds being created in Croatia, Estonia, Hungary, Slovakia, local funds (houses), branches of the National House in Romania, a unique social insurance fund in Belgium, more independent funds in France, multiple individual funds defined on occupational/geographic criteria in Austria, Germany, Czech Republic, Lithuania, or an association of insurance funds in Luxemburg.

Social Health Insurance Systems (Bismarck pattern) appear initially in Germany in the 19th century, under the denomination of fellowships. Examples: Western Europe being consolidated systems adapted through a long period of time: Germany, Austria, France, Holland, Belgium, Luxemburg, or in Central and Eastern Europe where they see a fast transition, with imported patterns: Croatia, Czech Republic, Hungary, Slovakia, Estonia, Lithuania, Slovenia, Romania.

Private (voluntary) health insurance has several types, namely:

Substitutive health insurance replaces other cover forms and addresses to the persons who are not eligible for ASS or who have the liberty of leaving ASS (Germany, Holland).

Additional health insurance which functions in parallel with other cover forms, allows a faster access to services or better conditions to obtain them, offer a greater freedom of choice of the supplier, is often met in the countries with National Health Systems.

Complementary health insurance includes services that are not offered (or are only partially offered) by the other cover forms.

The financing by direct payments are the payments effectuated directly between the consumer and the supplier of health services, without the intervention of a financial agent and is differentiated on several types:

- Co-payment → payment of a fixed amount for each service
- co-insurance → payment of a percent from the service cost
- deductible → payment of the first “x” lei from the service cost, the third paying party covering the overrun of this amount
- full payment of the service.

Community financing is applicable to rural communities and is based on the contributions of the members for obtaining a package of medical services, having as basic principles the cooperation among all the members of the community, trust among the members, government that offer support by legislative initiatives, technical and financial assistance.

Informal payments – “Payments to individual suppliers or institutions, in kind or in money, which are situated outside the official ways of payment, or which are destined for buying services that are normally offered for free by the health system” (Maureen Lewis, 2002)

These payments comprise the payments “in envelope”, “contributions” to hospitals, and also the counter value of certain medicines and sanitary materials acquired by patients, creating a context in which health expenses decrease in transition countries against a maintenance of an overbid in the sanitary sector, having as a result the establishment of very low salary levels, create an informal market for health services inside the public system, the funds go to individuals and not to the system, being illegal and outside the financial control, informal payments restrict the access of those with reduced incomes and may be considered a “present” received after offering nursing as an informal payment.

Conclusions

Primary management style is most commonly found in administrative units with political responsibilities being indicative characterized by detailed allocation of tasks, monitoring each stage and suitable to a team in the training process.

There is a relatively short operation period of the system of healthcare insurance in Romania, the healthcare units have not individualized, the funding, although it is based on an solved case, not uses another tariff per weighted case resulted from the analysis of the hospital activity. The National Commission for Accreditation of Hospitals has not yet been established and, the hospitals reform is not very advanced either, the general trend is to continue operating all units, regardless of performance achieved and the needs of the population. In this context, it is understandable that management adopts a similar attitude, which we can name it "survival."

As a general conclusion, we can say that healthcare organizations managers are using indicative or participatory management styles, characterized by detailed allocation of tasks and under development or less experienced teams. They are flexible but situational adaptability is reduced, which results either in a very rapid situational dynamics nor the severity or novelty of the faced problems.

It is necessary to optimize the healthcare managers, regarding first the flexibility and situational adaptability, values that would increase the efficiency of organization in which are working the mentioned managers.

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Impact of XBRL on Financial Reporting in Romania

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Abstract

In many fields, the transition to digital support for documents or information in a wider sense, involved only the simple replacing the old paper documents with text files. Normaly, this thing allowed a significant economy of paper, storage and distribution of those documents and, somewhat, facilitated even search data. However a number of other benefits of digitization information remained unexplored. So, unlike a specific search where would have exactly indicated the search criteria, all available documents must be fully read when the search is only for those documents that interest at a time. This happen because data of these files, although are "digitized" are not enough "marked" to be handled by processing tools, human intervention remains, under the circumstances, inevitable.

Key words: XBRL, XML, IFRS, financial reporting, accounting.

J.E.L. classification: M41

1. Introduction

The main obstacle in external raporting of financial information falls within the owner of each document which displays these information. For financial reporting to be intelligible, necessary data for describing reporting elements depend on these documents to understand the international context [1]. Publication of financial-accounting information to interested partners should not be limited to simply using of documents which describe the situation of the entity. The necessity to analyze financial statements by fiscal authorities, credit institutions, auditing institutions, investors

and other partners interested by the financial statement of the entity, is manifested with an increased intensity. In the context of automatic processing and analysis of financial information by all stakeholders, manifested, more acute, the need for standardization of accounting data transfer errors-free, safe and in an uniform and intelligible format.

Automated external financial reporting and analysis is accompanied by a series of technical challenges [2]:

- regional and even international differences of reporting financial statements formats;
- geographically dispersed systems or divisions of the same organization, means similar financial data, but not necessarilly same format;
- any new solution adopted for financial reporting requires extra effort regarding the training of employees involved in the activity;
- financial information requires a permanently monitoring of the correct electronic transfer;
- the history of reporting should be stored in data warehouses which requires extraction, trasformation and easy uploading with each reporting performed.

A solution which successly respond to all these challenges is the language for business reporting XBRL (eXtensible Business Reporting Language), seen as a standard to define and swap information about financial performance of the company.

XBRL is an international standard for publishing, sharing and financial analysis of reporting data, which simplifies the preparation and publication of financial documents. The main idea is to collect data once and to convert them into more formats through automatic processing.

XBRL is a world business environment , which represented the protocol TCP/IP for Internet [3]. Perhaps this acronym, XBRL, *will become as known as HTML or IFRS*. We consider that another comparation , founded in our research, worth mentioning here: *XBRL represent for EDI which Internet represented for Minitel*.

Financial information published on the Internet usually has the form of an electronic file. This electronic file format takes many forms: generally, **pdf format**, and also HTML, rtf, text, sheets. In this form, financial information becomes easier to distribute than the “traditional” version-paper. Not everyone who uses financial information is our of business; inside it are situation when the information must be “reformatted”to be transmitted from one subsidiary to another or even between operational entities. For information to be automatically exploited, it must be explained. Each element of it must be accompanied in the same time by the definition and the way of using. Such a label could take, for example, the following form: *“this number is the net result of the company ... for financial exercise ... and it is expressed in ... ”*. Experts speak about the “context”of information or meta-information (information about information). The context is the one which alllows the understanding of information. If it can be coded, it will allow to computer to make certain automatic processing [4].

Under these conditions the problem of processing information is the labeling of this. Or, this is a task that information is particularly adopted. All automatic data sharing (EDI – Electronic Data Interchanges) is based on this principle. The problem is developing a convention at the same time be flexible enough to adapt to many circumstances, without recovering labeling but fairly accurate for automatic processing.

XBRL (eXtensible Business Reporting Language) proposes this convention.

2. XBRL impact on financial reporting

Financial markets know many years of turbulences of whose origin are very often linked to precarious information shared by companies regarding their activity. Enron,

Tyco or Worldcom are painfull examples of lack transparency in accounts.

To take full advantage of digitization the efforts must be concentrated on rigor of format and standardization information. Financial information was delayed in this area since the apeareance of XBRL which, thanks to its structure inherited from XML, requires an organization that facilitates collection and processing information. This project is just one of the aspects that disturbed accounting in the last years.

In many areas, the shift to digital support for documents or information in a wider sense, involved only the simple replacing the paper documents with text files. Of course that this allowed economy of paper, easier storage and distribution of those documents and, somewhat, even search data. However, a number of other possibilities offered by digitization information remained unexplored yet. So, all available documents must be always fully read when the search is only for those documents that interest. This happen because data of these files, although are digitized are not properly “marked” to be handled by processing tools, human intervention remains inevitable. Digitization gain from this point of view is minimal.

One of the consequences of this environment change is an increasing requirement regarding financial repoting, both qualitatively and quantitatively. Companies should publish more important, richer, more frequently and more diversified comments. Where often the company was satisfied in presenting few numbers of its activity, for the future, it will have to give textual justification and specify concis choices it made and why the management believes these choices are the best regarding accounting rules. It is normal to recommend companies with their transition to IFRS to publish its financial statements in XBRL [5].

At the present financial reporting passes through three major changes [2]:

- market imposes new needs to regulate financial information, and transparency in the repoarting process is greatly enhanced;
- the Internet created an omnipresent infrastucture for global, local, intra and inter-companies connectivity;
- new standard of data exchange already appeared and allows that relevant

information to be made in an agreed format and shared across organizational and geographical boundaries.

These three changes require changing the way in which the producers and consumers of financial-economic information create, disseminate, share, analyze and use business data. The essence of this change is to focus on improving standards concerning economic and financial reporting model, data connectivity infrastructure and their change format.

Next, we will present how can XBRL to answer the diverse challenges of financial reporting [6]:

- *Developing and publishing information:* use of a common language drastically reduces the needed time compilation the information from heterogeneous sources, thus avoiding many restatements. This also limitates introducing errors that otherwise would multiply with each stage, requiring rework every time. So, establishing consolidated accounts may be done quasi-automatic.
- *Division and comparability of financial information:* a common language allows facilitating the information understanding by those who didn't participate to its development. A "marked" language allows, if marking are correctly adjusted and expressed, restitution of the context in which information was extracted and which is not necessarily visible in only one part of information analysis. A very simple example of this situation is: a table containing amounts of money but doesn't specify the currency is not exploited in this way. Or, XBRL has from XML the possibility to associate attributes to each element. These attributes can reconstruct the context. Information comparability is one of the main criteris in accounting.
- *Verify financial information:* a marking language favors verify information. Indeed, we know in advance where to find a data, it is not necessary to be searched or reconstructed. A verifiable information inspires more confidence and offers more gain in transparency.
- *Analysis of financial information:* currently it is estimated that financial analysts spend more than a third from their time to reprocessing information, so a very important part of their work is not to

analyze information. An information directly usable allows gain time, a reducing of introducing error risks, the possibility of handling a substantial volume of information and analysis of better quality.

To analyze the impact of the transition of XBRL to IFRS, first must be understand how it works. To transfer from a computer to another the information of a annual report was first developed a "syntax", a computer grammar know as "specification". This syntax allows expressing basic parameters common to all financial statements be it currency, period or/and other elements.

This syntax is associated with a series of dictionaries called "taxonomies" which are specific to each accounting rule. (IFRS, US GAAP, UK GAAP). These taxonomies represent a translation in informatic language of accounting rules. Its contain elements required to establish financial statements as are defined in accounting rules (tangible assets, turnover) maintaining the link between elements and rules. Taxonomies can be adapted by companies to take account of the specific needs both by internal and external reporting and can be managing in many languages. IFRS taxonomy brings together around 3000 individual terms with links between rules and available in many languages.

XBRL has four main advantages that facilitate transition to IFRS [7]:

- *Use taxonomy for defining reporting.* It is much easier starting from a taxonomy to make the link with rules and translate them as financial statements than start from text itself to build the balance sheet, income statements, cash flow and all related marks. This will simplify and reduce difficulties and investments required to translate IFRS rules as annual accounts and then define an adjusted accounting plan.
- *Parameter and development of interfaces with accounting systems.* Once defined reports must be produced and then consolidated needed information to establish the accounts. Today, certain ERP systems already accept XBRL, and taxonomy can be accepted by the system to collect information following the required scheme and to make financial statements in XBRL format. Always there

is the possibility to transform a taxonomy into a Excel file or to traduce data from an accounting XBRL format using appropriate software. XBRL allows collecting structured information from heterogeneous financial systems that coexist in companies without developing specific interfaces adapted each time the system which transmit or receive information is modified.

- *Transparency and financial communication.* Today, the accounts that are available to entrepreneurs, are returned, simplified and too high cost for analysts to transform its. With XBRL exchange and extraction financial data published on web will be automated and enhanced sectoral benchmarking. For example, readers and users of financial statements may have only a few clicks a table with wished information, such as rate “gross margin/turnover” for all companies in a particular sector using the same referential, without having to reintroduce information.
- *Maintain all accounting procedures when rules are changed.* It will help with taxonomy (of course, starting from changes proposed by the IASB) to transmit these changes to branches before proceeding to accounts consolidation.

3. Conclusion

In the context of streamlining the financial reporting process, XBRL has major implications in relevant information dissemination, required to express the enterprise's health and business performance. Therefore, the regular publication of financial statements to different partners or financial and regulatory authorities or the standard accounting information collection for internal reporting needs is becoming unavoidable.

The economical-financial communication of the companies continues to be characterized by an unsatisfying level of content standardization or by a significant quantity written on paper, which leads to a real discomfort for the economical operators and the national system as an assembly.

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Driving Economic Growth and Stock Market Liquidity through the Dynamics of the Mutual Fund Industry

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Abstract

The reliance of the investment funds market to the capital market development, to the liquidity of the traded shares, to the evolution of the funded companies and by the investors changing behavior against a changing environment has generated unforeseen fluctuations in the global economy and in the activity of investment funds internationally, nevertheless.

The current paper aim is to stake out the economic significance of the investments made by the investment funds, and intends to mark their role in boosting the economic activity, i.e. to support the economic growth and to identify the main factors that have been stimulating or inhibiting the investment funds dynamics during the last period of time.

Key words: mutual funds, crisis, investors, economic growth, stock market liquidity

J.E.L. Code: E22, G10, F40, O16

1. Introduction

As collective investment schemes, the intermediary activities provided by the investment funds have offered new possibilities for fructifying the resources held by the individual and institutional investors, whereas encouraging the development of the capital market and boosting the entire economy. Specifically, it outlines the role of the intermediaries by conducting the fund investment activity and stimulating the interdependency between savings and investments towards transforming the former in investment. Based on this interdependency, we can emphasize the dual role of the investment funds business. First,

there is the household savings fructification in terms of risk - return and, on the other hand, is about supporting and strengthening the capital market and the real economy. Related to these action lines and the main operations carried out, i.e. attracting and funding capital, the investment funds act as intermediaries between holders with a surplus of capital (investors) and companies in need of funding. In the strengthening of this statement, Boudemagh M., De Nouel Ph. define the undertakings for collective investment as "tools that allow for financing an economy by channeling the savings to the capital market"[3, p.15].

According to this definition, we identify the dual role of the investment funds, both at the level of saving and throughout the national economy.

As a component of the financial system, the investment funds can assign the following influences on the process of the economic growth [1, p.13]:

- a more efficient allocation of the capital;
- increasing the speed of turning savings into investments;
- risk diversification;
- improving the corporate governing;
- enhancing savings.

Although the priority interest of the capital holders is set on maximizing the gain that comes down according a certain risk set out in the prospectus, it becomes particularly important the role and the impact of the investment funds to boost the overall economic activity. Also, this is based through the multiplier and accelerator principles, as long as the investments produce effects on shaping the economy and on supporting the correlation between incomes, savings, consumption, production, etc.

Due to the complexity, the timeliness and the continuous growth of investment funds area, this paper complements the existing literature, becoming a first step in assessing the determinants of the Romanian investment fund market development.

2. Literature review

The prolonged debating on the topics that involve "the financial system is developing the economy" or "the economy promotes the financial development" has extensively been studied. Given the complexity, the dynamism and their interrelationships, various economic theorists and practitioners have encountered difficulties on rigorously establishing all the elements related to the content and the investment mechanism.

In this regard, the first studies were assigned to the macroeconomic analysis of the investments, as are the studies of Kahn's (1931) – which has developed the theory of the investment multiplier (further discussed by J.M. Keynes in his book, *The General Theory of Employment, Interest and Money*, published in 1936) and the accelerator principle of the economic growth by increasing the aggregate demand as a result of making additional investments attributed to Aftalion A. and subsequently taken by J.M. Keynes, S. Kuznets, R.F. Harrod and Samuelson P. In addition to these two principles, there are other models that address the correlation as a model through the impact of investment on the economic growth, such as are the models of R.F. Harrod, E. Domar, IB Clark and R. Solow [8]. In the mid of 80s, a new theory arises on the relation of the capital accumulation and the economic growth, attributed to Romer P. and Lucas R. Their theory assumes that the capital accumulation is associated with the accumulation of knowledge, whereas in time is not maintained under the same conditions, but require the use of new goods and technologies for which are needed new inflows of capital.

Classical economists and later the neoclassical ones found that "the supply creates its own demand", while self-regulating economic processes on a long term economy always finds its equilibrium position. Consequently, the economic balance is based and provided by [6, p.56]:

- investments have opposite forms throughout the economy. Saving equals the withdrawal of purchasing power. The effect is felt in decreasing the aggregate demand. Also, occurs a contraction of the whole economy, a phenomenon commonly called recession;

- investments play an expansionary role for the economy. To invest is to buy goods and services, maintaining and expanding other economic activity and all these have an effect reflected in increasing the total economic output, ie GDP;

- because there is a shorter or longer time between the investment initialization and when its effects are felt, it might occur additional demands that have not yet counterpart in goods and services;

- since the economy is always struggling to get steady, on a long-term the savings will be fully compensated by the money invested. Instead, on the short term, there may be inconsistencies. Amounts saved can sometimes exceed the amount invested and vice versa. Increasing amounts saved will increase the supply of spot and term deposits. Consequently, the interest rate will be reduced, encouraging the investments and discouraging the deposits. Eventually equilibrium will be restored [10]. Alike, the increasing investments over the existing economy will increase the demand for loans. The interest rate will see an upward trend, discouraging the investment and encouraging the deposits.

Thus, we find that, the classical model is centered on the primary element that determines the level of investment activity in the economy and affects mainly the saving – investment, that is the interest rate.

Over time the studies on investing were oriented towards the stock market investments, but most of them were inclined to study the performance and the risk, also towards improving the investment return and investment portfolios.

Strictly on the theme of the investment funds, although was dated historical since the early nineteenth century (the first U.S. fund - 1824 - Massachusetts Hospital Life Insurance Company [7, p.5]), the early studies appear around 1950 after the establishment of the Investment Company Institute (ICI abr.).

The interest for investment funds comes from the fact that in these collective administrations of capital investment is a

"comprehensive process which relates to the availability resulting from the process of saving and the demand for financial resources in the economy of a country" [3, p.9]. Also, the investment funds are considered themselves "a savings product" [3, p.19], and is directly related to the evolution of the saving process.

As a fact, since 1990, the investment funds industry has proven to be one of the components with the highest rate of growth of the financial sector in the European countries [3], becoming an important way of saving which has earned a significant weight of the population savings in almost all the European countries. The gradual migration of household savings from classic deposits was largely directed to the investment funds, which registered a growing rate of collected total assets. This situation is likely to be explained mainly by the lower interest rates on bank deposits, increasing incomes, increasing financial education, capital market development, the assessment of benefits (diversification, risk reduction, cost savings, professional management, etc.) and the appreciation of the return on investment funds. All these conditions have caused a reduction in the growth rate of savings in traditional instruments, such as bank deposits.

3. Creating economic growth through mutual funds investing

„Does the investments sustain the economic growth and the economy?” and „Does the economy supports the

investments?” are two controversial debates among economists. From this contradiction, we propose to identify the causal linkage between the investment funds and economy. In this respect, is necessary to mention the assertion of Prof. Anghelache G. (2000): "Capital is the sap that feeds the economy, and if its channels (e.g. investment funds) are insufficient, missing or wrong cut, the economic progress can be questioned"[2].

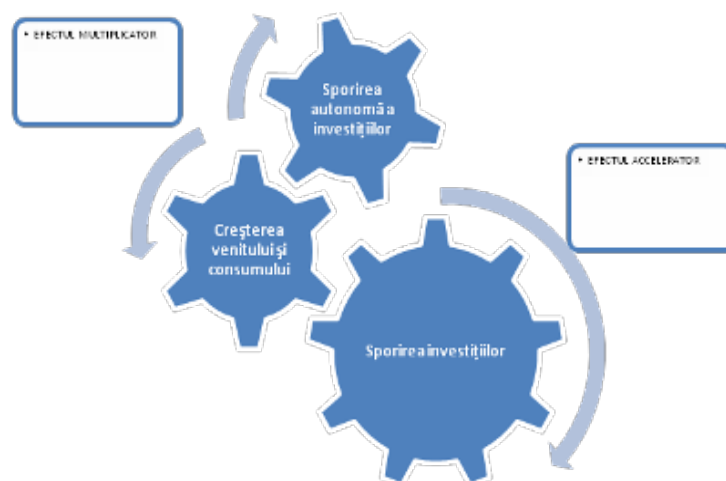
Since Keynes's theories this topic was exciting for economists. For example, Harrod R., the supporter and follower of the Keynesian theory developed the first theory on economic growth due to the link between the capital and the incomes achieved in the economy. He has demonstrated that "the current capital gain will increase the revenue in next year, which in turn will create a new growth in capital" [9].

Subsequently, the multiplier and accelerator principles drew the investments' role thorough the interaction made between the growth of the income and investment, showing the increasing trend on income by growing the investments, which produces training effects (i.e. acceleration) to the economy due to the production of goods and thus on supporting the revenue growth and consumption.

Figure 1 presents the following effects driven from the multiplier and the accelerator principles:

- an increase of the investments leads directly to increasing the demand for consumption and disposable income –for which companies are incited to increase

Figure 1. The interaction between investment growth and economy



source: authors suggestion

production;

- to increase production, it is necessary to increase investments;

- the induced increase of investments depend on the changing of the national income and the allocated rate of the national income to investments;

- since at a relatively small increase in consumption and income, the investment rate grows greater – reason why it is used the term accelerator of consumption and income over investments [9, p.248];

- the initial increase of the consumer demand will result in higher growth of the investment demand. As the consumer demand growth begins to decline, the investment demand will decrease and may even reach zero;

- as a consequence, when national income changes positively from the previous period, the investments may increase, may stay the same or decrease.

For underlying the contribution of the investment funds on the economic growth, we appreciate that it's important to identify the relationship between total assets managed by investment funds and the size of the gross domestic product. This comparison was promoted by Khorana et al. (2005) on determining the size of the investment funds industry.

In relation to the GDP volume, the European investment funds registered an annual average growth rate of approximately 12.90% over the period 2003-2009 [5, p.25]. A significant increase of the rate of investment funds in the GDP was registered by Romania, with more than 25 times bigger rate in 2009 compared to 2003, when it accounted only a rate of 0.02% of the GDP. Although during the year 2009, the rate of investment fund assets to GDP was less than 1% and only 0.45% of GDP, the increasing economic significance of investment funds was spectacular compared to other European countries that have experienced even contractions from the financial crisis in the years 2006-2009, as it is the case of Greece (-80%), Portugal (-54%), Italy (-51.73%), the Netherlands (-32.88%), Spain(-28%), Turkey(-26%), Austria (-20.4%) and Germany (-10.68%).

The spectacular growing rate of the investments in mutual funds as percentage in GDP for Romania's case is mainly due to the

attraction and the growth of the amount of total assets allocated to investment funds, up from 29 million in 2003 to 1134 million dollars in 2009, i.e. up to 39.1 times (3910%) than the situation in 2003. Moreover, this increase was higher than the GDP growing rate of only 53% during 2003-2009.

As a result, this changing of the growing rates of the fund investments as a percentage in GDP indicates the increasing trend of the investment funds markets in Europe and more accurate in the Eastern Europe countries. However, this proves a certain extent and strategic reorientation of the funds investments into new areas of the EU countries that could provide investors with new opportunities and better chances to improve the performance of funds.

But, in these circumstances, all the investments made didn't ignore the extent of capital market development. In fact, investors and other players on the investment funds market (depositors, banks, etc.) are attracted to the stock market progress, and in particular of the extent of its volatility.

4. Mutual funds dynamics on driving liquidity to the Stock Market

Mutual funds are important players in the capital market of Romania, even if in their short history have passed two major crises (in 1994 and 2000 by the collapse of FMOA and respective FNI), and yet to the recent financial crisis. Moreover, in the past years there has been a steady increase in the total net asset value allocated and managed by the Romanian investment funds; and in contrary to general market situation it has been registered an increase in the number of investors and the number of funds established.

The total increasing of the net assets across the industry of investment funds amounted in 2010 about 1,713 million as ICI Factbook states (almost 5622 million EUR), being almost 50 times greater than the assets managed by the 21 existing funds in 2003. Also, even if Romania had to face the global recession in 2008, the activity of the investment funds has decreased by only 10% of the total net assets. However, the number of the investment funds increased 2.27 times at the expense of making additional subscriptions, with 36% higher than in 2007.

Hence, we find a contrary situation to that observed globally. The period beyond 2009 until today proves to be a favorable one for the Romanian investment funds and for the foreign investments in Romanian assets.

Thus, since 2008, have been established at least 11 new open-end funds and other 5 close-end funds, which had attract new investors gradually, reaching in 2010 a total of 303,441 investors in the 67 Romanian investment funds [5] and another 55 foreign investment funds that are active on the Romanian financial market.

The turnover of the capital raised and managed by these funds, assumes a special attention on the growth of the stock market liquidity through the significant share of the total assets managed in the capitalization value of the domestic stock market.

We find that, while the share of total net assets managed by the investment funds in the amount of market capitalization increased significantly, today it is encompassing 11.27% of market capitalization. This is encouraging, since it is proving that these alternative investments are basic pieces of the capital market development and in increasing its liquidity.

During 2011, the stock market has drawback again following a stagnating year (2010) and a partial recovery in 2009, as it could be seen in Table 1 [11].

Unlike the development of the stock market, the investment funds have attracted additional capital, amounting to manage 2388 million (approximately EUR 1.6 billion), i.e. up 39.4% over the volume of total assets in 2010, in a double volume compared to 2009 and almost seven times of the total net assets managed at the end of 2008 (the only year of contraction of the investment funds in Romania).

The decrease of the market capitalization in 2011 led to lower indices. For example, the Romanian BET Index (based on the ten most important stocks listed on the regulated market of Bucharest Primary Stock Market) ended the year 2011 with a decrease of 17.7%. This is the third full year of decline in its history (by -50.2% in 1998 and -70.5% in 2008). Alike, BET-FI index, the investment quoted companies index, lost 12% due to significant fluctuations recorded in the latter part of 2011 on the account of the maximum holding limit by an investor in the capital of a SIF, from 1%, up to 5%.

In terms of market liquidity, it increased in 2011. The amount of the transactions with shares was rising by 76.78% in 2011 compared to the situation in 2010, reaching 9.9 billion lei (2.3 billion EUR) vs 5.6 billion in 2010, rising to 94, 11% compared to 2009 when the turnover was 5.1 billion lei and an increase of over 41% compared to the year

Table 1 The evolution of the stock market capitalization in GDP and the rate of the total net assets of the Romanian mutual funds in the market capitalization between 2003/2011

<i>Years</i>	<i>Rate of market capitalisation in GDP (Ci/PIB)</i>	<i>Annual growth of the rate Ci/PIB</i>	<i>Rate of the Total Net Assets of Mutual funds in the volume of the market capitalisation AT/Ci</i>	<i>Annual growth of the rate AT/Ci</i>
2003	9,38%	-	0,52%	-
2004	15,61%	66,37%	0,61%	17,64%
2005	20,81%	33,31%	0,53%	-13,33%
2006	26,73%	28,43%	0,75%	42,30%
2007	26,54%	-0,72%	0,87%	15,22%
2008	9,96%	-62,48%	1,64%	88,66%
2009	18,82%	89,02%	3,74%	128,33%
2010	20,04%	6,45%	5,29%	41,45%
2011	11,79%	-41,16%	11,27%	112,99%

source: authors own calculations using BNR and CNVM statistics

The above table shows that the growth rate of the capitalisation share as a percentage in GDP is significantly reduced by 41.16% in 2011 compared to 2010.

2008 (7 billion lei) [11]. Mostly, this increase was based on the transactions made with the Property Fund unit funds, whose liquidity was at 52% of the total shares transactions in

2011. Moreover, if we could neglect the transactions made on FP unit funds, then the total liquidity of the regulated market of the Bucharest Primary Stock Market (BVB) would have been only at 4.8 billion lei, below the values from the past years.

Closely related to the stock market dynamics and the various sources of financing investments, another important determinant of the investment impulse is the performance index of the foreign direct investment (i.e. Inward Performance Index engl.) which expresses the share that a state has in the world's total foreign direct investment made during the year and the share that holds in the global GDP [4]. If the index has a value above 1, then the respective countries attract an investment volume above the expected level, given the favorable economic regime, namely an attractive business environment and favorable macroeconomic conditions. By default, the financial and portfolio investments in mutual funds can track this index as long as it proves the attractiveness of a market.

5. Conclusions

Overall, investments have a multiplying effect over the economic activity of a country, involving and developing the economic recovery, enhancing the investors' attractiveness to the respective market. However the multiplier effect of investments doesn't follow the development of the investment funds market, on the contrary it is ensued by an aggregate contribution of the entire economy (stock market, banking sector, money market, business environment, etc.). Furthermore, we found that the development of the investment funds is supported by the economic growth, and hence, investment funds are depending on their position on the capital market, the volume of the managed assets and even of the transactions made, factors that could be also a driver for the economic growth.

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Main Determinants of the Mutual Funds Dynamics in Romania before and after the Financial Crisis

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Abstract

In an attempt to identify the main determinants of attraction or inhibitive factors for investments, the current paper evaluates the Romanian mutual fund market development. Using a regression analysis on quarterly data during 2004Q3 – 2012Q2, the study explores the impact of current financial crisis on mutual funds.

The paper is organized as it follows. Part 2 presents a brief literature review and extracts the studies that appreciate best the determinants of the mutual funds dynamics. Next section is set on defining the Romanian investing climate and its importance for sustaining the economy through mutual fund investing. Then, section 4 concludes.

Key words: mutual funds, financial crisis, stimulating factors and inhibitors, economic stability

J.E.L. Code: E22, E32, G10, G20, F40, O16

1. Introduction

The investment environment stability is essential for all investors, as long as, any time of instability can attract significant variations in the amount of the capital invested, or severe outputs which could cause a massive stock prices fall, and by default, restricting the capital market.

As part of the capital market, the collective administration of funds was developed by the cyclical developments of the economy [9]. This is certified by the fact that during the periods of economic

expansion, the collective investment grows and matures, and in periods of instability are arising measures to ensure the investor protection and are the range of actions on the money market are getting diversified towards ensuring the security and the preservation of the capital.

By default, we can admit that the investment fluctuations for different activities (not only for the investments made in mutual funds) show that the cyclical economic situation and the economic policies do not have an uniform effect on all investments, instead, they act differently, sometimes in the conversely direction, from one category to another. This structural dynamics between different types of investment funds is due to the investment flows fluctuations caused by a variety of factors, circumstances, which reflect the cyclical changes in the economy. In general, the macroeconomic changing evolutions are seen as key factors that significantly influence the future developments in the financial markets, and at the same time, and in turn are considered to be strongly influenced by the dynamics of the market [25, p.119].

Nevertheless, investors are interested in the structure of the GDP and in the extent of contributions for understanding the components of the growth factors [3, p.18], as long as, the GDP defines the relationship between the vitality of the economy and the capital market [3, p.19].

Another factor that may determine the impulse for investments is the regional economic situation and / or the global economic status, which may significantly

change the investments made in an open economy. For example, the strong financial turmoil generated by the effects of the latest international crisis led to the impairment of the investment fund industry, while affecting the entire economy in terms of the national economy's dependence on the external financing [18, p.60].

Undoubtedly, the incitement and the appetite for investing are driven by many other factors that depend on the changing phases of the economic cycle. It is known that in the boom phases of the business cycle, the increasing consumption is a result of the revenues increased and as a condition of the production and services development and their diversification through the multiplier effects [28, p.247]. By contrast, in a recession, due to a slightly lower income and consumption, a reduction in investment might happen, which could be stronger than the weaker economic activity [28, p.248]. To this end, an economically declined economy needs first to stop this negative trend and then to start pushing the impetus factors for investing [28, p.251].

Thus, to ensure an attractive investment climate in terms of the status of the national economy, it is necessary to track all the economic factors and more, all fully maintaining the stability of the national economy for ensuring its growth.

Therefore, in substantiating the exciting factors in attracting capital and placing (funding) them into the economy through the investment funds and other intermediaries, it is necessary to know the main determinants of the investments.

2. Literature review

Given the complexity and the dynamism of the investment funds market, various

economic theorists and practitioners have encountered difficulties on rigorously establishing all the elements related to the content and the mutual funds investment mechanism.

With a history since the early nineteenth century (1824 – date of founding Massachusetts Hospital Life Insurance Company), the mutual fund industry has encouraged researchers on finding its main determinants starting with J. Closes' first scientific study in 1952 (as stated by Seth C.A. and Parvaez A., 2005 [22, p.16]).

Among the first studies, the Allderic F.B., Farrar D.E. model (1967) distinguishes by its innovative analysis based on a matrix of explicative variables for the investment fund flows variation during 3 years (1963-1965), in the case of the 45% of the total active funds in 1966 in US (i.e. 169 mutual funds).

The Allderic F.B. and Farrar D.E. model represents a basic framework on presenting the relation between a dependent variable and its determinants. It was constructed as a linear equation, where Y, the dependent variable, is defined by the volume of the investment flows in mutual funds, X – the determinants matrix (independent variables), b – the vector of the structural parameters that explain the relationship between Y and X, and u – the vector of stochastic errors [1; 22]:

$$Y = X * b + u \quad (1)$$

Later, the studies have been constructed on index based models, such is the one of Groh A.P., von Liechtenstein H. and Lieser K. (2008), but most of them, rely on a regression analysis and the component analysis.

From the comprehensive literature, we extract several aspects defining for the appropriate models and their main results, as could be seen in Table 1 below.

Table 1. Short review of the related literature

<i>Related studies on the determinants of the mutual fund industry</i>	<i>Observations</i>
Allderic F.B., Farrar D.E. (1967) [1]	The model aims to identify the factors that affect the volume of capital inflows into investment funds. Starting from the simple correlation of several explanatory variables, the authors select five categories of factors considered to be statistically significant: (1) <i>the economic conditions</i> - against which is believed to affect uniformly all the participants of the industry; this category is subdivided in sub factors such as: growth of gross domestic production growth, securities price evolution, the increasing of the disposable income and factors that may vary and differ depending on the type and the size of the investment funds industry; (2) <i>the effort of placing (selling) unit funds</i> ; (3) <i>the fund performance</i> , (4) <i>the fund</i>

	<p><i>size</i>; and (5) <i>the fund objectives</i>. In total, 12 explicative variables were driven following the successive transversal analysis of the three years.</p> <p><i>Results</i>: The investors' behavior and their attitude towards the mutual funds depends mostly on the performance of the investment funds, the selling effort and less on the economic conditions, the funds objectives and the size of funds.</p>
La Porta et al. (1997, 1998)	<p>La Porta et al. model highlights for the first time how the legal environment is influencing the size, the dynamics of the capital market and the company's ability to finance itself using this alternative of investing.</p> <p><i>Results</i>: A positive relationship between the legal environment and the investor protection was identified. The countries with poor investor protection are significative influencing the stock market and the equity funds dynamics.</p>
Massa M., Goetzmann W., Rouwenhorst K. (1999), [17]	<p>They take into account and emphasize the causality between the inputs and outputs of the capital flows and vice versa. By forming a matrix of correlations between daily net flows during a year and a half for the main categories of assets (stocks and bonds), the model has the novelty of adding the principal components analysis built on a) the weight gain to a dollar invested, b) the fair share of flows and c) the share of funds on different objective categories, on defining the size of the mutual fund industry.</p>
Fernando D., Klapper L.F., Sulla V. & Vittas D. (2003), [12]	<p>The novelty of this study is given by the inclusion in the analysis of some variables that define the efficiency, the liquidity and the market integrity. In this respect, the model includes several elements of the capital market development, the transaction costs, the level of security for transactions and the investor protection.</p>
Khorana A., Servaes H., Tufano P. (1999, 2004, 2005) [14], [15], [16]	<p>The authors continue their studies started in 1999 [10-12] by re-shaping their sample on 55 states (2004 research papers), respective 56 states (in 2005) and by analyzing four main characteristics: the legal and regulatory environment, the demand determinants (i.e. the characteristics of potential investors), the supply determinants (which are linked to the structure of the financial sector) and the financial market.</p> <p><i>Results</i>: The main findings are focused on observing the significant increased allocations in the investment funds industry in some countries due to the existence of the economic conditions that favored the increase, while in other countries, the investment funds industry remained underdeveloped or become "nonexistent" due to lack of certain conditions. Specifically, it was identified that there is a close linkage between the improvement of the legal environment and the investment fund industry, meaning that the market is higher in the countries where the investors' rights are better assured. In addition to the general conclusions, the study demonstrates that the investment funds industry is estimated to be higher in developed countries, where the population has a high level of education, but also where is a consistent history of this industry. Equivalently, the study confirms the existence of a small investment fund industry in those countries where exist barriers to entry and starting a business are high.</p>
Covrig V., Ng. L.K., Chan K. (2004) [5]	<p>The authors have attempted to explain the international allocation in equity funds by determining the slope and the attitude of investors in choosing international funds or funds domiciled in the country of residence. The panel of data used was grouped into <i>six categories of criteria</i>: a) economic, b) capital control, c) the capital market development, d) indicators of familiarity, e) the protection of investors and f) other potential explanatory variables.</p>
Antunes A.G. (2007) [2]	<p>Proceeding a variable selection, Antunes A.G. structures them in two categories: <i>fund –level variables and country-level variables</i>. In the first category are included: the main category of assets held by the fund, the investment area, the geographic allocation, the strategies adopted, the fund age, the level of fees (annual fees, initial subscription fees, redemption fees) and the fund performance. On the other hand, the countries characteristics take into account other four sub-categories of potential explanatory variables: the legal features, the supply characteristics, the demand characteristics and features of trading - noting that this category largely retains the structure proposed in 2003 by Khorana A. et al. However, the study integrates a series of dummy variables to identify the class or type of assets, the strategies type, the compliance with UCITS regulations, the geographical orientation, etc.. Antunes A. demonstrates that for 2002-2004 period, the funds contained in his study experienced a negative performance with an average about 5%, trend explained due to the economic recession that has affected the financial markets globally.</p>
Groh A.P., von Liechtenstein H, Lieser K. (2008) [10]	<p>The model is constructed for identifying an index of venture capital funds market attraction. By using six main characteristics that are influencing the investors attraction for a certain market, such are: (1) the economic development, (2) the size and the liquidity of the capital market, (3) the taxation level, (4) the investor protection and corporate governance, (5) the socio-human criteria and (6) the entrepreneurial opportunities, the model proceeds on constructing a comparison scale to the average level of the index, which is associated with 100 points and correspondent to the EU development.</p> <p><i>Results</i>: Romania is included in the category of countries with "weaknesses in attraction of investors in the domiciled investment funds" on behalf of a score of 77 points to the average of EU 100 points and below the average of countries EEC of 85 points. Also comparable results below the CEE countries have registered: Spain (82p), Italy (81p), Bulgaria (79p),</p>

	Slovakia (76P) and Greece (69P).
Ferreira M., Keswani A.M., Antonio F. and Ramos S.B (2011) [13]	Using a 16.316 equity open-end funds sample from 27 states during 1997-2007 and 10 explicative variables derived from: a) the economic development indicators; b) the capital market development indicators; c) the indicators of investor protection and the quality of the legal framework c) the indicators of investment fund industry development and concentration. <i>Results:</i> In terms of the national markets of investment funds, the variables on the capital market liquidity, the investor protection indicators, the indicators for the implementation of the legal requirements and the indicators of concentration had a positive effect on fund performance, while the relative economic conditions have not identified any significant influence. Also, in countries with high income per capita and better education, investors know better the market opportunities and are investing in mutual funds. There is no evidence from modifying the GDP per capita and the fund performance, while the intensity of using the Internet services has a significant influence on the investment funds activity, especially while it is coupled with better information and investors' education. There is a positive relationship between trading volume and the fund performance, but a negative relationship with the transaction costs.
Salgarnik G. (2012) [21]	On a ten year sample 1999-2009, Salgarnik G. evaluates the mutual funds dynamics using two types of indicators: performance indicators and non-performance indicators. The linear regression between the performance indicators (i.e. gross earnings of the fund, the share of fund performance against the average performance of funds category, the subscription time, the earnings adjusted at risk, the tracking error) and the non-performance ones (i.e. the linearized value of the total net assets, the net inflows expected to increase by a dollar of the total net assets, the normalized inflows of the fund, the market share of the fund, the costs and the age of funds scaled in months) expresses a significant difference between the two categories of investors, reporting that the individual investors are dominated by the unsophisticated ones, who do not change appreciably the results in relation to investment funds performance, while the majority of the institutional investors can be categorized sophisticated, adjusting their behavior to the performance measures.

Source: authors own structuring

3. Potential determinants of Romanian mutual funds dynamics

3.1. Methodology

In order to investigate the impact of global financial crisis on the value of total net assets, we estimate the following regression:

$$TNA = c_1 + c_2 * BET + c_3 * DEP + c_4 * LEN + c_5 * EUR + c_6 * UNE + c_7 * GDP + c_8 * SAV + c_9 * FDI + c_{10} * FIS + c_{11} * IFM + c_{12} * NMF + c_{13} * DUM + \varepsilon_t \quad (2)$$

where:

TNA represents the total net assets;

BET is the Romanian stock exchange index;

DEP is the deposit rate;

LEN shows the lending rate;

EUR represents the exchange rate EUR/RON;

UNE is the unemployment rate;

GDP represents the gross domestic capital;

SAV shows the value of savings as a percentage of gross domestic product;

FDI are the foreign direct investment;

FIS shows the fiscal pressure;

IFM is the index of mutual funds;

NMF represents the number of mutual funds;

DUM is the variable dummy, which takes the value of zero for the period before financial crisis, respectively the value of one for the period after the implementation of current crisis.

ε_t - is the error term

The dependent variable and the independent variables: the number of mutual funds, the index of mutual funds are taken from ICI Factbook. The source of the Romanian stock index is the database bursanoastra.ro. The other independent variables are taken from Eurostat database.

3.2. Empirical results

$$TNA = 2.155 + (-0.091) * BET + (-0.047) * DEP + 0.024 * LEN + (-6.44) * EUR + (-0.11) * UNE + (-0.956) * GDP + (-0.016) * SAV + 0.221 * FDI + (-0.037) * FIS + 3.93 * IFM + 0.464 * NMF + 0.289 * DUM + \varepsilon_t \quad (2)$$

The financial crisis affected all the sectors of economy worldwide [17, p.289]. The

results of our analysis show that this impact is not significant (table 2). Also, we must not forget the fact that EU accession coincided with providing a point of confidence in the stability of the national economy and the experience of other countries such as Czech Republic, Hungary and Poland show that European integration had a significant impact on stock market capitalization, which grew by an annual average rate of 48% and the turnover by 77% after accession [4, p.283]. But the evolution of Romanian stock index

value of total net assets. It is surprising the negative and significant impact of exchange rate of EUR/RON (5%), while the foreign direct investments have a positive impact on the values of mutual funds (1%).

The annual growth of gross domestic product has a negative impact (10%). This result is due to the current crisis. The other independent variables proved to be insignificant in explaining the dynamic of total net assets of mutual funds.

has a negative and insignificant impact on the
Table 2. Empirical results

	(1)	(2)	(3)	(3)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
C	2.155 (1.175)	2.278 (1.282)	1.808 (1.107)	1.794 (1.123)	0.062 (0.040)	0.723 (0.806)	0.353 (0.449)	0.083 (0.549)	0.098 (0.682)	0.184 (1.403)	0.146 (1.109)	0.202 (1.428)
BET	-0.091 (-0.458)											
DEP	-0.047 (-0.600)	-0.054 (-0.720)										
LEN	0.024 (0.424)	0.033 (0.640)	0.008 (0.212)									
EUR	-6.440** (-2.209)	-6.512** (-2.282)	-6.141** (-2.213)	-6.076** (-2.253)								
UNE	-0.110 (-0.452)	-0.144 (-0.635)	-0.096 (-0.450)	-0.073 (-0.406)	0.097 (0.544)							
GDP	-0.956* (-1.755)	-1.008* (-1.928)	-1.010* (-1.955)	-1.018* (-2.019)	-0.587 (-1.160)	-0.648 (-1.332)	-0.677 (-1.401)	-0.557 (-1.663)	-0.520 (-1.647)	-0.498 (-1.557)		
SAV	-0.016 (-1.277)	-0.016 (-1.249)	-0.011 (-1.034)	-0.011 (-1.153)	-0.010 (-0.991)	-0.008 (-0.873)						
FDI	0.221** (2.560)	0.213* (2.571)	0.212** (2.582)	0.213** (2.651)	0.212** (2.434)	0.222** (2.663)	0.224** (2.692)	0.217** (2.729)	0.223*** (2.886)	0.228*** (2.916)	0.194** (2.527)	
FIS	-0.037 (-1.388)	-0.036 (-1.399)	-0.031 (-1.257)	-0.033 (-1.432)	-0.014 (-0.631)	-0.015 (-0.654)	-0.007 (-0.349)					
IFM	3.930 (1.556)	3.882 (1.569)	3.983 (1.631)	3.908 (1.654)	2.297 (0.940)	2.978 (1.440)	2.479 (1.253)	2.587 (1.347)	2.433 (1.316)			
NMF	0.464 (0.666)	0.544 (0.823)	0.511 (0.784)	0.497 (0.784)	0.272 (0.400)	0.278 (0.416)	0.212 (0.320)	0.247 (0.384)				
DUM	0.289 (1.352)	0.306 (1.484)	0.266 (1.356)	0.268 (1.396)	0.090 (0.478)	0.077 (0.416)	0.068 (0.372)	0.077 (0.434)	0.070 (0.399)	-0.026 (-0.161)	-0.003 (-0.020)	-0.011 (-0.065)

Source: Own processing in Eviews

Notes: White t-statistics are in parentheses. *, **, *** indicate statistical significance at 10%, 5% and 1% levels.

4. Concluding remarks

Despite the expectations of an imminent collapse of the worldwide economies and the international financial systems, the Romanian mutual fund market is witnessing the confidence of its investors. In addition, the paper emphasizes the main determinants with significant impact to the Romanian investment market which has been defined only by a slightly fragility.

Towards ensuring a certain level of development for the mutual fund industry, we are conscious that the investment impulse

depends on many other key elements which will encourage further research.

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The Impact of Innovation Activity on the Romanian Economy. Comparative Analysis

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Abstract

This article presents the innovation activity in Romania through a comparative study conducted between 2002-2010. Moreover it treats also the implications of innovation on developing regions. These regions are in the view of the European Union underlying the development of the innovation activity, as well as the financing of this work by the EU programs, especially through the two most large-scale grant programs of innovations, called Europe 2020 and Horizon 2020.

Key words: *innovation, financing, regionalization, turnover*

JEL Code: *G28, G29, O30, O31*

1. Introduction

The world is in a profound, permanent and increasingly rapid change. Complex phenomena that occur in Romania suggest the medium and long term consequences which could hardly been forecast in a scenario, given that we are in a changing world. A world of complex and contradictory trends is born before our eyes. The time for spontaneous actions, for a message widely understood, for passivity is gone. Continuing such an attitude, under the false and dangerous soothing sentence of "pragmatism", means to prove lack of capacity and inability to contribute to sketching the defining structures of this world, that we want so much to be modern and dynamic, and inside which the value should be the unique criterion of social victory.

In Romania, the importance given to science has decreased, being regarded as a mere consumer of scarce resources. The lack of coherence between different states structures

manifests itself in a weak relationship between economic policy and political science.

The reformist statements in recent years have always given a wave of hope in increasing the role of science, but practical reality oppose our hopes incompetence, poor management, old style nomenclature. In the context of EU accession, Romania should take into account that the West is operating on a normally bases in which competition naturally eliminates the weak. [1]

2. Innovation in Romanian enterprises

Innovation activity is present in Romanian companies, especially in the small, medium and large ones.

The period analyzed in the study is between 2002 and 2010, period which was divided into four other periods: 2002-2004, 2004-2006, 2006-2008 and 2008-2010.

The machinery, equipment and software purchasing was the main activity in which the companies were involved to carry out innovative activities.

Innovative enterprises are classified in two categories: technological innovators, more exactly enterprises that have introduced new products or processes or significantly improved, and non-technological innovators who have implemented new ways of organizing or new marketing methods.

In carrying out the innovation activity, businesses have precise objectives, in order to achieve better results, increase productivity and the number of employees. Thus, the main objectives of innovation are:

- ❖ Workers health and safety improvement;
- ❖ Reducing environmental impact;
- ❖ Reducing material and energy costs per unit of production;
- ❖ Reducing labor costs per unit of production;

- ❖ Increasing the capacity of producing goods and services;
- ❖ Improving the flexibility of the production of goods and services;
- ❖ Improving the quality of goods and services;
- ❖ Entering new markets or increase market share;
- ❖ Replace obsolete products or processes;
- ❖ Expanding the range of goods and services. [2]

During the analyzed period the percentage of innovative enterprises grew steadily until the period 2006-2008; then between 2008-2010, due to the emergence of the economic crisis, this percentage has declined, as can be seen from Table. 1:

Table 1. Situation of innovative and non-innovative companies in the period 2002-2010

Nr.	Period	Innovative Companies	Procentage (%)	Non-innovative companies	Percentage (%)
1.	2002 – 2004	5.171.	19,9	20.853	80,1
2.	2004 – 2006	6.013.	21,1	22.475	78,9
3.	2006 – 2008	9.986	33,3	19.993	66,7
4.	2008 – 2010	8.116	30,8	18.214	69,2

(Source: Author's processing of data published on www.insse.ro)

It should be noted that the number of innovative enterprises followed an upward trend, the same trend as the allocation of funds for R & D and innovation, reaching "peak" in 2008, when it recorded the highest economic growth after the year 1990.

The total value of innovation expenses followed the trend shown in the previous table:

Table 2. The total value of innovation expenses in the period 2002-2010

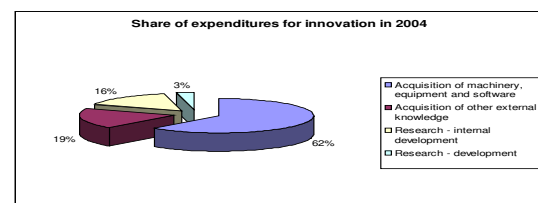
(millions lei)		
Nr.	Year	Expenses value
1.	2004	4.589,1
2.	2006	6.421,7
3.	2008	10.264,4
4.	2010	3.771,6

(Source: Author's processing of data published on www.insse.ro)

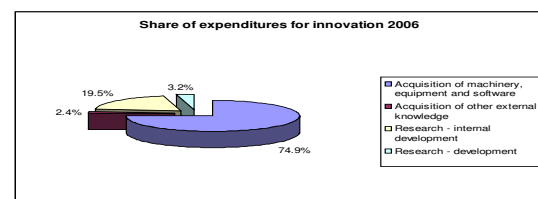
Innovation expenditures are made for the following activities:

- *research – internal development* – includes systematic creative activities undertaken within the company in order to increase the volume of knowledge and their use for the realization of products (goods or services) and new and improved processes including software development;
- *research – development* – including research activities – development made by other companies or research institutes;
- *purchase of equipment and software* – includes the purchase of advanced machinery, equipment, hardware and software for the production and / or new or significantly improved processes;
- *acquisition of other external knowledge* – including the purchase of licenses for patents and unpatented inventions, know – how and knowledge from other businesses or organizations.

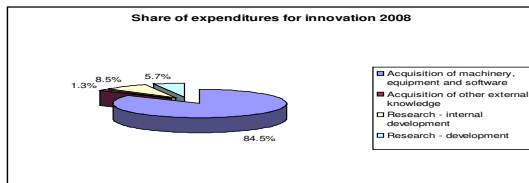
The percentage of these expenses in the period 2002-2010, is shown in the following figures:



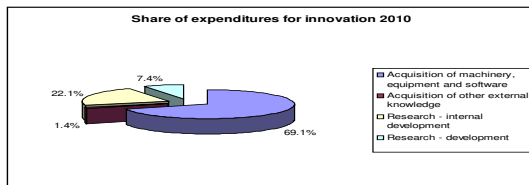
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(Source: Author's processing of data published on www.insse.ro)

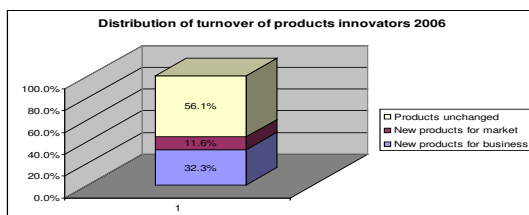


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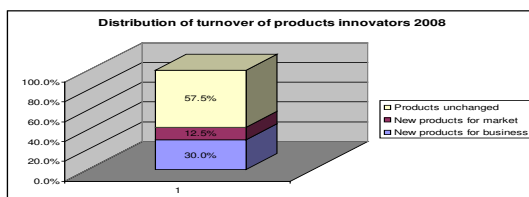


(Source: Author's processing of data published on www.insse.ro)

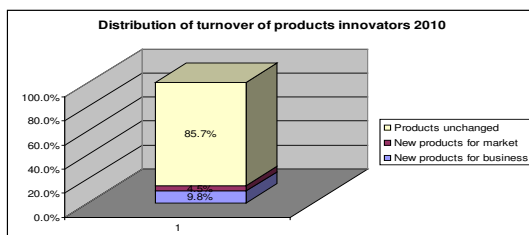
Innovation intensity is present, especially, in business sector than in the service industry, especially for companies that produce and promote new products for other companies, which are in a larger number than companies promoting products for the market. The turnover of these companies is shown in the tables below:



(Source: Author's processing of data published on www.insse.ro)



(Source: Author's processing of data published on www.insse.ro)



(Source: Author's processing of data published on www.insse.ro)

It is easy to notice that before the advent of the economic crisis there was a diversification of product innovation activity, while after 2008 these companies have been oriented in the greatest extent, to products remained unchanged.

3. Innovation and regional development

European integration as a political process but also as a specific form of globalization, a process interpreted in a common sense as leading in the direction of a more emphasized integration into the functional structures of the European Union, led, among other things, to an institutional revalorization (taking as a valorized starting point the European regional archetypal model – before the nineteenth – century) of the regional territorial level. The growing importance of regions as administrative units of business management let also to an increased competition level between them and the national level, or simply each other.

The premise from which we start to analyze the role of innovation in regional territorial horizon is that according to which the growth and development are consequences of the reunification of factors necessary and sufficient for an algorithm capable of generating the best results (outputs) as result of the work of at least two different types of productive factors (inputs) whose elasticity of substitution is constant. [3]

Determinable consequences of growth always involve negative territory: pollution, depletion of renewable resources, inefficient allocation of factors on branches or sub-branches factors etc. We can also say that these determinable consequences do not involve a negative territory, no more than the statement „exception strengthens the rule”; we can have a large sectorial development to mono-industrialize a region or a country, but with unpredictable consequences. Getting technology able to propel a region in another comparative category of production is so important that any side effects fade, in a significant measure.

But we can also add that the development has a much more pronounced territorial character than the growth, which can only be recorded in growth poles that will not reverberate economically and socially on the region of origin. The change of industrialism

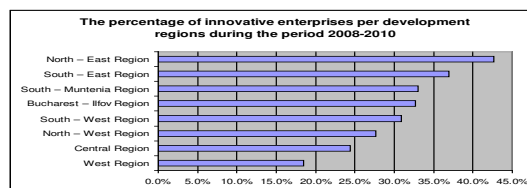
perspectives in the late twentieth century and the beginning of the twenty – first century means adding to the classical logic of factors, technological and infrastructural resources and markets, the minimal mode regarding institutions, leadership and organizational culture. [3]

European initiative in this area to spend at least 3% of the aggregate European GDP does not represent an output of the system, insomuch as relative dissemination obsession of clusters development in a manner more or less uniform throughout the whole Union does not appear to be a relevant solution. But it seems that the real discrepancy (setback) comes mainly from the inability to assimilate innovation's own culture, a situation that can be put in light, for the European context, quite evident both in – a comparative basis East – Asian, not only North – American. That is because, many Asian countries, regardless of the social – political background (military dictatorships, communist countries, liberal democracies), have registered such significant progress that it transform them into models with specific relevance to any country engaged in the contemporary global economy mechanism. [3]

Precisely to eliminate these gaps at the EU level, two programs were initiated, two programs meant for funding innovation, Europe 2020 and Horizon 2020 more exactly, the latter being an ambitious funding program worth over 80 billion euros in period 2014-2020. Also the 7th Framework Programme for financing research – development – innovation earmarked for 2012, through two financing programs, the amount of 654 million euros, of which the amount of 108 million euro to stimulate innovation in small and medium – sized companies (SMEs).

In Romania, unfortunately, the regional distribution of innovative companies is uneven and has depended very much on the modalities of financing of these companies. Surprisingly, during 2008-2010 on the first place are the North-East, South-East and South-Muntenia regions situated ahead of more developed regions, is right from other points of view. I believe that this discrepancy is due to the fact that some enterprises in the 'leading' regions were set up either in disadvantaged areas and benefited from certain tax incentives; either it were established during start-ups and spin-offs programs. The percentage of these innovative

companies, by development regions is presented below:



(Source: Author's processing of data published on www.insse.ro)

4. Conclusions

If innovation was imposed in Romania, becoming an essential part of the continuing development or at least of maintaining it within a competitive economy from now on; now it remains as years pass and the assessment of the economy to edify more and better. One thing is certain: Romania should not deviate from this path of at least two reasons: first, the trend is moving towards the European Union countries and, secondly, Romania should keep this trend in order to receive funding from the European Union. Funds for the innovation activity are high and so Governments who will succeed to the leadership of Romania will have to allocate amounts for this activity from the budget, so as in 2020, to be allocated 2% of GDP for research-development and innovation activities.

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Result Computation In Terms Of Simulated Options

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Abstract

The presence of options in accounting raises the problem of the criteria adopted for choosing one policy or another. The freedom to choose the accounting policies, controlled by the management of the company in its intention to achieve the planned objective, leads to a selective choice for reducing the result or for increasing it. The study presented below intends to prove that the disclosed result doesn't show real, reliable information; therefore it is recommended not to be used in the financial analysis by its self. That is how the continuous attempts of finding other more reliable financial – accounting information are explained.

Key words: accounting policy, simulated options, subjectivity, financial statements, accounting result

JEL Classification: M40

1. Introduction

Great importance is given to accounting information due to its mandatory character to express truth, fairness, clarity and precision. Information must be as close to reality as possible, as a result of the fundamental purpose of accounting to effectively manage the company's economic and financial resources for future decisions to be taken. Therefore, rules, norms, computation and assessment methods, accounting rules must be respected and applied.

The accounting policy is part of a dual logic of optimizing choices and of financial communication of the company with its environment. The choice is made in a framework set by many sources of

accounting law and of fiscal rules, as well, applicable especially regarding the financial statements. Within these, Casta (1989) [1] illustrates policies such as:

- Setting or modifying the assessment methods;
- Selecting or changing methods of financial statements disclosure;
- Setting the model and aggregation degree of information published in the financial statements, in general, and in the disclosures, in particular;
- Selecting the information disclosed in the annual report;
- Determining the date of financial information communication;
- Voluntary publication of optional synthesis documents, such as the Financial Board;
- Choosing or changing the auditor;
- Total or partial alignment to an recognized international accounting referential;
- Abandonment of certain accounting principles.

Accounting policies are ways of solving a problem. The existence of multiple variants that can be used in providing solutions to various situations leads to accounting options. The referential used for elaboration of accounting policies allows alternatives for registration and assessment in accounting, that is various methods of estimating the entity's financial position, financial performance, or cash flows

This paper adds to the literature the perspective on how the existence of options and choice of methods, leading to principles, concepts, conventions, rules and specific practices used in accounting and in financial reporting, is mandatory for development of accounting policies.

The paper is organised as follows. In the next subsection we review the existing literature on the role of accounting policies and options, as well as on the possibility of choice granted to the business in the intention to achieve planned objectives. Furthermore, we will present our testing case through which it is shown how different choices lead to different results. This would be the case when a company is free to choose between two accounting policies following a certain goal. We conclude the section by drawing a conclusion on the possible effects of options on the business' financial information, in general, and on its accounting result, in particular.

2. Relation to Prior Research

According to the definition adopted by both international boards IASB and FASB [2], the accounting policies are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements. Continuing to search in the literature, we find the opinion of Nobes (1998) [3], who defines accounting policies as assessment, measurement and recognition methods, applied by the company, based on those generally accepted by law, accounting standards and business practices. As defined by Casta (1989) [1], the accounting policy represents the assembly of choices made by management on the accounting variables, leading to the arrangement of the content and form of financial statements in compliance to applicable regulatory requirements. Accounting policies defines both theory and method underlying the preparation and presentation of financial statements (Ristea, 2003) [4]. Reports on annual accounts management, periodic reports and additional disclosures are also included however, within their scope.

Watts and Zimmerman (1990) [5] launched the positive accounting theory, as a mean of explaining the companies' behaviour in terms of accounting policy, considering that decisions taken answer to the result maximization objective. In addition, Gietzmann and Trombetta (2001) [6] discuss effects of firms' specific choices of accounting policies. The choice of historic accounting policy, for instance, can be used

to communicate private information about the firm because the choice interacts with the optimal firm strategy for voluntary disclosure. They underpin the fact that the choice of an accounting policy is either not directly considered or it is embedded in the disclosure decision, considering that the disclosure decision is effectively one that establishes the precision of an accounting report. According to Hope (2002) [7], accounting policy disclosures reduce uncertainty about forecasted earnings. Nevertheless, if investors and analysts are not sure about the accounting policies used in measuring income, they face more uncertainty in forecasting future earnings numbers, this leading to a less importance given to financial statement information.

Knowledge about the applied accounting policies can be most easily obtained from firm-specific disclosures. This information can be easily obtained indirectly by analyzing the time series of earnings and by having firm and industry-specific expertise, in terms of stability of a firm's operations and industry structure. Tarca (2002) [8] identifies national law, stock exchange rules and competitive market pressures as factors that impact on the selection of accounting policies to be used in the preparation of the firm's financial statements. In addition, the firm's attributes and the preferences of its managers are known to influence choice of accounting policies.

3. Research design

We built our research on the belief that the manufacturer of accounting information can manifest bias on a certain purpose by allowing the existence of options, namely the possibility to choose between different accepted methods and accounting treatments, subject to national and international provisions in force. Nevertheless, such policies have to be permanently used and need to be published.

It is, for instance, the case of the fungible inventories output. Among the policies possible to be adopted we mention for example FIFO method (first in, first out), the weighted average cost method and the LIFO method (last in, first out). The accounting

option refers to choosing one of the three versions.

The option for a method or another is determined, according to the fundamental objective of accounting, by the need for truth, for obtaining a fair view. Therefore, through accounting, real and fair information is ensured, credible for all users, including for taxation. Moreover, the company' organizational model, as an object of accounting evidence and taxation, must be also considered. In these terms, a series of principles, rules, and conventions can sustain options for a method or another. The consistency principle itself offers the possibility of changing the methods to be used, with effects on the content and value of information. In reality, we discuss about a coordinated action, through which alternatives of action are elaborated, in the attempt of exploiting weak points of regulations, which can influence the content of the financial statements, the way of understanding and usage of accounting information obtained by various users.

Our research is based on a case study, through which, by the help of figures, we test some simulated options and their impact on the accounting result, in order to choose the most suitable to the company' interest.

Our research hypothesis is based on considering that three such interests can be followed:

- The stability of the result during the period;
- High results in the first years;
- Low results in the first year.

We chose three from the most common accounting policies – those referring to depreciation methods, expenses and revenues recognition in the case of a construction contract and inventories output assessment.

As referred to the **depreciation policy**, we tested two of the methods – straight line method and the double decline method, on the case of a non current tangible asset, having a useful life of four years.

In terms of considering the revenues and other expenses to be constant from one year to another, we determined the influence on the result in the two cases.

Table no. 1. Influence of depreciation methods on result

Income statement	1 st Year	2 nd Year	3 rd Year	4 th Year	Total
Expenses with straight line depreciati on method	30.000	30.000	30.000	30.000	120.000
Expenses with degressive depreciati on method	45.000	28.133	23.433	23.434	120.000

According to the consistency principle, the result can be influenced by the depreciation policy only in the year of investment. This means that the straight line method once choosed as shown above, the company must comply with this choice in the next three years, even if in the in the second year it realizes that another method would rather be used. In reality, companys can change the depreciation methods, the period or the residual value when the initial estimates don't correspond to the actual situation. These changes of estimates can significantly affect the current result and that of future financial years.

In order to reflect the case of recognition of expenses and revenues in a construction contract we based our testing on the case of a construction contract of a storage space, on a period that lasts from 1st of January, 1st Year till 10th of January 4th Year. The estimates amount to 400.000 m.u., while the estimated cost of works in the contract was of 300,000 m.u., distributes as follows: 64.600 m.u. in the 1st Year, 98.800 m.u. in the 2nd Year, 66.600 m.u. in the 3rd Year și 70.000 m.u. in the 4th Year.

The company can choose to recognize expenses and revenues based on either the completed – contract method or the percentage-of-completion method. We must underpin though that according to the national accounting regulations and IFRS referential, revenues from service contracts is recognized in the period during which the service is rendered, generally under the percentage-of-completion method.

1. In case of using the completed – contract method, the information extracted from income statements is as follows:

Table no. 2. Influence of the completed – contract method on result

Income statement	1 st Year	2 nd Year	3 rd Year	4 th Year
Revenues from services	64.60 0	98.800 98.800	66.600 66.600	17 0.0
Cost of services	64.60 0			00 70.00 0
Impact on current result	0	0	0	10 0.0 00

Source: Own computation

2. In case of using the percentage-of-completion method, the information extracted from income statements is as follows:

Table no. 3. Influence of the percentage-of-completion method on result

Income statement	1 st Year	2 nd Year	3 rd Year	4 th Year
Revenues from services	86.13 3 ¹	131.7 33 ²	88.80 0 ³	93.33 4 ³
Cost of services	64.6 00	98.8 00	66.6 00	70.0 00
Impact on current result	21.53 3	32.93 3	22.20 0	23.33 4

Source: Own computation

¹ 400.000 * 64.600 / 300.000 = 86.133 m.u.

² 400.000 * 98.800 / 300.000 = 131.733 m.u.

³ 400.000 * 66.600 / 300.000 = 88.800 m.u.

⁴ 400.000 * 70.000 / 300.000 = 93.334 m.u.

It is found that the two methods have the same impact on the recognized total result of 100,000 m.u. They differ, however, in terms of periodically outcome measurement and reporting during construction works.

In order to assess the output inventories, we chose as cost computation variants FIFO method (first in, first out) and the weighted average cost method based on the consideration that both methods are allowed by Romanian legislation, as well as by IFRS referential. We set the final figures based on hypothetical quantities of merchandise

purchased and consumed during the year, in terms of prices increase, and we only took for analysis the total cost of exits. The impact of the two assesment metods on the result during the four years of simulation is presented in the table bellow.

Table no. 4. Impact of the two assesment metods on the result

Income statement	1 st Year	2 nd Year	3 rd Year	4 th Year
Cost of goods sold – FIFO method	16.000	48.800	72.800	40.000
Cost of goods sold – Weighted-average cost method	20.000	51.600	69.500	38.648

Source: Own computation

We present the following table summarizing the influences of policies adopted on the result:

Table no. 5. Influences of policies adopted on the result

Items	1 st Year	2 nd Year	3 rd Year	4 th Year
Depreciation expenses				
- straight line method	30.00 0	30.00 0	30.00 0	30.00 0
- degressive depreciation method	45.00 0	28.13 3	23.43 3	23.43 4
Result from construction services				
- the completed contract method		0	0	100.0 00
- the percentage-of-completion method	21.53 3	32.93 3	22.20 0	23.33 4
Expenses with inventories				
- FIFO method	16.00 0	48.80 0	72.80 0	40.00 0

- Weighted-average cost method	20.00	51.60	69.50	38.64
	0	0	0	8

In making correlations and calculations we assumed that annual result before including depreciation expenses, the result from construction works and expenditure on inventories is constant and amounts to 1,000,000 m.u.

In the attempt to determine the best choice, we narrowed the scope of possible combinations, keeping for each of the four years, the options that lead to obtaining the highest, respectively lowest result in the analysed year, so that, annually, the difference between the two options is maximal.

Table no. 6. Possible combinations of methods

Option	Chosen methods	Effect
1	- degressive depreciation method - the completed – contract method - Weighted-average cost method	Lowest result in the 1 st Year
2	- straight line method - the percentage-of-completion method - FIFO method	Highest result in the 1 st Year
3	- straight line method - the completed – contract method - Weighted-average cost method	Lowest result in the 2 nd Year
4	- degressive depreciation method - the percentage-of-completion method - FIFO method	Highest result in the 2 nd Year
5	- straight line method - the completed – contract method - FIFO method	Lowest result in the 3 rd Year
6	- degressive depreciation method - the percentage-of-completion method - C Weighted-average cost method	Highest result in the 3 rd Year

7	- degressive depreciation method - the percentage-of-completion method - Weighted-average cost method	Lowest result in the 4 th Year
8	- straight line method - the completed – contract method - FIFO method	Highest result in the 4 th Year

Table no. 7. Results obtained

Explanation	1 st Year	2 nd Year	3 rd Year	4 th Year
Result from Option no. 1	935.000	920.267	907.067	1.037.918
Result from Option no. 2	975.533	954.133	919.400	953.334
Result from Option no. 3	950.000	918.400	900.500	1.031.352
Result from Option no. 4	960.533	956.000	925.967	959.900
Result from Option no. 5	954.000	921.200	897.200	1.030.000
Result from Option no. 6	956.533	953.200	929.267	961.252
Result from Option no. 7	956.533	953.200	929.267	953.334
Result from Option no. 8	935.000	920.267	907.067	1.037.918

The annual result showed above is the one before including depreciation expenses, result from construction works and expenses with inventories.

4. Discussions and implications

When choosing a policy or another, the company management may pursue objectives other than the relevancy and credibility, such as:

- Reducing announced losses;
- Minimizing taxable profits;
- Increase or decrease the current result;
- Increase or decrease of distributable profits;
- Temporary smoothing of accounting results in order to reduce the risk presented in the financial environment.
- "arrangement" of balance sheet (window dressing), which, through its structures, trying to better satisfy prudential rules, contract clauses or the other criteria required by the marketWe analyze the

results obtained by choosing each of the eight options presented, depending on business objectives.

If the company pursues **long-term stability of the result**, option no. 7 is what best serves this goal. This involves combining the following: degressive depreciation method, percentage-of-completion method and weighted-average cost method.

In order to fulfill the goal of obtaining **great results in the first years**, option no. 2 is to be chosen, decision which involves combining the following methods: straight line depreciation method, the percentage-of-completion method and FIFO method.

Based on the analysis of data from the above presented table, the third possible goal – **lower results in the first years**, can be achieved by applying option no. 8, that assumes the adoption of the following methods: straight line depreciation method, completed – contract method and FIFO method. In this case, the method chosen for expenses and revenue from construction contracts that lead to fully recognition of income in the last year has the highest influence. The testing outcomes show that business results can be brought to a desired image by the action of accounting professionals and "forbearance" of accounting rules.

5. Conclusions

Result often depends on the size of the accounting methods adopted, because the results obtained by their implementation may be different in most cases. In circumstances where company uses liberal methods, the yield may be increased in the short term, but of mediocre quality. Furthermore, the same effect would be achieved if the company has great benefits as a result of unusual facts, occurring over a short period of time.

After analyzing the hypotheses presented, we can conclude that the result is a subjective indicator, depending on the stakeholders, on the economic and political system, as well as on the leadership and management of the company.

To support this statement, we subscribe to the opinion of Capron (1994) [9], according to which "the product provided by accounting can only be the result of a

compromise between expectations and multiple demands."

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Methods and Options for Recognizing and Measuring Liabilities

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Abstract

In our work we start from the discrepancy between the views of practitioners and theorists accountants. This discrepancy increased once the abstract theoretical research, which resulted in a lack of intelligibility for practitioners. The latter believes that specialists in educational establishments were removed interest accounting practice, while researchers argue that the interest of the practice is defined by a very narrow horizon. Our opinion is that a theory of practice removing and vice versa will only lead to a limitation of satisfying the need for financial and accounting information users. Since, therefore, we believe, accounting research should be directed towards theoretical research linking information with the information provided by the reality of the economic environment in which the activities but also the evolutionary behavior of users and we considered it useful in analyzing the assessment and recognition of debt an enterprise.

Keywords: debts, recognition, evaluation

J.E.L. Classification: M40, M41

1. Introduction

IASB Framework states that "directly related balance sheet structures assessment of financial position are assets, liabilities and equity. "Thus, if debt can retain the following definitions:

- IASB General Framework: Debts Is a present obligation of the entity arising from past events and settlement is expected to result in an outflow of resources embodying economic benefits;

- British General Framework: Reductions

are probable future economic benefits arising from present obligations of an entity to transfer assets or provide services to other entity that result Tall past transactions or events;

- American General Framework: Are present obligations of an entity to transfer economic benefits as a result of past events and transactions;

In conclusions, the three definitions include the same elements: present obligation of the entity arising from past events that is likely to cause an outflow of economic benefits from the entity.

Recognition is incorporated into the balance sheet or income statement an item that meets the recognition criteria. This process involves the description in words of that element and assigning a certain amount, and include that amount in the total balance sheet or profit and loss account. Items that satisfy the recognition criteria should be presented in the balance sheet or income statement.

Non-recognition of these items can not be corrected either by disclosure policies accounting policies used or by notes or information suplimentare. Un item that meets the definition of a structure financial situation must be recognized if:

- (a) it is probable that any future economic benefit associated with the item to enter or leave in or the entity, and

- (b) the item has a cost or value that can be measured (a) reliably.

Probability of future economic benefits. The concept of probability is used in terms of recognition criteria have a reference to the uncertainty that future economic benefits associated with an item or they will go out of body. This concept is imposed by the uncertainty that characterizes the environment in which they operate any entity. Evaluation of uncertainty related to

future economic benefits take into account information available when the financial statements.

Evaluation's Credibility. The second condition that an element must satisfy to be recognized is that they have a cost or value that can be measured (a) reliably. In many cases, cost or value must be estimated (a) the use of reasonable estimates is part essential in preparing financial statements and does not influence their credibility. Where however, can not be made a reasonable estimate, the item will not be recognized in the balance sheet or profit or loss.

An item that, at some point, no longer meets the criteria for recognition can be recognized later as a result of circumstances or events ulterioare. Informatii on an element that has the essential characteristics of a structure of the financial statements, but does not meet the criteria for recognition may nonetheless be disclosed in the notes, explanatory material or supplementary tables. This procedure is recommended if knowledge of these elements is considered relevant for the assessment of the entity's financial position, financial performance or financial position changed by users of financial statements.

A liability is recognized when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will take place can be measured reliably. In practice, obligations under contracts whose total or partial non-performance is balanced by both sides (for example, liabilities for inventory ordered but not received yet) are not generally recognized as liabilities in the financial statements. An essential characteristic of a liability is that the entity has a present obligation. An obligation is a commitment and a responsibility to act in a certain way. The law may require the entity to meet its obligations as a result of a contract or legal requirements.

Explanatory Dictionary of Romanian language defines obligation as a civil relationship whereby one or more persons are entitled to claim other people, we are indebted to give or to do something. In most cases, the obligation is reflected by generating transactions of goods and services involving the existence of primary and

amounts to be paid. Thus, every transaction is recognized, there is certainty the future transfer of benefits from the entity.

2. Recognition Debts

The IASB Framework required to distinguish between current and future commitment obligation. Management of an entity's decision to acquire assets in the future or guaranteeing a loan made to an associated enterprise is not a present obligation but a future commitment. In this case, since there documents that provide certainty leaving future benefits, we can not talk about a debt level of balance.

Only when the entity has a binding agreement to purchase the assets or insolvency reliable information about the associate, there are economic consequences output ensures certainty of economic benefits.

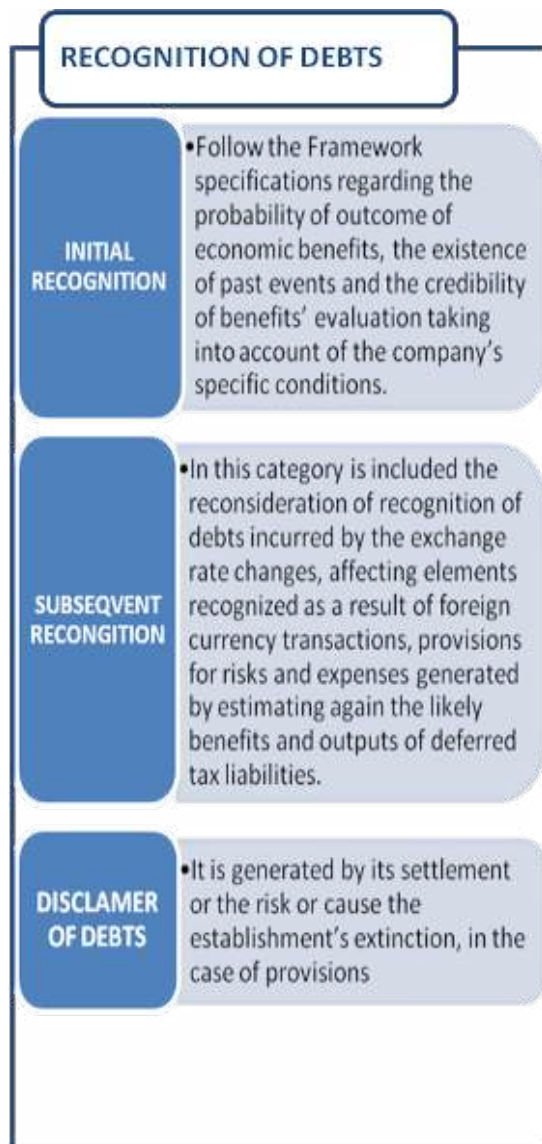
Settle a present obligation usually involves, giving entity to certain resources embodying economic benefits in order to meet the demands of the other party. Extinction of a present obligation can be done in several ways, for example:

- (a) cash;
- (b) transfer of other assets;
- (c) provision of services;
- (d) replacement of that obligation with another obligation, or
- (e) the conversion obligation in equity.

Credibility evaluation criterion does not pose serious problems for debt, since the events generating the transaction are based on documents clearly intended to regulate the value of debt. We believe, however, that an argument must be attached to this statement. We start from the fact that the transaction that generates the document can be used in measuring the liability event and to recognize the asset resulting from the transaction. However, the evaluation for that asset needs to take into account other elements, and, in most cases, the amount recognized for the asset in the financial statements of the buyer does not overlap the value of the item recognized in the financial statements of the seller. Instead, the debt value recognized by the buyer must correspond precisely to the amount of the claim known by the seller.

We can talk even about the moments of debts (liabilities) recognition:

Figure 1. Moments of Debts' Recognition



(Source: projection of the authors)

- The balance sheet liabilities in foreign currencies should be assessed and reported using the exchange rate in effect on that date, and exchange rate differences are recorded as financial income or expenses.

Some liabilities can be evaluated only by using a high degree of estimation. Some entities regard these liabilities as provisions because they are defined "*debts with chargeability and doubtful value.*" Recognition of provisions is done when the entity has a present obligation generated by past events, so it is likely that an outflow of resources will be required to meet the obligation and also a reliable estimation to be made of the amount of the obligation.

Provisions can be distinguished from other liabilities due to the uncertainty factor related to the chargeability or value of future debts required for extinguishment of the expense.

Starting from the definition attributed to evaluation by the IASB Framework, "Evaluation is the process of determining the monetary amounts at which financial statements' structures will be recognized in the balance sheet and profit and loss account. Assuming the choice of some evaluation bases, we present an analysis of debts in terms of the measurement basis.

Regarding the evaluation of debts, we must remember the following points considered to be most important:

- At the moment of their recognition, liabilities are valued at nominal value, represented by the value of equivalents obtained in exchange for the obligation or the amount expected to be paid in cash or cash equivalents for the settlement of debt;
- Foreign trade operations are valued at the exchange rate in effect on the date of actual transaction;

Evaluation of debts in the light of measurement basis

Tabel no 1

BASIS OF MEASUREMENT	OBSERVATION
HISTORICAL COST	<i>Debts</i> are evaluated at initial recognition. (According to IFRS)
CURRENT COST	<i>Debts</i> will be measured at the undiscounted amount of cash or cash equivalents that would be required today to pay the liability.
REALIZABLE VALUE	<i>Debts</i> are presented at the level of settlement value, i.e. the undiscounted amount of cash that would be paid for debts in the normal course of operation
PRESENT VALUE	<i>Debts</i> are presented at the present value of outflows from future net fund that are expected to result in payment obligations in the normal course of operation.

(Source: projection of the author)

3. Conclusion

In conclusion, the definitions of debts presented above identify their essential features, but their usefulness for decision, in other words, the reason for their presentation in the financial statements, however, is achieved by applying the recognition criteria. Both definitions of the elements and probability criteria require the delimitation of future economic benefits. Note that by maintaining the actual cost (specific in the evaluation of the balance sheet), a basic certainty grounded in the past is replaced by with another currently offered, which however will become pretty quickly past. If we appreciate everything from the perspective of past, the choice of this convention is fully justified, but in terms of the perspective of future, the question is whether other basis would be more appropriate.

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Accounting Information in Analysis of Economic Activity and Decision Making System

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Abstract

The role of accounting information in the decision making is essential, especially thanks to its dual, the circuit processes information in a financial accounting and management accounting cycle. In this way, management uses the information to determine business strategy on the one hand, and to provide operational management on the other. Accounting area is not isolated but is covered by a complex system of links inside (productive and functional segments, their makers), and the outside (customers, banks, shareholders). By its action, accounting even lead to optimization of the decision, the corresponding allocation of resources. Destination information system of an economic entity is providing support and exploitation of the decision, setting the relationship between these two sides. Subsystems can be found in its composition dedicated to activities and information purposes aimed ultimately lead productive process, having as a common basis, the accounting information.

Key words: decision making process, information system, financial accounting, management accounting, information system of inventories.

J.E.L. classification: M41, M40.

1. Introduction

One of the essential components of a company's information system is the accounting-financial segment.

When the main aim is to implement a managerial information system, the

organization's accounting must become the most active element, with the greatest influence. There are at least two approaches: first, it is a financial-accounting activity that meets management requirements at different levels, and secondly, it represents the administration and management of their resources as an urgent necessity.

Analyzing the role of accounting-financial information system in the decision making process, the first factor to be emphasized is the fact that the report accounting-financial information – decision, in terms of accounting in double circuit, implies certain nuances, even restrictions. Thus, we may point out there is information of financial accounting and information of management accounting.

In these circumstances there are many questions about the justification of this classification, the boundary between them, the differences between the two categories and the data that may be highlighted as crucial information.

2. Financial accounting and management accounting - business information system components

There have been published many works in accounting literature that attempt to answer these questions. We have chosen a few opinions that we consider justified: the two "sides" of accounting have different privileged users (financial accounting for external ones, management accounting for the internal) but in both cases "balanced information products", between simplicity and sophistication, must be provided. A too large set of evaluation criteria for assessing the quality of information is required,

different for the two situations. As far as management accounting is concerned, relevance is the one that prevails, while in the other case, reliability (objectivity) is considered first.

In general, internal accounting is closer to the decision-making, especially in terms of operational management.

In the long run, however, the company's strategy is directly (by decision makers who conceive) or indirectly (through third party beneficiaries) influenced by financial accounting information.

A second point to note is the fact that, with the implementation of new information and communication technologies, the "border" between the two types of accounting is not as marked as it used to be.

Differentiation must give its place to correlation, in order to achieve, in both cases, the improvement of decision making process. While internal accounting is closer to the structure and activity of the firm, the general accountancy links it with the overall exterior.

As part of the two types of accounting already mentioned, the stocks accounting is relevant in terms of the dual relationship reflecting the two circuits, because they operate with information accompanying the entire course of material flows and can be encountered in transactions with the exterior and in the specific conversion of production process.

The quality of leadership has both a side strictly related to the internal environment of the economic entity and one that concerns the ability of decision makers to integrate business in a competitive environment. The external environment "is talking" to the company, based on financial-accounting information. The fundamental objective remains "to provide a true and fair view of the entity's economic situation and results".

Accounting-financial segment should not only have a role of execution (processing), not only look to the past, but also to get involved in the management of the company's forecasting process (strategic management). At the same time, it will be redefined by the means of new instruments which are available to them: information resources and managerial methods (procedures). Accounting normalization and harmonization processes should not be neglected in this context.

A particular attention should be paid to measuring and analyzing the effects of decisions made, based on financial information. It must be kept in mind, in this connection, that the accounting is not isolated but is part of a complex system of links both with the interior (productive and functional segments, their decision makers), and the exterior (customers, banks, shareholders). It is not about permitting to make the decision but, by its action, accounting even leads to optimization of this process and to the corresponding allocation of resources.

We believe that information regarding current material resources provided by the accounting information system, is reflected in an autonomous circuit forming the information system of inventories (stocks), perfectly overlapped on the scheme of an economic entity's information systems. Its complexity, due to involvement in keeping the evidence of costs, expenses, revenue from sales and the change in value of material goods existing in the property of firm, allows a meaningful analysis of its structure as a system.

The essence, and also destination of information systems, is to provide support for exploitation and the decision, setting the relationship between these two sides. In a structural model, the information systems are presented so:

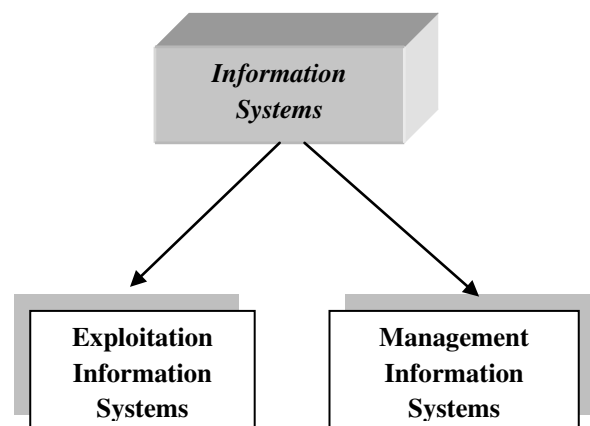


Fig. 1 Information system components

Within each system structures are found on objective information, presented as follows:

3. Characterization the systems from the perspective of information

Information systems for exploitation, considered *operational* as well, are focused on the representation and coordination of execution systems' activities. The large volume of primary data, including those on stocks, is stored and reflects transactions, flows or status of business. Some of the information on stocks is intended for the operational system, and we can identify them in transaction processing systems (purchasing, sales), control of production and systems aimed at processing in accounting the management of stocks. If used in the management system, they mainly concern short-term decisions.

Possible and useful applications at this level refers, for example, to sales transformation into physical quantities, to checking the budget allocate for various operations during the storage, by calculating periodically the real values corresponding to the quantities determined by budget.

The information obtained may allow, in our opinion, warnings if the current situation deviates from what was planned.

While providing a wide variety of data, information systems for exploitation are not oriented towards important information, necessary for management, and are formulated respecting precise and repetitive rules. Their goal is the efficient processing of commercial transactions, production process control by monitoring material consumption according to the parameters set (possibly through automated processes), update of the database on stocks and increase of the efficiency of insurance activities for the material resources and finished products according to contracts.

The main features of these systems in terms of data and information are:

- repetition - the data used in processing and foreground are repetitive, falling within certain time intervals;
- strong detailing, required by the need for insurance of control regarding the property values and the way in which material resources are consumed and used;
- strongly structured form for both input and output data, due to the possibility of predefining them and the necessity of mixing them;

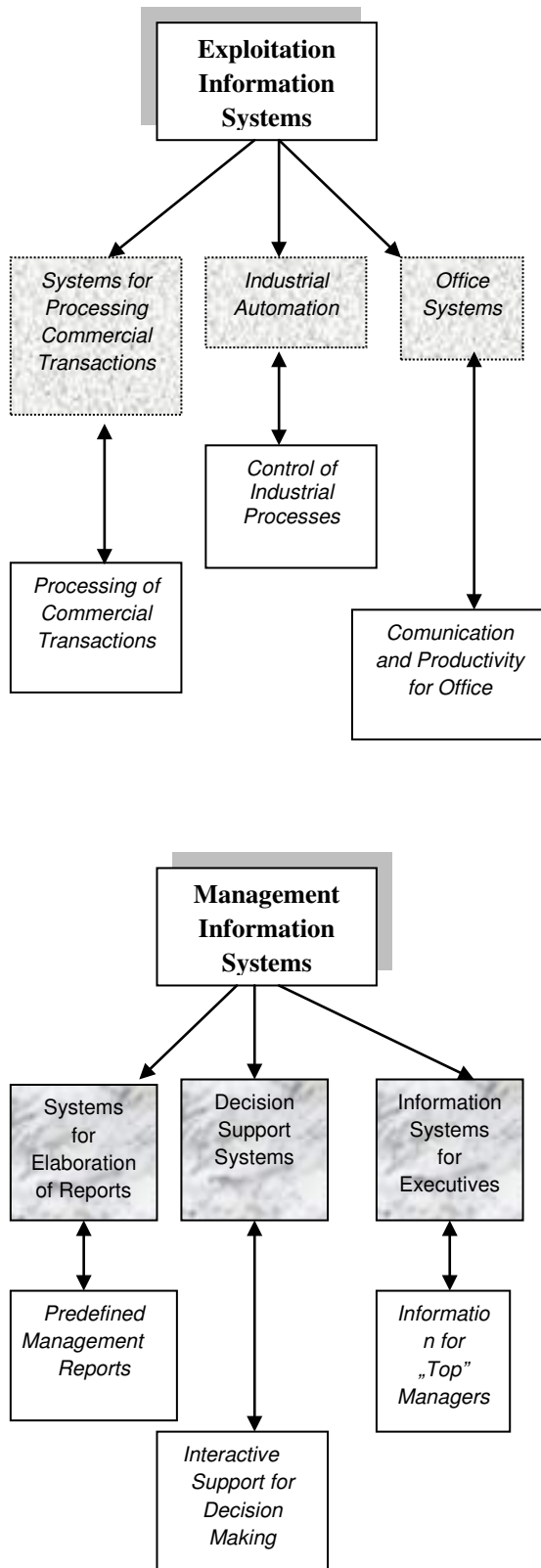


Fig. 2 Classification of information systems depending on their objectives

- increased accuracy, due to the accurate, strict formulation of information requirements and multiple checks to what data are subjected to before being processed (checking and correlation of data with stocks accounting).

Thus, most of the decisions at the operational level are programmable in the conditions of automation of operations regarding stocks.

Management information systems are designed to assist managers in making decisions based on information regarding the management, supervision and control of enterprise's resources and hence of its stocks.

Structuring on various levels of management (operational, tactical, strategic), generates a corresponding tie of information systems and their role in business management.

Information systems designed as report generation systems are processing data coming from transactions and production so that any primary information entered into the system triggers a cycle of processing in several steps, as follows:

- a. data collection - at supply, the number, date, supplier, purchased goods, quantity, price and so on are registered;
- b. operations processing - by charging management with the respective goods;
- c. updating files and databases in synthetic and analytical stocks accounting;
- d. obtaining documents and reports necessary to the management of a certain compartment (for operational decisions).

Depending on when they are provided, the reports offered can be divided into:

- periodic reports, with a default format providing to managers the information on the weekly situation of stocks of raw materials or finished product, and sales and purchases of goods
- reports about exceptional situations, for example, decrease of stock under the level of safety or increase above the maximum rate, lower sales than planned, demand of a product over the existing stock;
- reports upon request, responding to a specific requirement, in a query language, that allow such analysis comparing stocks of two groups of sales or goods or from two different management periods.

Information systems to assist decision are supporting the user (manager or analyst) in

poorly structured decision-making processes, with a tactical and strategic dimension on the environmental in which it is applied. Starting from a basis ensured by the operational information systems, the contribution of this system resides in the *learning process* that it induces to the decision maker and *amplification of his reasoning*, having an objective perspective on the scenarios presented to him.

The mode is interactive, and the information is timely, with reference to a particular aspect of a product or process. Thus, it allows the analytical modeling, data mining and graphical representation of information and managers can explore different possibilities and obtain provisional results to formulated assumptions.

Delimitation of the information system on stocks from the information systems regarding other activities is not possible or rational anymore, the analysis resulted at the level of information systems meant to assist decisions involving multiple data regarding overall business activity.

We believe that the analytical modeling allowed in this context may refer to:

- ✓ analysis of initial data variants, by observing the repercussions of some variables' change on other variables. An example would be the evolution of finished goods inventory when monthly sales would increase by 15%;
- ✓ sensitivity analysis by observing the consequences of repeated (successive) change of one variable on other variables. Increasing the stock of material resources value with 100,000 lei compared with the turnover estimated to determine the change in the daily speed of stocks' rotation;
- ✓ analysis to determine the purpose, by changing several variables repeatedly until the variable-objective reaches the "target" value. One can try to obtain the total cost of supply to the value determined in the budget by combining successively the values of storage costs with those of launch, in different conditions;
- ✓ optimization analysis, by finding values for certain variables subject to specific restrictions, for example: determining the optimal interval between supply and their cadence or the optimal lot of supplies stocked in case of a minimum and maximum stock permitted and the average daily consumption.

The nature of decisions at this level of management is partially structured, since it involves subjective judgments and interventions that can be correlated with certain data and formalized models.

Strategic information systems are interactive and meant to support decision and „top” managers. They can be information systems that "bring" strategic advantage, defined as information systems of strategic importance (which allow the computerization of activities to achieve a sustainable competitive advantage), and information systems to support strategy (for strategic information, providing tight coupling between the information system, the decisional one, the modeling-designing system, and especially with the purpose one).

Information systems for strategic management are designed as a combination of all the other systems in order to present a summary of the current situation and future trends of factors designated by management as key factors for success, indispensable for achieving the strategic objectives. The rapidity of access to information and their relevance, as well as the analytical modeling options and presentation of managers' requirements characterize this system.

Decisions have a non-programmable character, due to different data sources and the information that are analyzed and can change in real time, which requires great flexibility of the system.

To provide information necessary for the decision making process, an information system for strategic management will include complex processing processes, some oriented towards the financial-accounting field, and other using quantitative techniques of analysis.

In this way, by processing the databases of exploitation and management, an optimal combination of products at sale for a maximal turnover can be achieved. Sourcing from a supplier with raw materials needed for production in different quantities, for a period of time that ensures stability, can lead to a low cost of this activity.

4. Conclusions

Therefore, an economic activity is managed properly when the decision's formulation, implementation and control of

its execution are related to accurate and complete intelligence, provided by accounting. Business success is undoubtedly linked to the interdependence *information-decision-action-results* or *accounting-management-accounting*.

Clear and accurate reflection of reality with the help of accounting information system allows the evaluation of the company's effectiveness based on management criteria, and by forecasting data enables the connection of future objectives with the dominant economic developments.

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Accounting Statements Information Relevance and Integrity in a Global Management Environment

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Abstract

"Integrity may be seen as the quality of having a sense of honesty and truthfulness in regard to the motivations for one's actions"; There is no information as accessible to internal and external financial analysts and decision makers as financial statements. This type of information is widely accepted as the basis for a whole range of different financial management decisions, both of tactical as well as strategic nature. There have been created a lot of financial statement based analytical instruments to be used in different circumstances regarding return, risk, asset turnover, liquidity, solvency – to name but a few. But to believe that all these instruments are perfectly efficient for any decision requires a big leap of faith. This is due to the wide known aspects regarding financial statements "window dressing" techniques that distort financial information to match some undercover needs of certain company officials. Everybody in the financial management world knows how financial statements could be made to look better, if such a need is to arise. From a management globalization point of view, is this a widely spread practice or it represents just some isolated cases? Do decision makers and investors blindly believe in financial statement information integrity, or they question any piece of information and verify its relevance? Does financial management of global era is that better-off using these unethical practices or it's just a "matter of perspective"?

Keywords financial statements, information, relevance, integrity

JEL Classification Code: G11

1. Introduction

Aim of this paper is to develop a methodology to verify the relationship between the quality of accounting disclosure and company's perception on the financial market.

We studied four possible methods to reach this goal:

- the empowerment of some accounting regulations governing the quality of accounting information;
- the analysis of environment and reasons that underlie the manipulation of accounting information;
- the analysis of the relationship between corporate governance and accounting disclosure;
- analysis of the relationship between ROI and EPS.

Any of the four approaches will require an empirical analysis. Out of these four alternatives, the one chosen in the paper is to assess the possible dependence that exists between exchange rate return and financial return rate for a publicly traded company. The approach is difficult in many ways because the two measures of performance have different calculation basis and reflect completely different economic dimensions. We will try to clarify these issues in the paper. Obviously, an approach of economic profitability rate does not change the essence of the problem, but in the context of our approach, due to the nature of evidence, only

the rate of return that can be considered is the financial one.

Return on equity, known in international theory as "return on equity", allows assessing the efficiency of capital investments of shareholders and their continued appropriateness, calculating the ratio between net income and equity of the financial year. Accordingly this rate reflects supply and demand report results at a time or a short-term basis. From a purely economic view, it highlights if what the company produced meets market demand when analyzed.

Return stock has a different interpretation, being evidently the result of a completely different method of calculation. What is characteristic of this rate is the element of perspective - what future interest represents that society in the view of potential investors. Therefore, stock market prices, allowing the calculation of the return on the stock, apparently have nothing in common with the current performance of the company, so the way it responds to current market demand, but with potential performance, i.e to those that relate to in the near and distant future. Therefore we can say the following, with reference to the two rates.

Return on equity can be an indicator in assessing the market position of the company traded but obviously one cannot establish a relationship of dependency, theoretically understandable. Examples and counter examples exist obvious enough. We further examine a few examples, nevertheless highly relevant. The fact that a particular company is currently profitable cannot ensure a good stock market quotation. There are now companies with huge profits, so the return rates extremely financially high, but still know a regression of stock. Obviously this can be explained by the potential investors' fear of the lack of insight into this company. Equally there are companies that are struggling to the limit of profitability, but to which the meaning of stock prices is only rising. This phenomenon also is simple to explain. The future looks bright for these companies. Therefore the potential interest is growing.

Yet a total indifference relationship between the two rates can exist, at least in the long run. This is the motivation to the present attempt. Our attempt is based on this observation empirically tested and verified

for longer periods of time. Consequently, our belief is that it can identify a relationship of dependency between the two rates of return. It is important how it looks like this dependence and what allows us to say that it exists in reality. In this respect, nothing can be more useful than a mathematical model that can be tested econometric. This is the essential purpose of this paper. In the next section we present the theoretical model and then we justify its correctness by econometric means.

2. Literature review

There is a rich theoretical background covering the issue of earnings quality and firm valuation in a global environment.

First type of effects we consider are related to empowerment of some accounting regulations regarding the quality of information.

Thus Elbanan [2010] proves a positive connection between the adoption of IFRS and the quality of earnings and the integrity of accounting information in the emerging economies due to the adoption of IFRS. The main reason – IFRS reduces the set of allowable accounting treatments.

Furthermore, Kim and Shi [2012] investigates whether and how a firm's voluntary adoption of IFRS influences the extent to which firm-specific information is capitalized into stock prices.

This and other studies show that the enhanced flow of firm-specific information into the market increases firm-specific return variation, which in turn lowers stock price synchronicity (Durnev et al. [2003], Piotroski and Roulstone [2004], Fernandes and Ferreira [2008])

Another approach to the issue regards motives that underlie the manipulation of accounting information.

Beaver, Correia and McNichols [2012] have examined the presence of discretion in financial reporting extensively in respect to financial ratio model for predicting bankruptcy.

Prior literature documents a number of settings in which management aims to obscure the underlying financial condition of the firm opportunistically (Watts and Zimmerman [1990], McNichols [2000], and Beaver [2002]).

Another approach used to test the information integrity is to analyze the relationship between corporate governance and disclosure according to a broader view that encompasses a stakeholders' perspective rather than only the shareholders' one [Michelon and Parbonetti, 2010].

Beasley [1996] argues that poorly governed firms with powerful insiders and CEOs, are more likely to be associated with higher levels of financial statement fraud.

3. Method and result

The empowerment of some accounting regulations governing the quality of accounting information. Many of the world's countries have already applied or will soon start to apply IFRS or other sets of regulations to insure the quality of accounting disclosure.

In order to establish a relationship between the application of IFRS and integrity of accounting information, within the sample, there could only be used countries that provide statistical data related to situation before and after the empowerment of IFRS.

Thus the cross-country sample being limited, the global nature of the research will have been impaired.

The analysis of environment and motives that underlie the manipulation of accounting information. The motives of managers to manipulate accounting information differ widely in a cross-country comparison or in a comparison between listed and non-listed companies.

Thus manager of a listed company bend the reality using accounting information in order to boost share prices, this meaning that usually the effect of such practices aim at reporting larger-than-real amounts of earnings

Non-listed companies aim mainly to reduce their tax exposure.

Nevertheless, the concrete methods to window-dress financial statements vary widely between companies and economies

Thus there are great difficulties inherent to devising a statistical model of the effects of accounting manipulation techniques on relevance and integrity of disclosed information on a global scale.

The analysis of the relationship between corporate governance and accounting

disclosure. The issue of corporate governance practices' effects on the relevance of accounting information imposes certain difficulties related to the normalization of these practices' effects in different countries.

Corporate governance comprises a wide array of actions and practices that differ greatly in nature and results across countries.

Companies from developed economies widely accept to apply such practices in order to boost shareholders and other stakeholders confidence in the quality of management and hence – the quality of disclosure information.

In developing countries such practices are used on a much smaller scale.

The last method that could be used to test the relevance and integrity of accounting information is the relationship between return on investment (ROI) and earnings per share (EPS). This is the most accessible approach in terms of constructing an econometrical model due to the availability of statistical information.

As well this information could be normalized to allow a cross country analysis.

Unfortunately, the only type of companies that could enter such an empirical analysis would be the listed companies.

Therefore, this is the approach we would choose.

As mentioned in the introductory section, we suggest building a mathematical model able to emphasize the dependence on the return exchange rate towards the financial return. Thus the fundamental assumption that justifies such an approach is that, on the long term, the dynamics of the financial growth rate may influence the exchange rate dynamics. Financial rate variation effects can be instantaneous, but may also manifest as a delayed effect process. Usually, potential investors on the stock market observe its tendency and then decide whether or not to proceed with the purchase or sale of shares. Just this phenomenon is the one establishing the purpose of exchange rate quotations, and thus, ultimately, the size of the return and exchange rate.

Thus we introduce the following notations:

r_t represents financial profitability at the time t .

R_t represents the stock exchange profitability at the time t .

According to the hypothesis mentioned above, we suggest the dynamics of the two variables to be described as follows:

$$R_t = a_0 + a_1 r_t + a_2 r_{t-1} + \varepsilon_t \quad (1)$$

The two variables R_t and r_t are obviously random processes characterized by the averages and $r = E(R_t)$. Consequently

$$E(R_t) = a_0 + a_1 E(r_t) + a_2 E(r_{t-1}) + \varepsilon_t \quad (2)$$

$$R = a_0 + a_1 r + a_2 r = a_0 + (a_1 + a_2)r \quad (3)$$

The significance of the three constants is as follows. a_0 represents the autonomous component given by the medium reaction of the stock exchange market, independently by the paths of the financial profitability rate. This component is given by the average of the potential investors' interest effect. The constant a_1 quantifies the instant effect of the financial profitability rate variation, and the constant a_2 quantifies the delayed effect of the financial profitability rate variation. We can still draw some appreciations upon the significance of the two coefficients a_1 and a_2 . The numeric dimension plays an important role in this case. Obviously, the dominant effect belongs to the component that is characterized by the greater coefficient absolute value. As expected, it should be a_2 because the reaction of the stock exchange market is delayed. If mathematically speaking the model suggested can be theoretically justified, and by doing that we have in mind purely the economic theory, it is not enough. An econometric approach is absolutely necessary. The hypotheses of the econometric analysis are the following ones:

- the residual variable ε_t is stationary, normally distributed, zero average and constant variable.
- It is independent from the financial profitability rate.
- It is non-autocorellated.
- The random variables R_t and r_t are stationary and have constant averages and variants.

Under these circumstances, we can obviously state:

$$Var(R_t) = (a_1^2 + a_2^2) \cdot Var(r_t) + \sigma_t^2 \quad (4)$$

All these hypotheses referring to the two variables R_t and r_t as well as the residual variable, they are essential in order to ensure the relevancy of the model suggested. Econometrically speaking, they can be checked by the help of statistic tests, as well

as by the Durbin-Watson or Ljung and Box tests.

It is highly important that the residual variable to be non-autocorellated, because we can thus introduce the hypothesis according to which unpredictable perturbations may lead to delayed effects in time. If this aspect is verified statistically, then only the a_0 coefficient will be modified, the rest of the coefficients remaining constants.

Regarding the last hypothesis, this one can be verified by an ARCH model type, or by a GARCH model type.

$$\sigma_t^2 = \alpha_0 + \alpha_1 \varepsilon_{t-1}^2 \quad \text{Model ARCH} \quad (5)$$

$$\sigma_t^2 = \gamma + \alpha \varepsilon_{t-1}^2 + \beta \sigma_{t-1}^2 \quad \text{Model GARCH}$$

(6)

where σ_t^2 is the variant of the residual component. If the hypothesis is correct, the values of the coefficients α_1 , α or β and should be null, according to the model in use.

These hypotheses are obviously extremely necessary in order to ensure the relevancy of the model. It is very important to state at this point that all these may be verified starting from a data base regarding the dynamics of the two variables.

4. Conclusion

There are a number of approaches to be used in developing a model to test the relevance and integrity of accounting information.

Out of the four presented techniques we would chose the correlation between return on investment and earnings per share.

The availability of statistical data makes our choice to be the easiest one, but, as well, it offers data that is comparable across the countries from the sample.

The presented statistical model can also be enhanced to include some elements of the three other techniques presented above, like some tests regarding large scale use of IFRS regulations, or some corporate governance policies applied by sample companies.

Any suggestions on how to improve and to enhance the relevance of the model would be very welcome.

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Budget – Sustainable Development Tool and Instrument in the Fight of Economic Entities Against Economic Crisis

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Abstract

In the current economy, where all countries are affected to some extent by the economic crisis and more companies stop their activity, an increasing importance is given to available resources, their use, savings, efficiency, effectiveness, cost reduction, elimination of waste, and a careful and detailed planning of the activity. So we begin to turn our attention to sustainable development involving, among other elements, efficient use of resources that can lead to economic growth, may prevent or attenuate the economic crisis and of course we focus on budgeting process in economic entities which, through the efficient control of resources and a detailed planning of their use and others characteristics, they contribute not only to the implementation of sustainable development, but also to supporting entities in an uncertain environment.

Key words: *economic growth, resources, sustainable development, performance, budget*

J.E.L classification: G31, M41

Introduction

The premise of this research was to identify the extent to which sustainable development can lead to economic prosperity for economic entities or reduce the effects that economic crisis has on them and also to study the role that budgets play in sustainable development of companies and thus in maintaining them on the floating line in an environment dominated by uncertainty. Therefore, in this paper we will bring to your attention sustainable development, that can teach us to take care of our resources so we can ensure our existence and future survival,

but also an old, but still current instrument to support the management of economic entities in achieving efficient resource management, reduce costs and increase performance: budget. We will discuss about the way that budget planning can help an economic entity to survive in the existing economic environment and contributes to its sustainable development.

Research methodology

The research aims to highlight the importance of budgeting as a tool both to protect and support the economic entity during crisis or in an unstable economic environment and as a tool for sustainable development, which in turn helps to reduce the effects of the economic crisis and improves the economic environment. This research is a synthesis of the ideas published on sustainability and budgets. To achieve our goal, we used a basic research methodology, but also deductive and inductive research mechanisms.

1. Conceptual assertions regarding budgets in economic entities

Budget, as defined by the explanatory dictionary of the Romanian language [4], is a balance of income and expenditure presented for a determined period. In research papers, budgets are seen as support for managers in the decision making process and includes an estimate of revenue and expenditure for a future period clearly defined, based on goals set by the entity for the forecast period. So, not only budgets aim to support the economic entity's management in achieving their objectives, but they also involve careful management of resources (estimated revenues) and shows their distribution or use (costs estimated to be incurred). The research papers abound in presenting the benefits of

budgets preparation and use in economic entities. Hansen and Van der Stede (2004) [5] see budgets as tools for operational planning of activity, performance evaluation, objectives communication and strategy implementation. Heindenberger et al. (2003) [6] show the true essence of budgets, linking their importance to the financial stability of the entity and its competitiveness. They argue the importance of keeping expenditure under control for financial stability which will be affected if they spend too much. If the amount allocated in the budget is too small, the risk of affecting the company competitiveness will appear. Braga (2006) [1] assigned budgets the role of maintaining financial balance between income and expenditure, efficient resource allocation and the role of sustaining the managers for effective management of the business. Braga (2006) also believes that budgets contribute to activities planning, control and coordination, help establish authority and responsibility, offering advantages such as: motivation, activity supervision and coordination, control and communication. Budgets are believed to increase performances if the budgeting technique adopted by the economic entity takes into account the company's size, structure, strategy and its perception of environmental uncertainty (King et al., 2010) [8] or if the economic entity adopts a participatory budgeting process, by involving employees in the decision-making process and motivating their lack of impact on budget, if that is the case (Libby, 1999) [9]. Participatory budgeting has an impact on the employee's performance through the ambiguity of the employee's role, job satisfaction and the employee's dedication (Chong et al., 2006) [3].

The main characteristic of budgets prepared by economic entities is the fact that they focus on the balance between available resources and the needs of the entity, helping the managers to assign resources in an efficient manner that leads not only to the achievement of the objectives set by the entity, but also to performance. Analyzing what the research papers has to say on the budget process in economic entities, we synthesized the main positive aspects of budget preparation in table No. 1, as follows:

Table 1 *Advantages of the budgeting process in economic entities*

Advantages of budgeting
Estimates position and future performance of the economic entity
Contributes to activity planning and coordination
Puts into balance resources with the way that they are use
Correlates resources with the economic entity objectives
Leads to goal achievement
Ensures an efficient management of resources
Ensures a financial balance
Contributes to increased performance for efficiency, effectiveness and savings increases
Ensures activity control
Offers information regarding cost
Supports decisions and corrective measures to improve activity and performance
Helps maintain competitiveness
Helps establish authority and responsibility
Supports sustainable development
Provides safety for economic entities in an uncertain economic environment

Source: own sources

Unfortunately, in the actual context of economic crisis, an increasing number of economic entities stop their activity as a result of inability to adapt to the economic environment and due to the fact that the resources available are insufficient. From our perspective, one of the many causes that lead to such a result is the poor management of economic entities resources. For an economic entity, its resources are the most valuable asset in today's crisis and their use should be planned so that they can get maximum results with minimum effort. An efficient allocation of resources, a permanent control exercised over them, a detailed analysis and planning of costs and the adoption of relevant measures to reduce them, represent, from our point of view, basic measures for the survival of any entity especially in the conditions of economic uncertainty. That is why the management of economic entities must put emphasis on proper planning activities that

allows them forecast future periods. This would ensure some security and stability. The budget is therefore an indispensable tool for business efficiency and performance and of course for resource and consumption. So, this management tool helps, although maybe not in an obvious way, overcome the instability of the economic environment and adopt sustainable development.

2. Theoretical approaches on sustainable development

Sustainable development represents a concept that has gained more and more importance in recent years, as people began to realize the impact of economic, technological and social development over the natural environment. One of the most comprehensive definitions of sustainable development is formulated by the World Commission on Environment and Development, presented in the Brundtland Report also called "Our Common Future". In their opinion, *sustainable development* or *sustainability* is actually "meeting the needs of present without compromising the ability of future generations to meet their own needs" (Budică et al., 2009) [2]. Sustainable development involves initially the preservation of ecosystems and sustainable use of and natural resources (Tudorescu et al., 2008) [13]. Although the concept was originally designed to protect the natural environment and its resources, it has been extended, and includes now both the economic and social environment. Irimia (2009) [7] sees sustainable development as the adoption of an economy with low emissions, energy saving, efficient technologies in terms of reducing resource consumption, sustainable consumption behavior and sustainable transport, which involves strengthening ties between climate change, energy, financial and social sustainability. Budică et al. (2009) [2] considers sustainable development to be a set of forms and methods aimed to increase socio-economic development and designed to maintain a balance between natural potential and socio-economic systems. It also brings into question the essence of sustainable development, namely the emphasis on the welfare of future generations. Sustainable development aims to increase the quality of

life for the present generation, but also for future ones.

The seven strategies for sustainable development adopted by the European Union include: climate changes, sustainable transport, sustainable consumption and production, conservation and management of natural resources, public health, social inclusion, migration and global poverty (Irimia, 2009) [7]. Among the key objectives of sustainable development are: environmental protection considering the negative impact of economic developments, social equity that promotes equality and non-discrimination, fundamental rights, economic prosperity that relates to development, knowledge and innovation and is designed to contribute to the quality of life, create new jobs, etc.. (Budică et al, 2009) [2]. Tudorescu et al. (2008) [13] as well as Stoica (2005) [11], believe that sustainable development involves a balance between needs and resources or between objectives and means to achieve them. Tabăra et al. (2007) [12] talks about the optimal level of consumption so that the impact on the environment and the welfare of future generations can be reduced, attributing to sustainable development the role of balancing economic and social development without affecting the natural balance.

The main features of sustainability, in our vision, are presented in Table 2.

Table 2 *Characteristics of sustainable development*

<i>Characteristics of sustainable development.</i>
Reduces consumption
Resource Protection
Protection of economic and social environment
Sustainable consumer behavior
Socio-economic development
Ensures the balance of economic, social and natural environment
Rational satisfaction of human needs
Allows needs satisfaction for future generations
Increased quality of life now and for future generations
Man- central element of sustainable development

Focuses on improving business processes: efficiency, effectiveness, productivity, waste reduction, efficient use of resources, etc.
Maximizes welfare with available resources
Helps creating new jobs
Promotes Public Health
Concern for the future
Social Engagement: people, public institutions, economic entities, regulatory bodies, global organizations, international commissions, etc.
Reduces the environmental impact of economic growth
Social equity
Promotes development, knowledge, innovation and economic prosperity
Maintains a balance between development and the impact on the environment (economic, social, natural)

Source: own sources

3. Correlations between Budgets-Sustainable development- Economic environment

From our perspective, budgets, sustainable development and economic environment are interconnected, influencing each other.

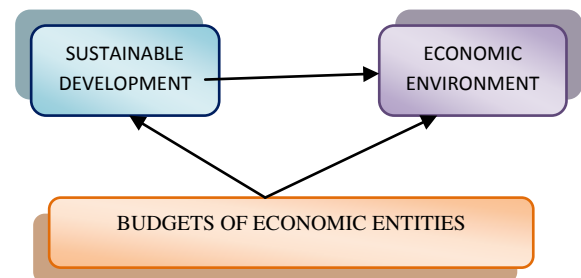
Sustainable development is a tool to improve quality of life by protecting the natural, the social and the economic environment. It thus contributes to economic growth and alleviates economic crisis, waste of resources, etc. Tudorescu et al. (2008) [13] brings into question the link between environment and economy. Stoica (2005) [11] shows the interdependence between environment and economy, saying that economic growth stagnates because of limited natural resources and that we must resort to a development that maintains economic growth, but also environmental conservation. Popescu et al. (2005) find that savings, efficient use of resources, use of renewable resources and, why not, technologies that do not harm the environment, lead to economic growth.

Budgets are tools for implementing or adopting sustainable development. Budgeting, by its nature, involves effective management of resources, resource

protection, reduce consumption, waste, increase economy, efficiency, involving concern for the future of the entity, for the future survival of the company, for performance and development, and may also involve costs for reducing the impact on the environment, its recovery, etc.. The development of the entity through an effective budgeting process means new jobs, the increase of the quality of life and a positive economic impact. In other words, budgets not only contribute to the implementation of sustainable development policies, but also help restore and sustain the economic environment. As economic entities get richer, work more efficiently and are more developed, they generate benefit for the state, economy and social environment. Economic entities' wealth means higher taxes, more jobs, more commercial relationships, higher contributions for the state budget and the increase of the quality of life. Higher incomes of the state budget mean an increase in the quality of public services, the quality of medical services, education, salary increases poverty alleviation etc. Thus, an effective budget activity can have a positive impact on the economy of a country, either directly or through sustainable development.

The relations between budgets, sustainable development and economic environment are presented schematically through Figure No. 1.

Figure 1. Correlations between Budgets-Sustainable development- Economic environment



Source: own sources

Conclusions

This research highlights the importance of budgets within economic entities. Budgets can be considered tools of sustainable development, but also tools that contribute to economic growth and development. Sustainable development is a way out of the crisis, but its implementation must be supported by policies of sustainable development and by economic entities. It is necessary to encourage economic entities to understand and apply sustainable consumption and production [14]. From our point of view, sustainability begins and ends with economic entities. Economic entities are considered to be primarily responsible for the environmental "depreciation", for the consumption of resources and pollution. Also, if we want sustainable development to become a reality, entities must be the ones that embrace, understand and implement sustainability. In other words, sustainable development starts with the entities. Thus, given the current economic uncertainty all over the world, in different shapes and forms, budget becomes very important and the role of an efficient budgeting process within economic entities should not be ignored.

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State of Knowledge in Insurance Economics: Uncertainly Levels and Response to Uncertainty

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Abstract

"While analyzing the current economic crisis, which we can consider the first ever global crisis that started with banking problems, we are asking if this crisis was strictly a financial one or a crisis due to the phenomenon called globalization. What caused the global financial crisis was the lack of information" as is sayed Phd Cristina Gradea in the article Effects of globalization on companies.(1)

Uncertainty is doubt about the ability to predict future results. Uncertainty arises when an individual perceives risk. Today, the concept of risk seems to synonymous with the one of activity. Although ubiquitous in business, and not only, risk is often relatively difficult to detect or predict.(2)

Key words: crisis, globalization, uncertainly, insurance, risk.

Clasification J.E.L.: G22

1. Introduction

"We note that the notion of globalization is very common, especially in recent decades. There were amplified various aspects and connections of this concept, which continues to develop at a particularly fast pace. The idea of globalization is present everywhere: in science, communication, technology, military area, in the environment, etc.", as is sayed Phd Cristina Gradea in the article-Effects of globalization on companies.(1)

2. Levels of uncertainty

Uncertainty is a subjective concept and can not be measured directly Since uncertainty is a state of fact of the individual,

it varies from one subject to another In complex activities, such as participation in a risky business, some people are very cautious, while others take more aggressive positions.

Although risk aversion explains some of the unavailability to participate in the business, the level of risk perceived by the individual also plays a key role.

This level depends on the information that an individual has available to assess the likelihood of future results and the individual's ability to process information. (3)The level and type of information about the nature of risky activities have a significant effect on uncertainty. This type of uncertainty is not found in the previous examples of, the two bets in which the possible outcomes and their associated probabilities were know with certainty. Uncertainty can be divided into levels or degrees;the degrees of uncertainty are shown in Table I.

When uncertainty is not present, we are confident about our predictions, certainty arises when we can predict future outcomes with total confidence. Some examples of certainty include expectations of the laws of physics, like the law of gravity or the laws of motion.(4)

At level 1, the lowest level of uncertainty, possible outcomes were identified and we also know their associated probabilities of occurrence. Level 1 can be described as objective uncertainty. Many games of chance, such as card games, dice and roulette are examples of level 1 of uncertainty. In these games, the results are based on the bet made by the participants in the game, and the probabilities can be calculated.

The previous example of the two bets in different amounts also fall in Level 1 ofuncertainty.

*Tabel I. Williams, Arthur C. ; Smith, Michael L.
Risk management and insurance*

At level 2, the probabilities are not known

Level of uncertainty	Features	Examples
Zero. Certain	future results may be accurately anticipated	laws of physics, natural sciences
Level 1 (objective uncertainty)	future results are identified, but the probabilities are known	card games, dice
Level 2 (subjective uncertainty)	future results are identified, but the probabilities are unknown	fire, automobile accident
Level 3	future results are not fully identified and probabilities are unknown	space exploration, genetic research

exactly, but possible future outcomes were identified. Uncertainty of level 2 could be present at a game where you have to guess the color of a ball drawn from an urn containing 100 balls of different colors, but the proportion of colors in the 100 balls is unknown.

Level 2 - Subjective uncertainty - characterized more risky business, investment projects and risks insured. For example, the owner of a car that could be damaged in an accident can identify the following possible future situations: vehicle may or may not be involved in an accident.

If the accident occurs, the damage can be mild or important even cause total loss. Most car owners do not know the precise estimates on the likelihood that they will be involved in an accident and even less potential damage estimates.

These estimates, if they can be determined, will depend on factors such as road quality, duration of use how the owner uses his car and how the traffic participants drive their car, the car's maintenance etc.

At level 3, the nature of future results is uncertain, they are not fully identified. Examples of uncertainties in this category are the first attempts to explore the cosmos or attempts to use atomic energy for peace. In these projects, and other types of scientific research, the nature of possible results is not fully identified prior to the project (or experiment).(5)

History has proven that human nature, the human desire to extend the boundaries of knowledge and obtain serious economic gains from exploiting new technologies are important incentives for undertaking activities at level 3 uncertainty.

3. Response to uncertainty

Uncertainty can have powerful effects on human behavior. In extreme cases, uncertainty can lead to paralysis of action, more often, however, uncertainty affects compensation levels necessary for engaging in such risky activities.

Also, uncertainty can lead individuals to protect themselves from future situations identified as particularly unpleasant.

For example, a research lab could refuse a vaccine against diseases if no government promise to cover any damage resulting from vaccines side effects reported by the vaccinated people.

Clearly, the answer to uncertainty is partly influenced by the level of uncertainty.

Risk management that can be associated with level 1, approaches the statute of science.(6)

Casinos can predict the profitability of their business as a whole despite the fact that they can not predict the outcome of gambling separately.

Mortality (risk of loss of life) within large groups of people is another example of the uncertainty of level 1. Unfortunately, the most important risks faced by organizations involve uncertainty of level 2 or 3.

The organization must therefore rely on less scientific methods for assessing and controlling risks at these levels(7)

"The economic crisis we are in and that humanity itself has created, is also a consequence of insufficient supervision on bank loans based on quantity and not quality. What is needed on the market today, is a new economic and financial world order", as is

sayed Phd Cristina Gradea in the article Effects of globalization on companies.

Each country should have an anti-crisis economic program set appropriately to each nation economic parameters, program meant to increase public confidence and to produce immediate visible effect.

Level of uncertainty caused by a certain type of risk may depend on the entity that bears the risk, for example, an insurer or a governmental entity can consider earthquake risk as level 2, while an individual may consider it of the level 3.

This difference in perspective can be a consequence of the ability to estimate the consequences of possible future situations.

An insurer or government entity has the resources needed to study the phenomenon of earthquake.

If the insurer wants to issue insurance against earthquakes, it will have an economic incentive to form solid estimates, and these estimates are often inaccessible to the individual, he will be unable (and often in no need) to base them on.(8)

An entity confronted with risk can take measures which decrease the level of uncertainty. Contractual limits for damages established by an insurer for an insured may decrease the incertainty level from 3 to 2.

4. Conclusions

"Globalization, by its proportions, and perspective changed the economic life as a fundamental change in human history. By its major implications it determined redefining our possibilities and limits of local action. Globalization is a system where the objective function aims the whole in order to eliminate adversity and competition, to generate creative destruction" as is sayed Phd Cristina Gradea in the article Effects of globalization on companies.

In general, individuals with risk aversion prefer lower levels of uncertainty in that they are willing to pay for information or other means that reduce uncertainty to a lower level. Insurance is an obvious example, a driver who perceives automobile accident risk at level 2 is willing to pay a premium that exceeds the expected damage accident for a policy to cover any damage.

Due to the insurer experience in assessing this risk, uncertainty of the insurer's

perspective is at level 1, while the individual one is at level 2 or 3.

In conclusion, any complex economic process has a degree of uncertainty that can not be removed. In the modern concept the uncertainty is a broader concept that can not be confused with risk.

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Applying IFRS in Romanian Banking System - Limitations and Challenge

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Abstract

This paper makes an overview of the literature regarding IFRS application, both globally and in our country, expressing some personal considerations on key financial and accounting domains, which present the biggest challenges in terms of impact on the banks financial situation.

Key words: IFRS, banking system, challenges, Romania

J.E.L. classification: M41, G21

1. Introduction

Due to the global economy and global capital markets, accounting rules were standardized at international level. To get-together in accounting, the convergence involves removing individual differences between national and international accounting standards. Thus, there will be a single set of global accounting standards of high quality, which requires clear information, similar in common use.

Romanian banks are now fully engaged in the process of converting to IFRS and starting from 1 January 2012, IFRS replace accounting principles generally accepted in Romania.

2. Literature review

According to Jermakowicz & Gornik-Tomaszewski (2006), implementation of IFRS in Europe, must lead to comparability and transparency of financial reporting, to monitor managers' actions, and thus to decrease information asymmetry and to diminish capital costs [1].

However, studies done on the effects of

IFRS application in Europe have reached different conclusions. Li (2010) [2] found that IFRS application resulted in a reduction of capital costs, while Daskal (2006) [3] and Gornik-Tomaszewski & Jermakowicz (2006) [1] have not found a significant reduction of them. Armstrong et al. (2010) [4] and Lenormand & Touchais (2009) [5] found an improvement in the quality of accounting information published after the mandatory IFRS application, while Paananen & Lin (2009) [6], on the contrary found a decrease in quality.

IFRS application in the EU-27 countries led also to the following observations: high volatility of reported results (Hoogendorn (2006) [7]) which makes it difficult to assess the performance of companies (Gornik-Tomaszewski & Jermakowicz, 2006 [1], KPMG, 2007 [8]); Barth et al. (2008) [9] found that, after applying IFRS there is less evidence of earnings management, while Pannanen & Lin (2009) [6] found an increase in revenues in management after applying IFRS in Germany.

Regarding the IFRS application in the banking system, we can draw some conclusions. Studies have shown how these standards are applied in different countries (Delville et al, 2005 [10]) and obstacles, difficulties in applying IFRS (Larson & Street, 2004 [11]; Jermakowicz & Gornik-Tomaszewski, 2006 [1]). Bushman & Landsman (2010) [12] analyzed the negative effects on regulatory requirements for Spanish banks. Dunne et al. (2008) [13] have studied the IFRS application in the United Kingdom, Ireland and Italy, and concluded that a major problem identified in all three countries was related to staff training and adaptation to rapid change.

For banks, major changes were required in informational systems, various processes

and operating models being introduced. Banks reported that they had to do many operational changes to implement the new reporting rules. One of the main problems was related with the implementation of certain standards that are completely irrelevant once implemented (such as loans using the effective interest method).

Some empirical and qualitative studies examined various aspects of IFRS implementation in Romania. Ionașcu et al. (2011) [14] investigated the perception of listed Romanian companies on the effects of implementing IFRS and institutional factors that might influence them, while Albu et al. (2011) [15] explored the views of key stakeholders in financial reporting (users, accountants, auditors and standard setter) on the application of IFRS. Bunea et al. (2011) [16] investigated the opinions of certified accountants in Romania concerning the possible IFRS application for SMEs. Other studies have analyzed the influence of IFRS application on the capital costs (Ionașcu et al, 2010) [14], Munteanu et al, 2011[17]). Several studies conducted by KPMG Romania (2010 and 2011) [18] focused on IFRS application in the banking sector. They analyzed differences in national accounting requirements applicable to credit institutions and the International Financial Reporting Standards and measured their impact on banks' capital and income.

Furthermore, in the IFRS use as accounting basis from 1 January 2012, Stefan & Musat (2011) [19] analyzed the regulations issued by the National Bank, Grecu (2011) [20] analyzed the challenges of implementing IFRS Romanian banks from the managers and auditors perspective, while Răducănescu & Dima (2011) [21] analyzed the impact of IFRS implementation on prudential regulations.

3. Application IFRS in Romania

The adoption and application of IAS / IFRS standards in Romania is based on EU legislation relating to the IFRS implementation in the Community area, namely the requirements of European Regulation 1606 and of Council on the application of International Accounting Standards. Hence, the Ministry of Finance has set the following steps on the

implementation of IFRS in Romania:

- IFRS application in 2006 - according to OMFP no. 907/2005, operators that were public interest entities as defined by law, drafted a separate optional set of financial statements in conformity with IFRS, for their own users information needs, other than state institutions, according to their choice and adequate implementation capacity [22];
- IFRS application in 2007 - according to OMFP no. 1121/2006, companies whose securities at the balance sheet date have been admitted to trading on a regulated market and consolidated financial statements were required to apply IFRS in these situations; these companies were allowed to establish a separate set of annual financial statements obtained by applying the IFRS for users information, other than state institutions; the other public interest entities as defined by law, could apply IFRS to individual or consolidated financial statements for their own information needs [23];
- IFRS application in 2008 - for companies whose securities at the balance sheet date have been admitted to trading on a regulated market, IFRS implementation strategy was that provided by the CNVM. For them, as for other entities, Ministry of Finance provided the preparation of annual financial statements obtained by applying the accounting regulations harmonized with EU directives, approved by OMFP no. 1752/2005, which is the basis for determining taxes, and in addition [24], firms and national companies were required to prepare a separate set of individual annual financial statements and consolidated financial statements, obtained by applying IFRS for their own users information needs, other than state institutions; legal persons belonging to a group of companies and are included mother-society consolidation by a parent applying IFRS must prepare a separate set of individual annual financial statements, obtained applying IFRS for their own users information needs, other than state institutions; other public entities that receive grants or loans guaranteed by the state whose value exceeds the amount of 500,000 Euros had

to prepare a separate set of annual individual and consolidated financial statements, obtained by applying IFRS for their own users information needs, other than state institutions;

- IFRS application in 2010 - continued IFRS application for the preparation of a separate set of financial statements, financial statements set considered in determining the tax burden being prepared under accounting regulations with European Directives approved by OMFP no. 3055/2009 [25]. As a result of recommendations from the World Bank, the International Monetary Fund and banks requirements, the Romania National Bank issued Order no. 9/2010 which provides that the IFRS application will be applied to the individual financial statements of the credit institutions for recording transactions from 2012 [26]. In order to inform regulators authorities during the transition period, credit institutions were required to prepare a second set of financial statements for 2009, 2010 and 2011 under IFRS approved. Stephen and Musat (2011) [19] explains that this compromise was necessary because of the heterogeneity of training credit institutions apply IFRS immediately (some banks have experienced several years reporting in accordance with IFRS, while other banks had to apply IFRS for the first time);
- After 1 January 2012, certain regulatory changes were needed to clarify the impact of changes on the prudential indicators and calculating tax profit. National Bank issued Order no. 27/2010, which contains accounting rules in accordance with IFRS. It also includes rules for approval, auditing and completion of financial statements, chart of accounts, prescriptions related to primary documents and records used and the additional information, but does not prescribe a standard format for financial statements or other recognition, measurement and classification of different rules those under IFRSs.

Prudential aspects affected by IFRS were those related to provisions (such provisions are accounted in accordance with IFRS measurements), solvency, currency and equity positions. New prudential filters have

been introduced to avoid the impact of IFRS implementation on Romanian banks solvency. IFRS use as the basis of accounting involves applying IFRSs when each transaction is recognized.

4. Limitations and challenges of applying IFRS from 2012 in Romania

In detailing financial and accounting issues involved in converting to IFRS, we select six areas that will have a major impact on the financial statements or whose implementation will require increased resources. Further, we proceed to approach these issues in the synthesis. [20]

- Impairment of financial assets (IAS 39) is an area in which accounting requirements for supervision and risk management intersect; it is the area with the greatest impact accounting, but also the most exposed value judgments and, as such, the most controversial. Beyond the difficulty of adopting "loss events" model of new parameters and concepts such as probability of loss and collective provisioning, all challenges in it, the challenge starts from the foundations of this methodology. IFRS approach focuses on professional judgment, which is crucial in estimating the number of factors used in calculating the provision, leading to a high subjectivity. Banks must develop not only methodologies in line with the general principles stipulated by IFRS, but also systems validation provisions (back testing, stress testing, etc.), therefore to reduce or correct the subjectivity element. Romanian banks used with the matrix method of calculating provided by Romanian statutory regulations must also understand that IFRS methodology is a living methodology, constantly changing: new information may become available indicating impairment of portfolio part or the need for further segmentation of its; parameters must continually be updated and at the same time, banks must assess whether the historical reality matches the present and always check if there is need to adjust the parameters obtained based on historical data to reflect more closely the recent developments.
- Recognition and measurement of

financial instruments (IAS 39); Financial instruments constitute the largest part of the assets and liabilities of banks and IFRS are prescriptive, which often leads to major implementation problems. IFRS requires that all financial instruments are recognized initially at fair value, which often, but not always, is the price/cost of the transaction. After initial recognition, they are measured at fair value (assets held for sale and assets held at fair value through profit and loss), amortized cost or cost (loans and receivables portfolios and assets held to maturity). The challenge comes from the need to determine the fair value, but also from the cost amortization requirement. For example, in the case of a loans portfolios acquisition, the purchased portfolio will not be recognized at the value it was purchased, but as the fair value represented by the present value of estimated future cash flows and the difference between the present value and the amount paid will be a gain or a loss, which will be amortized over the life of the portfolio purchased. In addition, the need to determine the fair value is not just at initial recognition. Although some instruments are measured at cost or amortized cost, even for this IFRS requires that the fair value to be disclosed in the notes to the financial statements. Thus, banks will have to determine the fair value during the period of detention for all financial instruments held by them.

- Accounting treatment of investment securities (IAS 39), declining financial markets are particularly problematic in accounting for investment securities. The statutory accounting framework does not provides recording for pluses value for titles securities and hence their reflection in reserve accounts / profit and loss accounts, less valuable instruments classified as investment securities are recorded in the income statement in the statutory accounting. Following the transition to IFRS as accounting basis, both pluses and minuses of value are recorded in own capital - in reserve accounts. The challenge will not come from the recognition for pluses value, unforeseen in the statutory accounts, but from the development of methodologies

by which to determine the moment when the value decreases recorded in reserves should be recognized in profit or loss, or the moment in which decreases in value meet the criteria for "significant" and "prolonged" under IFRS, to recognize a provision in the income and loss account.

- Revenue recognition (IAS 18, IAS 39) – depreciation charges for the loans using the effective interest rate method. The effective interest method is a method of calculating the amortized cost of a financial asset and allocation of profit from interest in the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows received during the expected life of the financial instrument or, where appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (e.g. prepayment), but will not consider future credit losses.
- Deferred tax; (IAS 12) The conversion to IFRS, Romanian banks will record significant revenue from the release of provisions, their taxation and related tax regime could have a major impact on the balance sheet either through tax deferred account or the account of profit statement, or on both.
- Consolidation of special purpose entities (IAS 27, IAS 12); The main challenges of consolidating special purpose entities refers to the control concept, defined in IAS 27 "Consolidated and Separate Financial Statements" as the power to govern the financial and operating policies of an entity to obtain benefits from its activities. IFRS contains specific instructions on applying the concept of control for special purpose entities, since many of them have predetermined objectives and is thus difficult to determine who controls them. A special purpose entity is defined as an entity designed to meet a specific, well defined. In practice, it often requires an individual analysis to determine whether an entity can be seen as a special purpose entity. The problem raised by such entities is that often complex judgments needed to

determine whether the criteria for consolidation of special purpose entities.

5. Conclusions

Until now conversion to IFRS is one of the most important missions that Romanian banking system has experienced.

IFRS is not prescriptive as to the format of the income statement, the balance sheet and other components of the financial statements, but brings disclosure requirements in the additional statutory requirements notes.

IAS 1 "Presentation of Financial Statements" includes minimum requirements for presentation of financial statements, including the content and information on their structure. Thus, presentation of financial statements may differ significantly from one bank to another. Romanian banks have been confronted with the problem of choosing formats presentation, and the challenge will be for financial statements users in understanding of different formats. In this respect, the notes will need to be very detailed and IFRS provides very comprehensive / elaborate / detailed presentation requirements in many areas. Additional IFRS requirements include the presentation of explanations and descriptions of the value judgments of management and sensitivity analysis.

IFRS changes require constant attention not only from the accounting department, but also from the leadership of Romanian banks.

At present, a large part of IFRS are subject to review by the IASB, which has already issued several exposure draft for concerned amendments and announced clear intentions in replacing certain standards. Many of the IFRSs permit early adoption and, therefore, bank management should have sufficient time to consider whether early adoption could benefit, like processes simplification involved in reporting and a more accurate reflection of the financial statements, or

otherwise, if the new standards may pose new challenges and costs that will need to be planned in advance.

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Accounting Risks Impact on Accurate Image

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Abstract

The economic activities are influenced by uncertainty and risk. The current economic crisis has underlined that the non-compliance with the ethical rules leads to the spreading of the negative effects worldwide. Their spread was done according to the degree of dependence of the countries with the world economy. This manifestation, clearly normal in a market economy, highlights the risks any economic activity has to face regardless of the aggregation level where they occur.

Keywords: accounting risks, economic crisis, strategies, entity.

JEL Code: M41

1. Introduction:

The new economy offers the possibility of using time and space with greater speed employing computer science and communication technologies so that information must determine the most appropriate choice, but especially to lead to decisions that may eliminate or reduce a great deal of the risks specific to any economic activity.

Risk identification is not always the easiest action undertaken by the entity because the changes occurring at all levels of aggregation of the economy cannot be entirely anticipated. Therefore, the problem of risks that entities have to face has become an extremely serious one, requiring the establishment of measures and strategies for limiting them. Increasing the entity's interest in the implementation of certain services to help reduce threats on the entity's performance has now become a key concern.

2. Accounting risks impact on accurate image

The aim of the financial statements is to provide information about the financial position, financial performance and changes in the financial position of an entity.

“The information on the reporting entity's financial performance helps users understand the profitability generated by the entity for its economic resources. The information on the overall profitability generated by the entity provides clues about how well the management has fulfilled its responsibilities for the efficient and effective use of the reporting entity's resources. The information on variability and the components of this profitability are also important especially for assessing the uncertainty of the future cash flows. The information on the previous financial performance of the reporting entity and on how the management has fulfilled its responsibilities is generally useful for predicting the future returns obtained by the entity for its economic resources [1].”

“The financial information, in order to be useful, must be relevant and it must represent exactly what it aims to represent. The usefulness of the financial information is enhanced if it is comparable, verifiable, timely and comprehensible [2].”

In case the information does not fulfil these qualitative features, there is a risk of losing the relevance and even the usefulness.

The national and international specialized regulations directly relate to the concept of faithful image through the recommendations made concerning the annual financial statements, on the financial position and on the financial results. The risk of not applying the provisions related to the faithful image

generates an erroneous and distorted image of the overall entity. Thus, "the maker" of the financial statements must provide further information in order to underline this fact. Even if there are contrary provisions related to the faithful image, an exception must be made for the financial statements to be presented fairly, and the derogation must be mentioned in the annexes together with an explanation and the effects of the derogation.

The international specialized regulations [3] indirectly refer to this concept, being a condition for the accounting information to be credible. According to the International Financial Reporting Standards, faithful representation means that transactions and events are presented reasonably. An example is represented by the transactions and other events that are reflected in the assets, debts or equity to meet the recognition criteria and to be presented in a credible way. Thus, there is also the risk of less credible representation, not necessarily because of bias, but due to: the inherent difficulties in identifying the transactions and events to be assessed; the inherent difficulties in the design and implementation of the assessment and presentation techniques.

The faithful image is also subject to other accounting risks such as:

- a) misapplication of the accounting principles;
- b) wrong classification of the balance sheet items;
- c) inaccurate recording of the economic-financial operations in the accounting records;
- d) inadequate classification of the economic-financial operations in the correspondent accounts;
- e) failure to chronologically and systematically record the accounting data;
- f) improper filing of the financial-accounting documents;
- g) misuse of the software on the acquisition of the accounting information and their recording in the explanatory documents;

The strategies to fight accounting risks are delineated as follows:

- regular training of the personnel from the financial-accounting department concerning the accounting principles stipulated by law and any changes occurred;

- compliance with the general accounting principles as they are stipulated and detailed by the legislation in force;
- updating them once with the changing of the legislation;
- the chief of the financial-accounting department must comply with the accounting principles in the financial accounting activity and intervene when he/she notices deviations from it;
- regular training of the personnel from the financial-accounting department on ways of assessing and recognising the elements of the balance sheet related structures and of the profit and loss account;
- setting an accounting policy regarding the assessment of the balance sheet items and the profit and loss account, setting its application, as well as communicating the policy to the staff responsible for its implementation;
- checking the compliance with the accounting policy set by the entity's management by the chief of the financial-accounting department;
- any deviations or changes in the accounting policy are made only with the consent of the Board of Directors;
- regular training of the personnel from the financial-accounting department on the mandatory accounting entries stipulated by the laws in force as well as the method of filling them in and archiving them;
- all the accounting entries shall be made based on the primary documents and filled in and drawn up in accordance with the legal provisions in force, only after the prior approval of the respective operations by authorised persons;
- checking and correcting, if necessary, the correctness of entries in the accounting books by the chief accountant of the accounting department;
- the establishment and training of the persons responsible for filing in accordance with the law;
- identification and use of an adequate space for archiving the documents;
- permanently keeping informed on the laws related to archiving documents;
- regular training of the personnel from the financial-accounting department

concerning the use of the specific software;

- providing specialised care by a specialist in the IT field;
- creating an implementation team to contribute to implementing the software.

The development of strategies is a sure way for the smooth functioning of the entity. Choosing the appropriate strategy for the field in which it is intended to be implemented, as well as all the analysis of all the elements leading to its implementation contributes to identifying a favourable direction for the entity.

3. Conclusions:

The need to identify risks, to manage them properly, and to continuously monitor them is becoming a major goal that endorses the survival of the entity. The current economic conditions have brought to the fore the risks generated as a result of carrying out financial-accounting activities and their adverse effects, effects which create turbulence within the entity. The elaboration of a series of strategies in terms of reducing the accounting risks contributes to presenting a faithful image and to providing clear and accurate financial information to the internal and external users.

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Diagnose-Analysis Regarding the Balance at the European Union Budget Level on the Two Components (Incomes – Own Resources and Expenses): Proposals for Reform

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Abstract

Experts believe that is being wasted so many resources, allocating budgetary policy that does not provide a sufficiently clearly identifiable European added value. In addition, the Community budget has often been criticized for lack of transparency. The General rules concerning the distribution of resources and financial contributions from Member States are often altered by ad hoc derogations which causes a high degree of complexity. To counter these deficiencies, in 2005 within the framework of the European Council of December in Brussels, it was decided to launch the process of the reform of public finances at the EU level, exercise is also known as the budgetary review process. At the same time, the review of the budget was part of the compromise achieved on the new financial perspective 2007-2013.

Keywords: EU budget, incomes, expenses, GNI resource

J.E.L.: H60, H61, H62

1. Introduction

The European Commission tried to have a dialogue based on the principles of monetary considerations separate. If the discussion on the budget reform would wear at the same time outlining the financial terms of the future financial perspectives, the dialogue on the reforms it would be extremely difficult.

The European Commission, the EU budget has proved to be effective in achieving the European aspirations in key

areas, such as economic growth, solidarity, security, but stiff when it was put in the face of unforeseen situations (food crises, natural disasters).

Moreover, the budgetary system currently focuses too much on the contributions rather than on results. The Commission points out that the annual negotiations are guided to a great extent in terms of net balance – how do you get, versus how much to contribute.

There are already more analysis that identifies the weaknesses of the construction budget at european level and advancing proposals for reform, which will be useful to them.

2. Analysis of the current community budget

The main weaknesses of the EU budget:

On the expenditure side:

- the budget: perceived as far too low and stiff capped in relation to the Union's ambitions. The proposed solution is obvious: the appropriate resources and "flexibility," which involves giving up the global ceiling rigid foresaw 1.23% of GNI and the adoption of an approach that starts from the policies and priorities ("policies" first "approach");

- the structure of facts brought forward: three quarters of the Community budget was and is represented by the support for farmers and poor regions. Advanced solutions: reforming the CAP (agricultural expenditure reduction). Other lifelong privileges that support solutions for agriculture, parallel to the allocation of resources ' appropriate ' competitiveness, which would generate a reduction in the share of agriculture in the

budget (the process would be similar to the reduction in the share of the agricultural budget in relation to structural actions: support for farmers has increased, but at a rate lower than the increase in the structural funds). Besides competitiveness, there are a number of other preferences (United Kingdom, for example, favors a reorientation of expenditure by transforming the EU into a "global" to intervene, humanitarian etc. in various hot spots around the globe). More generally, the EU budget is criticised for its emphasis on redistribution ("juste-long-distance moves"). Many experts argue that would have required a shift to Community expenditure to the provision of public goods at European level, including macroeconomic stabilization.

The income:

- too much complexity to the system of own resources;
- the absence of a genuine "own resources" of the Union, in accordance with the provisions of the Treaty, other than receipts from customs duties;
- the privileged treatment accorded to non-Member States (United Kingdom, Netherlands, Sweden, Austria, Germany), the beneficiary of some corrections. All at sea is the current institutional framework, say a decision in the matter of the budget focus too much on the net balances. Member States perceive the payments from the Community budget as participation fees at a club, what makes the ultimate objective in negotiations to maximize profits or minimize net contribution.

Among the advanced solutions include:

- exclusive funding the Community budget of the GNI resource (this proposal is supported, among others, Alain Lamassoure, an European parliamentary);
- the correction of national contributions;
- the introduction of a European tax.

Strengths of the Current Arrangement

Throughout the discussion on EU budget almost no voice to defend the strengths and achievements of the current budgetary framework. Often, the mere fact that the EU budget:

- is about 1% of Community GNI (in terms of the share of public expenditure in the Union is 47%);

- has maintained this decent weight for a long period (the share of public expenditure in the Member States has seen a rising trend);

- did not allow the development of tools such as the public debt (dropped out of control in a number of Member States);

- financing did not put in jeopardy the fiscal competition between Member States.

These are notable achievements, which must be maintained by keeping the factors that have made them possible, beyond the redistribution of funds between the various chapters and policy priorities.

3. An assessment of the proposals for reform

Incomes (own resources)

- Summary of financing based on the GNI resource:

The most interesting reform proposals have been advanced on the income of the Community budget. In particular, the solution of Alain Lamassoure advanced – financing the Community budget of the GNI resource – offers the possibility of a number of controversial elements of the construction budget. The new system is clearly transparent and simple, easy-to-press and defended. Furthermore, it is a flexible system, you can easily remove the complexity of corrections.

The best politically solution is that of combining funding resource GNI-based own resource traditional (mainly customs duties), which represents about 15% of the budget. This last is a "resource of its own", in the sense described in the Treaty.

- The introduction of a Community tax:

The proposal to introduce a tax of a community is nothing other than the return to the old discussion concerning harmonisation/EU tax consolidation. This initiative will have as a result:

- the possibility of the supranational Community principle to impose other fees in the long term, the community will become the dominant way;

- the control of the Member States of the Community budget will be lower, and in the long term will disappear; uncertainty in tax revenues will complement logic development of a type of European public debt equivalent to attract huge resources in the public sector, the possibility of using tax release for

attracting investments and generate economic performance will disappear. This lever is essential especially for the least-developed States (EU-12), who can't compete than very hard in terms of celelelate conditions for attracting capital to the old Member States (internal bureaucracy, infrastructure, monetary stability, etc.);

- elimination of tax competition and the disappearance of a significant incentive to apply responsible economic policies (the regulatory regimes are more numerous, the most productive citizens he can refocus more easily zones activities and resources to the more "friendly". This shift, associated, among other things, with a loss of tax revenue, means a more intense pressure on policy-making than classic speech concerning the effects of taxes. Continuous pressure of Comsiei and of some Member States of Switzerland are graitoare relative to the meaning of the current european discourse on the "harmonisation").

Expenses

- Addressing the policies first:

The fundamental reason for which this approach should be rejected is that it weakens one of the two pillars of the budgetary stability: the rule limiting expenditure% of GNI foresaw 1.23 community website. It is an open invitation for all lobbyists to imagine a utopian policy, put in place by the side of the community.

Alain Lamassoure lists and he foresaw 1.23% ceiling keeping between the principles that govern the discussions on the revision of the budget.

- Macro stabilization/public goods:

Macro stabilization at european level requires a different size of the budget and other principles of operation (acceptance of deficits and public debt). It is an idea even more fanciful than the tax.

In terms of public goods, the Union is already committed to projects such as the trans-European transport networks (TENs), research and development, protection of the environment (with a significant component from the spring European Council – Global heating). Your continued use of the speech concerning the provision of public goods at european level will not result in excessive centralization than in Europe, the result of

new production and new public goods by supranational side(all the arguments against the collection also apply in this case. Mention that private solutions for the provision of certain public goods are more neglected in Europe compared with the US). Any budgetary implications will not be negligible, given that the old policies (support for agriculture, structural funds) will not be abandoned, even their Treaty.

- Agriculture and structural funds:

Reformation of main pillars of community support frameworks and in particular of the agricultural sector-is a long time on the agenda of the EU. For the purposes of discussion in this context, we consider that the following details are required:

- the renationalization of the PAC is practically impossible as long as the legal basis for this policy is the Treaty;

- there is a strong group of Member States which consider that agriculture must be modernized, not renationalization;

- the Member States who support an increase are generally developed States, with research structures fine-tuned and that will be the main beneficiaries of this diversion of resources;

- the idea of introduction of national co-financing as a solution to increasing the CAP budget without increasing the resources allocated to the Community budget is not very advantageous for countries with a large agricultural sector and an economy which is at the lower end of the top performance, as Romania or Poland. Co-financing would introduce additional pressures on the national budget, increasing the risk of exceeding the threshold of 3% set by the stability and Growth Pact and would frustrate the agricultural resources that can be used for the declared priorities: infrastructure, health, education;

- on the cohesion policy, the European Commission's vision centered on addressing macroeconomic, sectoral, having no connection with the approach of territorial cohesion policy. This is surprising considering that the entry into force of the Treaty of Lisbon increase and references to territorial cohesion. There is a risk that the cohesion policy should become a policy of charity and not one addressed to territorial development.

4. Conclusions

The fundamental strategic option that a Union has to be done now and in the future is between a budget with a decent budget constraints, countries – of the kind that you currently have, and a budget constraint lax, who will end up sooner or later in the enormous expenses.

Mention among the arguments in favor of a tolerable budget than the fact that there is a strong correlation between connection/the level of public spending and economic performance (view the levels of public spending and the relative performance of the US and the EU, but also the good performance of "codășelor" in the taxation (e.g. Ireland). This type of argument for keeping under control of public expenditure has been rediscovered recently and used repeatedly by representatives of the ECB) and that fiscal consolidation will weaken causal link between taxation and performance and will generate public costs still high and weaker performance.

Budgetary reform put fundamental level the problem of choice between two paths:

- one, the development by keeping public spending under control at Community level, private initiative, the rejection of protectionism, improve the business environment to encourage domestic capital formation and his attraction. In some form, this is the solution (the community side) focused on rules and not on money;

- the other, to maximise community public expenditure growth by giving up budgetary constraints countries currently available and enhance the collection.

The first way counts on productive citizen and on the creation of wealth, the second-on being able to come out winners in the massive redistribution will accompany the process. Times, this hope is one of the theoretical; redistribution is a political process, controlled, in one form or another, for those who bring their resources.

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Accounting Integration in Corporate Governance System – Factor to Attract Investments

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Abstract

Without international harmonization of accounting practices, conflicts and incompatibility financial information from different countries could not be resolved. In addition, the expansion of global markets makes it more difficult to transparent disclosures about contingent liabilities and off-balance sheet items. A proper accounting require dissemination of information, both voluntary and mandatory, to create competitive advantages in the market.

Thus, a company can receive a rating assessment of certain market intermediaries, improving trust, credibility and reputation of the company.

Keywords: accounting, corporate governance information, investments.

Jel Classification: G11, G37, M41, O16

Introduction

Definition and nature of accounting have changed over time. From the traditional perspective, in a simpler form, this implies a relationship by which some people are required by others to provide explanations and responsibility for their actions. Later, its meaning has changed, being found in its scope both the report, keeping accounts and application of judgment or punishment, taking into account the needs of citizens.

Shareholders access to information should be improved through modern means of communication, used both by businesses and authorities. Companies comply with legal requirements and provide information required by regulatory bodies, but often shareholders access remains limited, especially to outsiders (outside shareholders). In recent years, the situation has improved

due to development of electronic communication environment, by which all stakeholders can access the desired information.

Transparency of financial reporting is closely associated with disclosure, nature of presentation and public access. Some authors distinguish between the disclosure or the scope of information dissemination and their communication. They argue that transparency can not be achieved when are not comply reporting conditions – especially the ethical – set in accounting standards. So the broadcasts should be be accessible to the interested public by reporting tools to ensure transparency: using a simple language, standardization, electronic access, consultation and appeal rights. On the other side, commercial confidentiality militates against public access to information about private funding and considers necessary government involvement in developing an effective framework of transparency, allowing confidentiality for sufficient time to limit access information for hostile parties (competitors), but also ensuring a proper accounting.

1. Modernizing the regulatory framework of governance and accounting

Corporate governance approach of political economy perspective emphasizes the importance of legal regulations in grounding managerial strategies and decisions. These norms determine the extent to which countries differ according to the degree of investors protection, the impact of capital markets size, firm value, distribution policies, ownership structure and financial options. In case of an acquisition/fusion, strong protection of shareholders and accounting standards from acquirer country, may result in payment of higher premiums.

Since the 1990s there was a wave of reports in the private sector that recommended montorization of procedures and structures, seeking to obtain two major results. Firstly, improving the reporting quality by increasing the efficiency of internal control systems and the independence of external auditors. Secondly, some changes are pursued in the Board of Directors' activities. According to some authoritative sources – CIPFA – as in the private sector, public sector governance assumed the two objectives above. Regarding the last objective the reports in the private sector include:

- emphasizing the need to control corporate policy content;
- achieving internal control mechanisms closely related to the decision of the Council;
- encouraging ownership activities and Council independence.

To achieve these objectives, the regulatory authorities in the private sector focus on the structure of the Board, highlighting the role of independent directors, whose growing number was one of the most visible elements of corporate governance reform at the international level. Also have been recommended creating and strengthening the role of committees subordinated to the Council, such as audit, nomination and remuneration.

Transparency has become, over time, an important indicator of quality of corporate governance system in an economy. Years 1993 and 1994 were for Japan, the first real attempt to improve the transparency and accounting. In this respect, SEHK (Hong Kong Stock Exchange) and HKSA (Hong Kong Society of Accountants) have established a working group in Corporate Governance (Corporate Governance Working Group - CGWG), which developed a series of best practices, as would be:

- separation between the chairman of Board of Directors and the CEO;
- the existence of at least two non-executive directors (independent);
- members of the same family can form the board up to 50%;
- the existence of two committees made up exclusively of non-executive

directors (audit committee and remuneration).

The second requirement listed became effective once 1995 and the formation of an audit committee remained a voluntary initiative. The Code of best practices revised in 1998 by SEHK, introduced obligation for listed companies to present, from the next financial year, on the quarterly and annual reports, the reasons why were or were not established audit committees.

In 2001-2002, financial reporting scandals have prompted regulators to react. Thus, in the U.S. Sarbanes-Oxley Act has emerged, which took effect on July 30, 2002. In the United Kingdom was published in January 2003 the Higgs Report concerning non-executive independent directors, in response to corporate failures and governance deficiencies that contributed to the fall of markets. The Combined Code, first published in 1998, was updated in the 2003, based on Smith and Higgs reports, underlining the importance of Board role and structure.

The wide financial scandals have led the European Union to develop a new corporate governance code according to which increase investors demands on quality of information required, on which investment decisions are based. At present, there is a set of principles and rules in this regard, which takes into account the independence of non executive directors, but also the obligation of listed companies to publish statements of compliance or noncompliance on corporate governance. Framework of Union in the this area has as main regulations:

- Directive 2003/6/EC concerning market abuse;
- Directive 2004/25/EC is considering the takeover bids;
- Directive 2004/109/EC concerning transparency of listed companies;
- Directive 2006/43/EC on the audit;
- Directive 2007/36/EC governing shareholders' rights.

Quality of accounting standards is also an important factor in determining the degree of shareholders protection. On mergers, the standards applied to the resulting new company are those of the purchasing company country. There are situations when merging entities can choose the rules of a third country or international standards, the most common choices being between U.S.

GAAP and IFRS. Similarly to business relations, regulatory environment can prevent institutional investors to exercise fully their right of expression. The existence of certain regulatory barriers may constrain the ability of institutions to exercise influence within corporations. The current financial crisis showed that the governance system used was not efficient enough, concluded that in the future, is required a high quality management. Starting with July of 2011, the European Commission initiated a public consultation program on how to improve the governance of companies, the main topics for discussion being: solutions for a better functioning of the Board and increasing its members' diversity, monitorization and implementation of national codes of governance, but also a more sustained involvement of shareholders.

2. Accounting information in business leading

The key concept when talking about corporate governance is transparency, which requires a permanent information. Providing prompt, in the request moment, of correct information, is the basis of principles concerning the functioning of capital markets. If this assumption is not met, investors are deprived of a real image on the company, so that they can not take knowingly decisions. Lack of trust forms a barrier to investment, leading to a high cost of capital and reducing the efficiency of resource allocation. Information and transparency provide to all stakeholders the optimal framework for economic and managerial performance assessment, analysis results decisively influencing the future behavior. An effective information system helps the public to enter the "secrets" of the business environment, examining its performance through the activities and policies at entity level. The new economy exploits more and more the best practices concerning ethical standards governing the relationship between various business partners. Equal access to information (simultaneously access at the same information), ensures fair treatment for all shareholders.

New technologies, through modern communication possibilities offered, provide

effective, fair and transparent information. Because it is the responsibility of managers, such as corporate governance is developing as a solution to their delimitation of the company's owners, since the interests of both sides are often different. Shareholders seek high profits and dividends as a rigorous control over the decisions of managers, while the latter want more power of decision and negotiation, remuneration and other financial benefits, for example, shareholdings in firm.

Accounting pursues many objectives that can be achieved in various ways, but the basic objective is to provide complete and accurate information to all interested parties, where an essential role has the financial reporting, so that we can talk again about the importance of transparency. Over time has increased the awareness of accounting role for the present and future of an enterprise and business environment as a whole. Regulatory authorities in the field claim that a high quality of information, especially financial ones, allows for the stakeholders better investment decisions and informed choices.

Some authors have demonstrated, making an assessment of the national corporate governance, the existence of a positive relationship between governance transparency and accuracy of financial analysts' forecasts. Rating agency Standard & Poor's uses in assessing companies, the rating score in this regard, called Transparency & Disclosure Ranking Score, based on the amount of information on corporate governance from annual reports. The more this quantity is, the less costly acquisition of information is, benefiting analysis services, enhancing the quality of results obtained by specialists. This situation is also associated with a low market risk, a higher price of shares and a lower cost of capital. It can be observed so that the acquisition and dissemination of information by financial analysts is a mechanism for reducing the risk of corporate governance and positive effect on the capital market. An equally great relevance for investors and analysts have and non-financial information, their content is directly related to reducing leakage and increasing the accuracy of financial forecasts.

From the perspective of investors, the concept of transparency includes aspects of: accuracy, consistency, adequacy,

completeness, clarity, convenience and timeliness. Worth noting the relatively low level of attention that many entities attach to explain the accounting policies of restatement of incorrect information. Executives often avoid a dialogue on such issues, leaving them into the responsible financial account. There are situations when the market may request details of the accounting issues involved, to prove whether and to what extent, the executive has intervened in handling information.

Regulations on financial reporting have been decisively influenced by the globalization and internationalization processes. Tendencies come from the European Union which means acquisitions and competition, and from the IASB (International Accounting Standards Board) and IPSASB (International Public Sector Accounting Standards Board) on the reporting process. IASB standards affect, directly, the reports of the end of the year, but they are also indirectly intervening during the period (for example, contracts are developed in the spirit of compliance with accounting requirements, especially regarding risk transfer).

Accounting depends on the flow of information used by each entity in part in preparing its annual accounts and a critical evaluation of accounting policies requires a transfer of information between organizations. Voluntary information are reliable if it moving towards efficiency goals such as improving the liquidity of capital markets firms, reducing its costs and can be used by financial analysts. Managers develop opportunistic behavior when there is no disclosure control regarding the company. If the credibility of a reporting is questionable, investors will require a gradual return to compensate the information risk.

Responsibility accounting improves governance system, not only by efficient market functions, but also by reducing monitoring costs. When the executive respects the principles of a proper, accountable and transparent accounting, are offered premises for introducing and applying the best strategic decisions in the interest of the parties involved. In a developed company, responsibility accounting, but also global governance are dispersed at subunits. Entity as a whole can

not be responsible if its subunits are not. Thus, improving overall responsibility requires that in each subunit to exist transparent decision making and financial reporting processes,, independent audit and internal control. Also a responsible accounting promotes the exchange of information and communication throughout the company. We can not talk about good corporate governance in the absence of effective information and communication systems. Information is key in making profit forecasts, designed to meet market expectations for company performance. If the corporate governance systems provide valuable and relevant information that analysts can include on their predictions, then it will be observed an improvement in forecast quality and reduced dispersion.

Ideally, corporate governance should provide an early warning system for the organization back on track, anticipating problems that may lead to a crisis. Thus, if a company has effective mechanisms of governance it must be able to identify a problem before the proper production, which involves the ability to collect, process and evaluate information. Therefore, institutional investors should seek creating systems of control for all companies in the portfolio, in order to facilitate the initiation of changes necessary to correct any deviations found in strategic actions. In this respect, are necessary information processing systems by which being evaluated the existing strategy and the set actions long-term desired.

3. Accounting and capital investment

Numerous studies of the domain have shown how the quality of a company's accounting is reflected on the efficiency of capital investment as a determinant of economic productivity. Also, accounting affects the functioning characteristics of financial markets. Accounting opacity is associated to higher costs of publicly traded capital. So, unwanted situations can occur, for example a rationalization of capital, as a result of information asymmetry between managers and investors. When managers can manipulate private information to issue overvalued securities, rational investors would withdraw their capital. Another example can be illustrated by the willingness

of managers to increase the established consumption and expanding the business to the detriment of investors remuneration for their capital.

Accounting transparency should reduce both adverse selection (tendency to issue securities at a steep price) and moral hazard (excessive risk taking, because the costs are supported by the party). Transparency involves preparation, auditing and disclosure of information using high quality accounting, financial and non-financial. In addition, an independent annual audit can provide external and objective assurance about the accuracy and reliability of financial statements. Considering that few companies will voluntarily provide transparency, this concept should be mandatory. Legal requirements in this respect are essential to give all shareholders information as real as possible about business value and to protect minority rights against domestic abuse.

A higher quality of enterprise accounting system helps to improve the efficiency of investments made by reducing possible frictions. The role of accounting is also essential to the country level, especially in economies where stock markets are the main sources of capital, since investment decisions are strongly influenced by accounting information. In economies where creditors have a dominant role, banks may obtain information from private sources, to directly monitor managers' work once the capital has been invested.

There is an analogy between investment decisions and behavior of individual investors. Thus, they show an aversion to risk if they expected safe gains and are willing to take risks when facing losses. When company's performance constitutes a reference point, is normally that the decision to invest to oscillate between risk aversion and its assumption. When management is suspected to take irrational decisions on capital investment in order to increase firm value, this behavior could be mitigated through good corporate governance. Moreover, such an attitude may be limited by availability of resources, for example, financial constraints, such as cash flow, dividends, capital and investments density.

In terms of a transparent financial reporting, capital providers can evaluate the investment risks in three ways: removing the

need for regulatory and forcing managers to pay more attention to the reports; allowing public access to information, to comment on financial data; promoting a continuous discipline, by means other than those of control over managers.

Ability to attract fresh capital is a fundamental factor of competitiveness. Better information will help investors to make choices based on real situations, being attracted by companies with open structures, with well-established practice of financial information and with possibilities to appeal management decisions. Investors will prefer those firms allowing them an assessment of inherent risks in their holdings.

(Instead of) Conclusions

Accounting profession considers corporate governance a search for management rules to prevent and correct the fraudulent practices of the company and granting unfair privileges. Financial reporting is, above all, an external control device that may require more or various forms of financial and non-financial information, other than those commonly used in private sector companies to meet corporate governance rules. Financial and accounting information constitute input of the implemented control mechanisms.

The importance of accounting in the governance system is highlighted by international studies, considering the role of financial information to attract new investors and maintain already existing relationships. Although it must be noted the contribution of other responsible persons, the professional accountant is the essential factor in preparing the information for internal and external users. He represents a complex entity that simultaneously requires ethical, accounting, economic, legal and even informatics skills. In the current context of globalization, professional accountant should be in line with international trends and not restricted only to the national regulations.

Relevance to investors of information relating to quality and efficiency in governance and administration of listed companies shows that improving corporate governance can be a strategy to increase their overall performance, namely to increase the stock price of their shares in the capital market and hence to increase business value.

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Information Assurance Due to IFRS Adoption

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Abstract

Currently, cross-border business operations are current currency and capital markets know no territorial limits. Standardization and harmonization have imposed an uniformity of accounting terms in national and international regulations. In this context, it makes direct reference to the accounting rules comply with the European Directives and International Financial Reporting Standards (IAS/IFRS), which are submitted to the first two fundamental concepts: performance and financial position, and on the other hand, investor, the main user of accounting information about their evolution.

This article aims to evoke the current diversity of accounting systems and consequences of IFRS adoption might have to obtain understandable, reliable, relevant and comparable accounting information. This follows if IFRS has positive or negative effects, if represents a solution or an impediment for financial reporting.

Keywords: IASB, IFRS, accounting normalization, accounting system.

JEL Classification: F23, M16, M41.

Introduction

The term “international accounting” means while the accounting problems raised by the internationalization of business (accounting operations in foreign currencies, financial information by geographical area, etc.) and those related to the diversity of accounting practices worldwide.

Accounting harmonization and standardization processes started by adopting international accounting rules known as International Accounting Standards (IAS) issued by the International Accounting

Standards Committee (IASC), an organization founded in 1973 in London. Currently are used International Financial Reporting Standards (IFRS), developed and published by the International Accounting Standards Board (IASB), which replaced the IASC since 2001. IASC former rules retains the title and remain in force as long as they are not superseded by the IASB standards.

In terms of global application of the accounting rules, can be distinguished two categories of countries. Firstly the ones that apply and require the application of IFRS by enterprises, among which the most important are Australia, China, Russia. Then there are those seeking convergence of national standards with the international ones, without excluding the possibility of the latter adoption. Among the most important countries are Brazil, Canada, USA, India. United States is a special case where the IASB would have a considerable success if they would give up their own rules, those of the FASB, to adopt IFRS.

1. Diversity of practices and accounting systems

The early 1970s was the period of major advances in international accounting, particularly under European Union (Fourth and Seventh Directives) and International Accounting Standards Board (IASB). These efforts led, in particular, to the gradual reduction of the differences between the two main global accounting referential that American standards (U.S. GAAP) and the IASB (IFRS). In the EU, the process culminated with an obligation for all listed companies to use IFRS since 2005. European example was followed by several major countries such as China and Australia. Canada also decided to adopt IFRS in the future, as Russia and Japan.

Even if these advances are remarkable and true, it would be wrong to believe that now, worldwide, accounting is computerized. Many countries are indeed for the time off the process of harmonization, particularly Africa and South America. In the United States, even if they work together for many years with the IASB, the rules always show significant differences from IFRS. In conclusion, it should be noted that harmonization has opened large companies, especially in the consolidated accounts. In Europe, the obligation to apply IFRS is only for listed companies. Also in the U.S. where only listed companies are required to apply FASB rules. International accounting harmonization was therefore a process with two speeds: fast, large listed companies, but much slower for the others. Analysis of the accounts of different nationality remains therefore always tricky, especially when it comes to small and medium enterprises.

Many authors have tried to summarize these differences by proposing a classification of national accounting systems. The most common typology is that which speaks of Anglo-Saxon accounting system and continental, each specific to a group of countries that adopt specific accounting principles and practices. The following table (Table no. 1) summarizes this classification, given the country representative of each system.

Table no. 1 – Types of accounting systems

Anglo-saxon system		Continental system	
<i>American influence</i>	<i>British influence</i>	<i>Fiscal basis</i>	<i>Legal basis</i>
United States	United Kingdom	Italy	Germany
Canada	Australia	France	Sweden
	New Zealand	Belgium	
		Spain	

Explanation of differences between accounting systems have explored the diversity of economic, legal and political differences between countries. Some experts estimate however that this approach is insufficient and national accounting characteristics are reflected fundamental cultural factors.

A. Economical, legal and political factors

Differences between accounting systems are also explained by several factors: the

legal system, mainly the financing of enterprises, taxation, political and economic ties between countries.

The influence of these factors explains the differences in accounting normalization concepts that exist in the Anglo-Saxon and continental European countries. In the first, the responsibility is left to professional organizations setting standards (GASB in the United States, the AUC in the United Kingdom) while in the second group, the main accounting rules are included in the law (in French Commercial Code, Handelsgesenbuch in Germany...).

It is traditional to oppose to Anglo-Saxon capitalism the "rhénan" capitalism. The first is marked by strong stock markets, which provide the essence of funding large companies. In such a system, accounting promotes the investments, from which publication of large amounts of information that are considered most closely as possible the enterprise. In the countries belonging to model "rhénan" are rather financial institutions (banks and other financial establishments) that provides to companies the essence of their resources. The main focus is therefore the protection of creditors from which the importance attached to the principle of prudence which is often more important than the objective of fair presentation.

Fiscality strong influence the accounting practices in continental Europe because in these countries, only the actual expenditure accounted for are tax deductible. Enterprises have therefore a tendency to align their accounting to the more favorable tax rules, even if it leads, for example, the finding of depreciation or non-economic provisions justified. In the Anglo-Saxon countries instead is calculated the fiscal result almost with a few exceptions, regardless of the sheet result. Fiscality has therefore much less impact on accounting practices than in continental Europe.

In the the economic and political links, it is obvious. Colonial countries have exported their general accounting system or area of influence. It is not by chance that most of the states relates to the British Commonwealth and Francophone African countries to French model. Share of economic relations is also reflected in the similarity of American and

Canadian accounting systems or German and Swiss.

B. Cultural factors

Without denying the importance of the economic dimension, it may be that cultural factors play a role in the development of accounting systems. Literature holds four dimensions that characterized every culture: individualism, power distance, uncertainty aversion, masculinity.

Some authors have sought to establish a correlation between these variables and certain features of national accounting systems, in particular the type of regulatory (or legal professional) degree of consistency, prudence and transparency. Have been proposed also some assumptions on the relationship between three characteristics of the accounting system (professionalism, care, confidentiality) and two cultural dimensions (individualism and aversion to uncertainty).

Also, there was the initiative of developing a general model accounting systems which strives to combine environmental, cultural and institutional factors. They tested this model correlating observed the accounting practices in 50 countries with a number of variables representative of various explanatory factors. Significant relationships emerged for each series of variables, which tends to show that national accounting systems are the result of interactions between all factors.

2. Informational efficiency in the context of international accounting diversity

Numerous studies have tried to assess the economic consequences of diversity accounting practices of "quality" earnings also stock market relevance of accounting numbers.

Several authors have hypothesized that the quality of the result sheet, defined as the ability to reflect true economic performance depends on the legal system of the country. The default idea is that countries as regulated accounting is subject to considerable political pressure (which establish and impose accounting rules), unions and banks. In these countries, accounting result should be considered first and foremost as a wealth divided among various interested parties (stakeholders) of the enterprise in the form of dividends (shareholders), taxes (state) and

raw (employees and managers). Each of them, seeking to ensure consistency remuneration, preference went to the stable results over time, from which accounting rules give managers a wide latitude on when to record the result, no gain or weight. In the common law countries, however, the objective of accounting is to serve the needs of investors. They are first of all interested in the ability to reflect accurately the outcome of real economic performance of the enterprise, with a preference for the manipulated outcome, incorporating good and bad news immediately.

Have been studied two constitutive dimensions of quality results "punctuality" (timeliness) and "prudence" (conservatism). Punctuality is the measure by the degree of association between the accounting and stock return action (more correlation is strong accounting result is considered high point). Prudence is defined as the ability to incorporate outcome information quickly so evil and the good. As expected, the results of enterprises located in common law countries (United States, Canada, United-Kingdom and Australia) are more punctual and conservative than those of companies domiciled in countries as regulated (France, Germany, Japan).

In the same vein, was observed and the correlation between the average return on assets (ROA) and country businesses deemed variable measures the country's economic performance (growth rate of gross domestic product). It was found that the degree of association is stronger in the United States and in the United Kingdom than in France and Germany and, in this sense, accounting better reflects the real economic performance in common law countries are characterized by a strong protection of shareholders, a market-oriented financial and accounting independence from taxation.

Careful analysis of the results was correlated with the various legal and judicial system, the degree of caution to ascertain that the result is higher in countries that enjoy a high quality judiciary (i.e. impartial) also giving considerable protection to shareholders. Prudence is also inversely proportional to the degree of state involvement in the economy.

Previous studies based on the assumption that managers of law companies located in

countries governed, has a latitude greater freedom to delay accounting for losses than their Anglo-Saxon counterparts. Handling results (earnings management) should be more frequent in these countries than in common law. However more research came to results contrary to this hypothesis.

Previous works developed in the United States showed a discontinuity in the distribution of differences between published and the expected outcome analyzes, a sign that managers tend to avoid announcing results below forecasts. Given the possibility of handling large results as regulated countries, we can expect that the phenomenon is more pronounced in these countries than in the United States. Survey evidence suggests that it means nothing because American companies that appear most in the tendency to manipulate the results to avoid dangerous announce a surprise to the market. If the practice of hidden reserves and smoothing results found in German countries (Germany, Switzerland, Austria) give credit hypothesis that manipulation of results is much stronger in countries as regulated than in common law countries, the research cited above shows that U.S. companies do not hesitate to possession also result to avoid disappointing the market.

For the Anglo-Saxon, accounting purpose is to provide useful information to investors. Accounting ability to get a result and an amount of equity correlated with profitability and market capitalization, ie the relevance of stock (value relevance) quantifying the accounting is therefore ultimo criterion to compare the quality of different accounting systems. Considering the market orientation of Anglo-Saxon accounting, we expect this stock to be irrelevant as higher in these countries than in others.

However, majority of researches does not confirm the superiority of Anglo-American accounting model over that of continental Europe. Based on this researches, it seems difficult to conclude that Anglo-American accounting system is superior to its counterpart in mainland Europe in terms of relevance stock. It seems, rather, that investors accommodate with the operating system almost all of equal importance is given accounting figures, regardless how they are determined.

3. IFRS generalization and informational consequences

For a long time, only firms in less regulated countries such as Switzerland were able to apply IAS/IFRS because, compared with most other countries, these rules were not fully compatible with national rules. Things have changed in the early 2000s by the decision of some countries, especially those that have recently passed to a market economy (China, Eastern Europe) to adopt IFRS. But it is especially the European Union option to make IFRS mandatory for all listed companies which gave considerable importance to these rules. The European rally to IFRS convinced the Americans to work with the IASB to develop common rules and, in 2007, to cease to require foreign companies listed in the United States to recalculate them the result and equity under U.S. GAAP.

IFRS are generally more stringent than the rules they replace. They allow fewer accounting options and required to publish more information. We can expect that their application to reduce information asymmetry in the market.

A tool for testing this hypothesis is to measure the difference between the offered and requested (bid-ask spread) of the considered enterprises' actions. Indeed, if information was perfect the course of action would be unique and this difference would be zero. Applying IFRS should therefore be accompanied by a reduction in this difference. Wondering about the real extent of application of IAS/IFRS before they become mandatory, some authors have found that reducing the price scissors would not only apply to companies applying "rigorous" IAS. The authors, whose compliance with international norms was only partial, saw that their price difference is significantly reduced. It was also found that the effect on prices is lower cutter with company size and number of analysts who monitors it, which tends to show that the adoption of IAS / IFRS firms which often have little information is available.

Information asymmetry can also be measured by the analysts forecasts and through the errors of the expected results. If IFRS can reduce information asymmetry, the dispersion and the errors should be much

lower than before the adoption of these rules. However, the forecasts are more dispersed for companies applying IFRS or U.S. GAAP than those using local rules. It can be appreciated that this result is due to the fact that international and U.S. standards have reduced the possibilities for smoothing latter results are more difficult to predict the adoption of these rules than before. Given the forecast errors, there is an inverse relationship between forecast errors and the degree of compliance of financial statements with IFRS. For the countries of Continental Europe, analysts forecast errors were lower for companies applying IFRS or U.S. GAAP than for others.

Most studies on companies that have adopted IFRS during the last 15 years have shown that changing accounting rules was accompanied by a decrease in behavior management results and a tendency to defer accounting for losses. The effect was however limited to voluntary application of international rules not found any significant difference for companies that are expected to become mandatory IFRS. These observations relative importance of accounting rules, showing that mandatory enforcement is not sufficient to ensure the quality of accounting figures, which are also the characteristics of the institutional environment is evolving enterprise (legal system, the protection of investors, and so on).

Once IFRS were oriented information needs of investors could expect that their adoption resulted in an increase of the relevance stock (value relevance) accounting figures in continental European countries. Empirical researches are far from unanimous on the subject. If, as expected, and increases adoption of IFRS accounting information quality by reducing information asymmetry and limiting the possibilities for manipulation of results that investors should take into account in setting the conditions for financing the cost of companies' capital will be reduced.

(Instead of) Conclusions

Recent years researches has shown that it is still difficult to determine what lasting consequences will have the application of IFRS in Europe, these studies are relatively few and partly contradictory. Most are also

based on observation of companies that deliberately applied the international standards and is not therefore certain that their results can be generalized to all listed companies. Several informational studies suggest that the results are highly dependent on local institutional and legal context, applying the same rules is not sufficient for the homogeneity of accounting practices. Therefore, further researches are needed to elaborate a first evaluation of the generalization IFRS.

Harmonization achieved in the listed companies do not in any way forget that other companies remain subject to national rules covering economic, social and cultural specialties. Even though it also seems to show a uniform movement under the IASB and its draft regulation on SME accounting, changes should be much slower at this level, as legal, fiscal and cultural barriers will be compensated by the pressure of financial markets.

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The Saving Process in Romania

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Abstract

Even if during crisis the internal saving process should be low as far as investment needs are concerned, in Romania this has been contradicted.

The evolution of the banking saving process of both the population and the legal persons has become positive again lately after the 2009-2010 contraction. This positive evolution was firstly possible due to the attractive level of the interest rates offered by the banks for the deposits in the national currency and secondly due to the relative amelioration of the dynamics of the labor income.

The economic policy should encourage both the public and the private internal saving process including the system of tax-deductibility as well. This is especially necessary under the circumstances of the following period when the financial capital will be more and more expensive due to the financial crisis generated by overindebtedness and demography.

Keywords: deposit, ceiling, guarantee fund, deponent

J.E.L Classification: G21

1. Introduction

The balance of the crisis years show an alarming situation in almost all aspects, but there is at least one domain in which the Romanians have made amazing progress and that is the saving process of the population.

2. The Evolution of the Bank Deposits between 2008 - 2009

According to the statistics provided by the National Bank of Romania (NBR) and the Guarantee Fund of The Bank Deposits (GFBD) the bank deposits of the population have increased from 68.6 billion lei in February 2008 to 115 billion lei in December 2011 (the sum includes the value in lei of the foreign currency deposits too).

In other words, the deposits of the population have almost doubled in the past four years even if the real increase is smaller if we take into consideration factors such as the evolution of the inflation and the devaluation of the euro. For example, according to the NBR data the single currency had an average value of 3.68 lei in 2008 whereas at the moment its value exceeds 4.5 lei.

Even so, the increase of the deposits of the population is significant. The explanation is that in the first part of this period in 2008 and 2009 the Romanians' income have continued to grow but the consumption has been drastically reduced. Specialists consider that a part of this difference between the money earned and the money spent has been placed in bank deposits [1].

A massive growth of the deposits has been noticed during the first two years of the crisis followed by a slowing down and then by a rally of the advance in the last years of 2011. From the very first year of the crisis this evolution has been paralleled by a drastic decrease of the consumption when the stores halved their sales.

Another explanation for doubling the deposits of the population is firstly due to the increase of the confidence in banks. In other

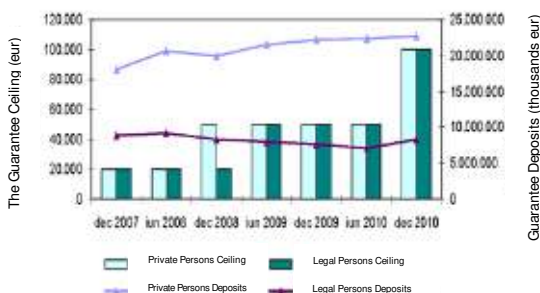
words, if until 2008 the money have been ‘salted away’ Romanians have gradually started to take it and deposit it in a bank.

The financial crisis has generated people’s fear for tomorrow’s safety determining them to start saving and stop spending [2].

From this point of view specialists are convinced that Romanians have now much more cash than at the beginning of the crisis. This is one of the paradoxes of this financial disaster.

Due to the lack of funds from the mother banks the financial institutions in Romania have been forced to use local funding. This strategy has lead to the fact that banks have tried to attract more and more money from both the population and the companies by means of increasing the interests for the deposits. This factor and the macroeconomic environment have created the favorable environment for the development of this saving behavior.

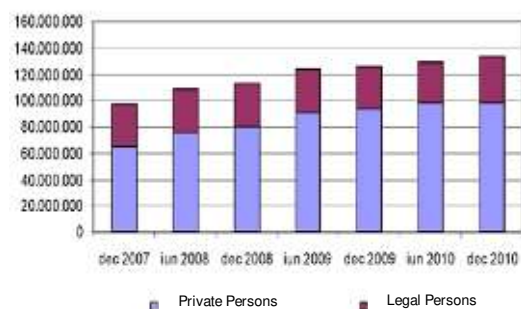
Chart No. 1. The Evolution of the Amount of the Guaranteed Deposits and the Guarantee Ceiling



Source: www.fgdb.ro

In comparison with 2009 one can notice a 1.4% increase of the guaranteed deposits in the total amount of deposits as a consequence of their rapid growth in comparison with the amount of the unguaranteed deposits.

Chart No. 2. The Evolution of the Amount of the Guaranteed Deposits (thousands lei)



Sursa: www.fgdb.ro

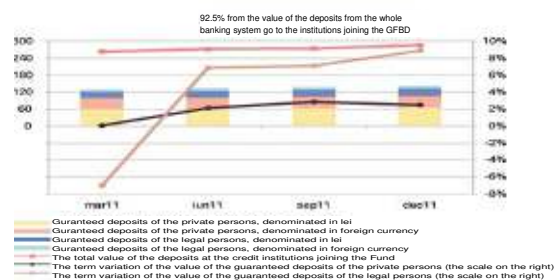
From the chart above one can notice that the amount of the guaranteed deposits has slightly increased for both private and legal persons at the end of 2010 in comparison with the previous year. The doubling of the guarantee ceiling of the deposits for both categories has become a fact on 31 December 2010. This fact has not influenced the deponents’ behavior.

3. 2011 – A Reference Year for the Saving Process

As far as 2011 is concerned, on 31 December 2011 the total value of the deposits on the whole banking system has reached the peak of the last years, 309.4 billion lei respectively (the equivalent of a 3.2% increase). The positive dynamics of the total value of the deposits has been mainly determined by the ascending evolution of the population’s deposits in lei, an evolution registered at the level of the credit institutions joining the GFBD (an annual variation of +11.6%, respectively an absolute increase of 6.9 billion lei).

On 31 December 2011 the 33 credit institutions joining the GFBD accumulated 92.5% of the total value of the deposits on the whole banking system in Romania, respectively 286.2 billion lei (an increase by 2% in comparison with the value registered on 31 December 2010). 106.7 billion lei out of this sum have gone to the population and the rest to the legal persons [3].

Chart No. 3 The Evolution of the Value of the Guaranteed Deposits per Currency and Titulars in 2011



Sursa: www.fgdb.ro

As far as the categories of deponents are concerned, 2011 has been characterized by the accentuated increase of the total value of the population’s deposits in comparison with those of the legal persons (the absolute increase of the total value of the population’s

deposits on the whole banking system has been over 12 times higher than in the case of the legal persons). At the level of the credit institutions joining the GFBD, the evolutions of the two components have been opposite. **The value of the population's deposits** has increased in each of the two terms of 2011 whereas the deposits of the legal persons have only partially recovered from the remission in the first term in 2011.

From the point of view of the denomination currency in 2011 the deposits in national currency at the credit institutions joining the GFBD have continued to hold the majority share (53.6% on 31 December 2011). In comparison with the end of the previous year these have registered an increase by 5% whereas the total value of the deposits denominated in foreign currency has diminished by 1.3%.

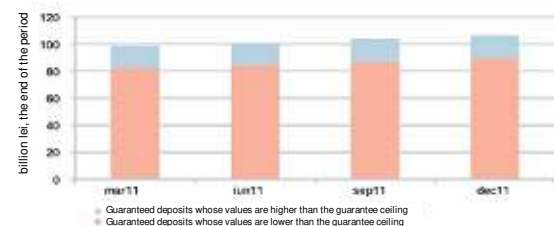
As far as the guarantee of the deposits is concerned, at the beginning of 2011 there have been major changes of some essential coordinates regarding the deponents' protection. Among these we can mention the doubling of the guarantee ceiling from the lei equivalent of 50,000 Euros to 100,000 Euros starting with 30 December 2010 and thus pursuing the development of the deponents' confidence and the stimulation of the saving process.

On 31 December 2011 the values of both the guaranteed and the unguaranteed deposits (the majority of the unguaranteed deposits is represented by those deposits belonging to the entities having the necessary knowledge and experience for the evaluation of the non-refundable risk of the placements; this category includes: the credit institutions, the financial institutions, the insurance companies, the collective placement organisms, the pension funds, the central and local public authorities, the big companies, etc.) were having equal shares in the total value of the deposits at the credit institutions joining the GFBD.

In Romania the substantial increase of the credit ceiling has lead to the extension of coverage ensured by GFBD. The data of 31 December 2011 show that for a ceiling of 100,000 Euros the sum associated with the maximum potential compensations in the case of the unavailability of the deposits represents approximately 79% out of the total value of the guaranteed deposits, respectively 113.2 billion lei (an annual variation of +8.7%).

The value of the population's guaranteed deposits has had an ascending trajectory throughout 2011 with a more rapid rhythm than in 2010 (an annual variation of +7.8% in 2011 in comparison with +5.4% in 2010). In fact, we can even talk about opposite senses of evolution since the annual variation of the value of the population's guaranteed deposits has been +4.5% in 2011 and +2.4% in 2010.

Chart No. 4. The dynamics of the population's guaranteed deposits in relationship with the guarantee ceiling

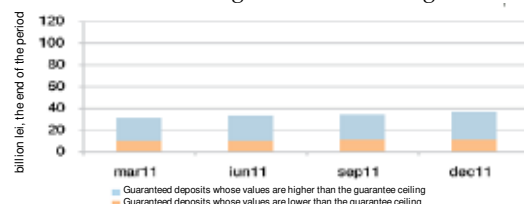


Source: www.fgdb.ro

As shown in Chart No. 4, 83.8% out of the total guaranteed deposits of the population represents the accumulated value of those deposits at the very most equal with the guarantee ceiling. Their holders are the potential beneficiaries of compensations limited by the available deposits.

On 31 December 2011 the value of the guaranteed deposits of the legal persons reached 36.6 billion, a sum representing 20.4% of the total value of the deposits of the legal persons at the credit institutions joining the GFBD, thus witnessing an 8% increase in nominal terms (+4.7% in real terms) in comparison with the same value on 31 December 2010. This mainly happens in the case of the deposits in lei with values higher than the guarantee ceiling [4].

Chart No. 5. The dynamics of the guaranteed deposits of the legal persons in relationship with the guarantee ceiling



Source: www.fgdb.ro

In relative terms, the annual variation of the guarantee deposits in lei reached +8.5% and that of the deposits in foreign currency has been lower representing +5.4%.

The national currency guaranteed deposits of the legal persons have preserved their major share in the total value of the deposits of this category of deponents, respectively 73.4% on 31 December 2011. This aspect reflects the confidence in the national currency.

4. The Quality of the Saving Process in 2012

On 30 June 2012 the deposits of the whole banking system reached a total amount of 316.6 billion lei with 8.1%, over the same value in 2011. According to a GFBD study the population's deposits reached 120.8 billion lei (a value with 2.5 billion lei higher than the one at the end of March) and the rest of 198.8 billion lei belonged to the legal persons with an increase of 1.9% during the second term of the year. This evolution is due to the increase of the amount of the deposits on the whole of the credit institutions joining the Fund. These sums have compensated the withdrawals from the branches of the foreign banks in Romania in the respective period [5].

Another thing worth noticing is the fact that in the term of the year the deposits in foreign currency have rapidly grown especially the ones in lei; this is a characteristic of both the credit institutions joining the Fund and of the branches of the foreign banks. In addition, the deposits in foreign currency of over 100,000 Euros have contributed the most to the evolution of the deposits of the legal persons. We should also mention the fact that the number of the deponents from the category of private persons has witnessed an increase in comparison with those of the legal persons.

92.5% of the total value of the banking deposits belongs to the portfolio of the 33 credit institutions joining the Fund.

The Fund data collected from the banks show that during the term of the year the deposits in foreign currency have represented the population's favorable saving instrument since these deposits have progressed much more rapidly than those in national currency. Nevertheless, at the end of the year the deposits in lei have witnessed a more accelerated dynamics in comparison with those in foreign currency.

Charter No. 6 The dynamics of the total value of the deposits in the banking system (billion lei, the end of the period)



Source: Piața Financiară, no. 9/2012, p.14

The data above show that in the first period of the year the dynamics of the deposits has been much more accentuated than that of the credits and the 'appetite' for saving has increased. Likewise, according to the statistics in the field another defining tendency has been the promotion of the long-term deposits often harmonized with an investment fund.

5. Conclusions

In spite of all the positive results regarding the saving process Romania has to reconsider its measures of economic policy so that the saving process could be encouraged.

The banks from Romania pay a special attention to the segmentation of customers and to the creation of personalized products and services combining the flexibility of the savings accounts with the profitability of the deposit products.

The interest of the banks is directed towards the stimulation of the long-term savings behavior, but also towards the consolidation of the deposit portfolios and the facilities involved in the saving process.

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Innovation in Financial Systems. The Quest For Sustainability

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Abstract

The paper focuses on the trials and tribulations the financial systems are facing in the current economic environment, in order to increase their economic sustainability, but also improve their social sustainability. As desperate times (characterized by an endemic crisis, reaching from the financial systems into the globalized economic network) require 'desperate measures', there is a certain need for improvement and innovation in instruments and behaviours exhibited by the actors in a financial system.

The paper suggests two possible ways regarding the approach to sustainability, in particular social sustainability, for the financial systems. These creative methods rely mostly on the possibility to improve financial inclusion, to reduce risks related to non payments and, in the end, to ensure that the financial system is not an enhancer of poverty, but rather a solution to alleviate it.

Key words: financial systems, innovation, sustainability

J.E.L. Classification: G15

Introduction

More and more individuals are financially excluded, living on or under the poverty threshold, particularly during the aftereffects of a financial crisis becoming chronic and worldwide spread. Therefore, creativity and innovation in preserving the number of financially sound clients of a system that is already under a lot of pressure is both capitalistic in its profit oriented understanding, but nonetheless its effects are positive in terms of social involvement of the institutions. The purpose of the paper is not to discuss the morals of CSR or its hidden causes, but to underline best practices in

terms of increasing sustainability and improving the life of the community as related to financial systems. If the main cause of these actions is related to preserving the profit margin, preserving or increasing the number of clients, improving the tax collection rate or the corporate image of the financial institutions is beside the point.

The starting point of any discussion about socially sustainable financial system is the number of individuals currently outside them, hereby considered financially excluded. Financial inclusion is defined in HM Treasury (2007) and the Scottish Executive (2005) as ensuring universal access to financial services and products, allowing daily funds management in an efficient, safe and reliable planning for the future and reducing financial pressure, by managing finances so as to provide protection against short-term variations in income and expenses and the opportunity to benefit from long-term opportunities, reducing situations where unexpected events result in high financial difficulties scale.

Although in its initial definition, financial inclusion only refers to access to financial products and services in recent years, one can observe a bending toward expanding the concept and those who, although they have access, it difficult to use the services and products mentioned mainly from understanding products. In general, as can be seen from the definition, financial exclusion does not refer solely to hold a basic account (allowing payments for goods and services and withdrawing cash, but does not assume the existence of an overdraft). We can even divide the financially excluded in:

- Individuals who would like a basic account (Basic Bank Account - BBA), but have been denied the application for various reasons
- Individuals who do not want a basic account – in which case this self-exclusions should consider them as extraneous to the analysis. Another situation where we cannot

talk about financial exclusion is when individuals refuse to open a BBA due to lack of confidence in complex financial institutions, which may stem from a lack of basic financial education.

In literature there can be found six types of financial exclusion (Kempson and Whyley (2000)):

1. Exclusion through lack of physical access - lack of banks and / or ATM in the area (in which case it may be e-banking), the possibility of connecting to the Internet, access to mobile networks, etc..
2. Exclusion through lack of access - denying access to people perceived as having a high risk of certain products
3. Conditional exclusion - there are a number of conditions attached to products or services that are inaccessible to a certain social
4. Exclude the price - the products are available, but the price at which they are offered them unaffordable for a social category
5. Exclusion by marketing - the sales and marketing efforts are geared towards a specific group, which limits access to information for other social
6. Self-exclusion

Kempson et al (2004) shows that the financial exclusion occurs when low-income social groups, such as those from ethnic minorities, are prevalent or the number of people dependent on welfare is high. Another important element of financial exclusion is age, those in the tails of the age distribution being the most vulnerable, such as young or old (Kempson and Whyley, 1999). The same group of authors, Kempson et al (2004) identified history in relation to the financial environment as a determinant of financial exclusion, as is the case in Sweden and Germany, in addition to items such as number of parents / persons in families (single parent families are more vulnerable or as well as elderly singles), age at which the individuals leave the education system (common tendency is that people with higher levels of education are less vulnerable to financial exclusion). Other determinants of financial exclusion may relate to the location by dealing with physical access (remote communities - a situation which may be solved via the successful application of electronic finance, except that isolation

involves lack of Internet access and / or electricity) or the deprivation of the region concerned. Whyley Kempson (2004), the Treasury Select Committee - UK (2006) and Citizens Advice (2006) note that people belonging to rural communities are less likely to have a basic account, unless it is the effect of the implementation of public policies, such as paying social benefits, pensions, taxes exclusively through electronic channels and / or fundamental financial products. In literature, one can identify a number of factors affecting financial inclusion, divided into two categories:

- institutional factors (whether it is financial institutions related to central and local government, such as tax collectors, or institutions as organization, i.e. banks) - increasing competition in the banking products and services provided by all channels, which enhances the search for new market niches for banks and technology advances basically e-banking and mobile banking, which help reduce barriers to physical , resulting in the phenomenon known as, financial desertification '(Sinclair, 2001) and
- personal factors (related to individual actions and perceptions thereof).

Finally, it is necessary to define and electronic financial inclusion, defined as application of ICT to deliver innovative financial products and services when and where required, at a cost affordable for the general disadvantaged population and low income groups, which is now considered to be non-bankable (Chakravarti, 2009).

One of the fast growing industries in the financial sector is related to the provision of banking products and services via online and mobile means, generally known as on-line and/or mobile banking. In order to maintain market share, many 'brick-and-mortar' banks became 'click-and-mortar' by adding the Internet to their means of service delivery. The advantages of adopting Internet or mobile banking solutions are multiple: the product/service prices and the costs involved in their production are reduced. The fact that each customer can pay the bills and can check their account online or via mobile phone reduces the time taken to process a check after it has been filed or required to pay, which amounts to an increase in efficiency of up to 25%.

There are also a number of risks of accessing online banks (non-click-and-mortar or online only), the most frequently mentioned being the lack of security. Another risk is the fact that the value of a subsidiary will decrease, but not to zero, as expected in the reports from the "Internet era" (1995-1999). Since the late 90s, the Bank for International Settlements (BIS), proposed a set of basic principles for reducing risks in systems of electronic banking services and products such as:

- Creating a system for tracking electronic banking activities
- Creating a process management system and subcontracting relationships and dependencies with third parties
- Segregation of duties, databases and applications in the electronics and the rest of the banking system (as given up once the full integration of e-banking among the bank's usual activities)
- Existence of measures and controls the electronic authorization
- Possible existence of a clear audit of the electronic system, namely the e-banking transactions
- Authentication of each entity and counterparty data from electronic banking
- Responsibility for each transaction carried out online
- A system of comprehensive security control system
- Transaction integrity and information on e-banking
- Complete and transparent information on electronic banking
- Keeping customer information privacy principle
- Existence of continuity and contingency plans to ensure availability of electronic banking systems
- Incident response planning
- Supervisor's role to ensure a clear and accurate management structure, internal controls and contingency plans on e-banking activities.

The second topic of interest for financial institutions, apart from the novelty of alternative distribution channels is microfinancing, the buzz word of the beginning of the millennium. Defined by Otero (1999) as "providing financial services and products for people with low incomes

and who are their own employees", microfinance emerged in the 80s and extended in the 90s, also known as the 'decade of micro-financing' (Dichter, 1999). In its broad sense, it refers to a movement that aims to build a world in which low-income households have permanent access to a wide range of high quality financial products and services to finance activities, stabilize consumption and reduce risk, with the ultimate goal of reducing global poverty. Another definition of microfinance (Schreiner and Colombet, 2001) talks about improving access to micro deposits and micro-loans to low-income households neglected by the banking system, although in practice the term refers rather to provide microcredit via microfinance institutions (MFI) in turn defined as institutions providing financial services and products of the poor (MIX, 2005). It is considered that these have a dual mission (Markowski, 2002), although in the literature (Simanowitz and Walter, 2002) there are also opinions that the balance between the two sides is rather fragile (the double bottom line) and often leans to the capitalistic side: the social mission of providing financial services and products to low-income population and thus improve welfare for them and the commercial and mercantile mission to provide financial products and services in a sustainable manner financially / economically. Moreover, the IMF in a 2005 report noted that only 1% of MFI are financially sustainable, i.e. (Havers, 1996) cover their own financing costs, operating costs, credit risk and inflation, using fee income and interest. Claessens (2005) believes that the high transaction costs, low transaction volumes correlated with higher costs to increase penetration render MFIs economically inefficient. The IMF report examines the fact that those MFIs which have become financially sustainable tend not to finance the poorest population, leading to the idea that it is desirable that those institutions which promote the inclusion of the bottom quartile in terms of income should be supported in acquiring the capacity for self-support, and therefore be able to enhance their reach of more people affected by poverty. In this sense, balancing the social mission and the business side becomes imperative (Simanowitz and Walter, 2002),

by understanding market and financial institution clients (Morduch, 2004), the more that can generate high financial returns in the long term (Pawlak and Matula, 2004).

David Rodman considers 2009 to be a crucial year for the development of micro-financing, as the year of the two most important impact studies (Karlan, Zinman, 2009 and Banerjee, Duflo, Glennerster, Kinnan, 2009). They concluded that microcredit effects are diffuse, which is consistent with general research findings on microfinance (Aportelo, 1999; Burgess and Pande, 2003, Banerjee and Duflo, 2006), as well as micro-savings impact research (Karlan, 2008, Ashraf, Karlan, Yin, 2005 and 2008, Dupas and Robinson, 2009). Also in literature (Rogaly, 1996, Wright, 2000; Navajas et al, 2000; Chowdhury, Mosley and Simanowitz, 2004, Sinha, 1998), a number of negative factors that may be associated with an MFI are identified and namely:

- Focuses on a uni-sectoral approach to allocating resources to fight poverty
- Microcredit is not relevant for people with extreme poverty
- The definition of microfinance using a simplistic definition of poverty
- Changes and learning curve are not appropriate.
- There is an extreme emphasis on size, not quality.

Also one of the major problems is to quantify the effects in their dynamic evolution, both in the MFI's and the community it serves. Dimensions such as:

- Social performance of the system - the social mission, goals and strategies, governance, social performance, operational systems, alignment of mission
- Social responsibility - to customers, to staff and to the community and the environment
- Penetration - operating areas, the target group reached
- Quality of service and products - variety of products and services, matching customers' needs, services and non-financial and non-financial become socially relevant indicators in determining the rating of a microfinance institution.

The Asian Model of Community Involvement: Cashless banks and e-government

Asian countries have been moving for almost a decade towards a financial system without cash, especially after the emergence of new electronic financial products. The ultimate goal of such a development trajectory has been maintaining financial and economic stability, coupled with improving the efficiency of financial systems. A survey conducted in 2010 (The Economist, 2011) in 13 Asian markets reveals that the percentage of respondents who prefer a local bank increased compared to 2007, mainly in Hong Kong (to 76% from 55%), China (87% to 75%) and Taiwan (68% from 51%) at the expense of international financial services companies, which still suffer from deficiencies in their corporate image due to the economic and financial crisis. Moreover, under the influence of government policy to reduce payment costs caused by previous research which proved that in terms of social cost, a national payment system may comprise about 2-3% of GDP, and bring about 5 % of the transaction (Gresvik and Haar, 2008, Khiaonarong and Liebenau, 2009), one can note an increase in the use of electronic financial products, to the detriment of traditional. If in developed countries, the introduction of electronic financial products, particularly in the period 1987-1999 reduced only in the European countries banks' operating costs by about \$ 32 billion, which represented a saving of 0.38% of GDP 12 countries (Humphrey et al, 2006), the development of such tools in the Asian countries started later: mobile banking products being implemented only since 2007. In recent years, the volume of transactions via traditional branches decreased by 27%, correlated with a similar increase of products and services online, while mobile products increased by 83%. A reduction of the amount of cash has implications at the National Bank, taking into account that the amount required to print a bill is between \$ 0.05 and \$ 0.08 (depending on security measures), added to a better traceability of cash flows, and thus a reduction in tax evasion, as was the case of Norway, which has the requirement to report any cash transactions of

more than NOK 100,000 (approximately \$ 16,000).

Singapore, the country with the most advanced e-government system, globally launched in 2002 (Kok, 2002) has substituted cash with smart cards issued by the government. Moreover, it provided financial support programs to improve the efficiency of the payment system, as mobile or internet transactions, and relaxed regulations on limiting the issuance of e-money by non-bank financial institutions (Monetary Authority of Singapore, 2002, 2004). Cases such as Thailand implemented systems to reduce charges for electronic payments, correlated with a reduction in transaction costs for them, leading to improved financial position of banking institutions. In Asia, there is however a certain heterogeneity in the distribution of electronic transactions versus using cash. Countries like Japan still have a high level of cash usage, statistics indicating that the average Japanese adult spends on average \$ 18,000 per year in cash.

Although the ultimate goal of such a best practice is to reduce financial exclusion, whether electronic or not, this is a collateral result of financial system development, and still the customer needs to sustain his own activities.

Conclusions

One of the main guidelines of the roadmap towards a financially inclusive, sustainable system is the need of a proper governmental involvement, through public policies meant to facilitate access to infrastructure and funds, foster innovation and transparency. However, of crucial importance is the involvement of companies and financial institutions, regardless of their ulterior motives, with an aim to include more and more people, in particular those in low-income households, at or under the poverty threshold or financially challenged in any other way, in a system meant to provide the minimum access to funds and the suitable mechanisms to foster entrepreneurship, and thus, indirectly, improve the community.

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